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MDB Group Limited

Pillar 3 Disclosures Report
Annual Report 2020

CONTENTS

1 Introduction

The Basel III capital adequacy framework consist of three complementary pillars: Pillar 1 provides a framework for measuring minimum capital requirements for the credit, market and operational risks faced by banks; Pillar 2 addresses the principles of the supervisory review process, emphasising the need for a qualitative approach to supervising banks; Pillar 3 requires banks to publish a range of disclosures aimed at providing further insight on the capital structure, adequacy and risk management practices.

In accordance with Article 433 of the Regulation (EU) 575/2013 (Capital Requirements Regulation – "CRR"), the Group publishes these disclosures at least on an annual basis as part of the Annual Report and Financial statements. A reference has been added in cases where the information addressing Pillar 3 requirements is included in other parts of the Annual Report. Moreover, in line with the EBA "Guidelines on disclosure requirements under Part Eight of Regulation (EU) No 575/2013" (EBA/GL/2016/11, "EBA Disclosure Guidelines"), more frequent than annual disclosures are made for a number of disclosures outlined in the CRR. In this respect, refer to the Group's Semi-Annual Pillar 3 disclosure reports.

The disclosure requirements emanating from Articles 441, 452, 454 and 455 of the CRR are not applicable to the Group.

The Group is required to disclose its return on assets pursuant to paragraph 31 of BR 07, "Publication of Annual Report and Audited Financial Statements of Credit Institutions Authorised under the Maltese Banking Act (Cap. 371)". In this respect, the Group's return on assets for the financial period ended 31 December 2020 amounted to a negative 2.3%.

1.1 Pillar 3 Disclosure Policy

The Group maintains a Pillar 3 Disclosures Policy in order to comply with the requirements laid down in Part Eight of the CRR, the Malta Financial Services Authority ("MFSA") Banking Rule ("BR") 07, *'Publication of Annual Report and Audited Financial Statements of Credit Institutions Authorised under the Maltese Banking Act (Cap. 371)'* and any associated EBA guidelines and technical standards.

Basis of preparation

This Pillar 3 disclosures report (the "Disclosures") has been prepared in accordance with the Group's Pillar 3 Disclosures Policy, which requires that this report be prepared in accordance with requirements of Part Eight of the CRR, the MFSA BR 07 and other associated EBA guidelines and technical standards. The EBA released detailed guidelines on disclosure requirements which aim to improve the comparability and consistency of Pillar 3 disclosures across the banking industry. These guidelines provide detailed disclosure requirements for credit risk, counterparty credit risk, market risk and capital requirements.

The consolidation of the Group's financial statements is based on the IFRS requirements, whereas the prudential consolidation in the statement of capital is based on the CRR. All entities within the Group are subject to full consolidation both for accounting and regulatory purposes.

Scope of application

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

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

These disclosures present information about the Group's exposure to risks and the Group's objectives, policies and processes for measuring and managing risks and the Group's management of capital.

These risks principally relate to the MeDirect Malta Group and are managed by MeDirect Malta's Board of Directors. As a result, these disclosures present information about the financial risk management of MeDirect Malta and its principal subsidiary MeDirect Belgium.

Frequency, media and location

Disclosures are updated on an annual basis as part of the Annual Report preparation. Moreover, as required by the CRR and also through newly published EBA guidelines, the Group is required to assess whether more frequent than annual disclosure is necessary. In this respect, the Group also issues separate Semi-annual Pillar 3 disclosure reports. Going forward, the Group will be publishing its Pillar 3 disclosures in line with the frequency as per Implementing Technical Standards on institutions' public disclosures of the information referred to in Titles II and III of Part Eight of Regulation (EU) No 575/2013.

As required by the CRR, the Group will continue to make available its Annual Report and financial statements and the Pillar 3 disclosure reports on its website (https://www.medirect.com.mt/about-us/investor-relations).

New regulation to be implemented

In December 2020, EBA published the final Implementing Technical Standards (ITS) on institutions' public disclosures as per its mandate under Article 434 of the CRR2 to introduce uniform formats and associated instructions for disclosure requirements in order to optimise the Pillar 3 policy framework.

The new ITS aims to reinforce market discipline, by increasing consistency and comparability of institutions' public disclosures, and to implement the CRR2 regulatory changes in alignment with the revised Basel Pillar 3 standards. These requirements will introduce a comprehensive set of disclosure templates, tables and related instructions in order to ensure alignment and consistency with the Basel Committee's updated Pillar 3 framework.

In December 2020, the EBA has updated the mapping of quantitative disclosure data and supervisory reporting, which aims at facilitating institutions' compliance and improving the consistency and quality of the information disclosed. The EBA also published a file summarising the frequency at which each type of institution should disclose each template and table, in accordance with the CRR2.

New disclosure requirements will be effective as per end of June 2021. Based on the amended Pillar 3 publications as per December 2020, MeDirect is currently in the process of building and mapping the new/amended templates, in order to be able to include them in the Pillar 3 report as per Q2 2021.

COVID-19

In June 2020, EBA published the "Guidelines on reporting and disclosure of exposures subject to measures applied in response to the Covid-19 crisis". These additional reporting and disclosure requirements were introduced, on a temporary basis (until 31 December 2021), to introduce standardised reporting on exposures with a specific Covid-19 classification. On a semi-annual basis, these three templates are included in the Pillar 3 reports. In scope of these templates are the loans and advances that are subject to legislative and non-legislative moratoria (also referred to as subject to 'EBA compliant moratoria') and the (newly originated) loans and advances that are subject to public guarantee schemes introduced in response to the Covid-19 crisis.

Governance process – verification and sign-off

Consistent with the banking regulations, these Disclosures are not subject to external audit except where they are included within the Financial Statements. However, these Disclosures have been appropriately verified and approved internally by the Group's management and the Internal Audit Function as required by the Group's Pillar 3 Disclosures Policy, including the review and approval of these disclosures by the Group Audit Committee. Subsequent to the approval of the Audit Committee, these disclosures are then submitted to the Board of Directors for authorisation prior to public dissemination.

1.2 Attestation by the Directors

We confirm that this Pillar 3 disclosures report, to the best of our knowledge, complies with Part Eight of the CRR, including, where relevant, any associated EBA guidelines and technical standards, and has been prepared in compliance with the Group's internal governance process.

On behalf of the board

Michael Bussey
Chairman

Arnaud Denis
Chief Executive Officer

7 May 2021

2 Risk management, objectives and policies

2.1 General information on risk management, objectives and policies

Risk Management is an integral part of the Group's strategic planning and management processes. Risks are identified in the context of the business model and strategy of the Group, and within the parameters of the approved risk appetite using methodologies developed to identify the exposure of the Group to risk and uncertainty. The Group's 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 Group operates within the 'Three Lines of Defence' model as a core part of its approach to Risk Management; each of these three lines plays a distinct role within the Group's wider governance framework.

Risk Strategy

Amongst the list of responsibilities of the Board is the setting, approval and oversight of the overall risk strategy, including the risk appetite and risk management framework. The Group's Chief Risk Officer ("CRO") is entrusted with the responsibility to devise the risk strategy of the Group that is presented to the Risk Committee for discussion and review, and ultimately approved by the Board.

The risk strategy of the Group evolves around the following objectives:

PROMOTE SUSTAINABLE GROWTH	▪ To protect and act as guardians for the sustainability of the Group's financial standing, capital and liquidity adequacy, reputational standing, operational continuity, and customer and stakeholder protection
ENABLE STRATEGIC OBJECTIVES	▪ To enable the Group to prudently deliver its strategic objectives, within its defined risk appetite
STRONG RISK CULTURE	▪ Instil a sound risk culture through clearly defined risk policies, balanced objectives, risk-adjusted returns practices, alongside communication, training and awareness programmes across all stakeholders
ROBUST RISK MANAGEMENT PRACTICES	▪ Develop, maintain and continually enhance effective risk management practices, tools and systems, on a proportional and risk-based approach
SOUND RISK IDENTIFICATION	▪ Ensure suitable systems, methodologies and quantification tools are in place to appropriately assess and identify current and emerging inherent risks
EFFECTIVE RISK CONTROLS	▪ Drive the implementation of suitable risk controls frameworks, including assessment of control effectiveness and residual risks

FIGURE 1: RISK STRATEGY

The Risk Management Function, under the guidance of the Group CRO is responsible for the execution of the risk strategy, ensuring that this is communicated to the relevant stakeholders across the Group, of which Business lines and other internal control functions such as the Compliance and the Internal Audit Functions. The risk strategy as approved by the Group Board is also communicated to the subsidiaries of the Group. This enables the subsidiary to operate independently but in line with the parameters of the risk strategy as approved by the Group.

The Risk Management Function ensures that each component of the risk strategy is subject to an appropriate governance and escalation process. The governance processes are primarily described and documented in the following documents:

- The Risk Management Framework ("RMF");
- The Risk Appetite Framework ("RAF");
- Corporate Governance Framework ("CGF");
- ICAAP & ILAAP Governance Framework; and
- Stress Testing Framework ('STF')

Other frameworks and policies may also apply as referenced in each of the documents mentioned above.

The Board Risk Committee is delegated with the authority from the Board to monitor the execution of the risk strategy, with the Board oversight through the review of Management Information ("MI") packs and verbal updates from the Chair of the Risk Committee and the Group CRO.

During the financial year under review, there were seven Board Risk Committee meetings.

2.1.1 Risk Management Function

The responsibilities of the risk management function are to protect and enable the Group to deliver sustainable income through facilitating and monitoring the implementation of effective risk management practices and assisting risk owners in defining and controlling risk exposures.

The Group's risk management function falls under the responsibility of the Group CRO who is independent from the business lines. The CRO is responsible for a number of sub-functions that represent different risk areas namely, Credit Risk, Operational Risk, Risk Analytics, Financial and Market risk, IT and Information Security risk, and Data Protection. In February 2021, the Compliance Function was restructured, whereby the Head of Financial Crime Compliance is now reporting to the Group CRO on an operational basis with a direct reporting line to the Group Board Risk Committee.

The Group's CRO is a member of the Group Board of Directors and is a standing attendee of the Group Board Risk Committee. The CRO also has the unchallenged authority to meet members of the Board Risk Committee or other Non-Executive Directors without the presence of the CEO or other Executive Directors. Among the list of responsibilities, the Group CRO is:

- Responsible for ensuring that the Risk Management Function is adequately resourced, taking into account the complexity and risks of the Group as well as its RAF and strategy;
- Actively involved in key decision-making processes from a risk perspective, challenges management's decisions and recommendations, and retains a right of veto for declining transactional decisions such as credit risk originations;
- Involved in the design and setting of risk appetite, risk limits, notification thresholds and key risk indicators; and
- One of the key contacts for regulatory matters, including supervisory dialogues

The Group's Risk Management Function is adequately resourced, and has the right knowledge, experience and expertise to provide relevant independent risk oversight, analysis and expert judgement on risk matters faced by the Group. Each of the risk sub-functions represents a specific risk area, each having the appropriate subject matter expertise. The effectiveness of the Risk Management Function is assessed by the Group's Board Risk Committee.

In line with the EBA guidelines on internal governance, the Group's Risk Management Function has direct access to the members of the Board and the Group Board Risk Committee, as well as all business lines and other internal units that have potential to generate risk as well as oversight of all relevant subsidiaries. Nevertheless, the Risk Management Function is independent of the business lines and units whose risks it controls.

The Group CRO is a director of the Group and a member of various Executive Committees, holding the role as Chair of the Management Credit Committees ("MCCs") and Management Risk Committee ("MRC"); as well as being a standing member of the Group EXCO; Operations Committee ("OpsCo") and Asset & Liability Committee ("ALCO"). The Group CRO is also involved in various Steering Committees and has delegated approval responsibilities when required.

The CRO for MeDirect Belgium is based in Belgium and reports directly to the Board of Directors for MeDirect Belgium and functionally to the Group CRO in order to ensure adequate flow of information and oversight from the Group CRO.

As at 31 December 2020, the Group's risk management function comprised of the following teams under the management of the Group CRO. Their responsibilities were divided as follows:

Risk Management Function	Main Responsibilities
Risk Analytics	The team provides risk management oversight of the Group's capital and liquidity risk through complementary reporting for both Board level and Executive level audiences, as well as stress testing and performance tracking of the Group's asset and liability portfolios, including off-balance sheet commitments. The function is also responsible for management of capital and liquidity risk policies, and for the development and maintenance of risk measurement tools and models, in particular those used for stress testing purposes. The team is responsible for key internal capital and liquidity risk management documents, specifically the Group's ICAAP, ILAAP and Recovery Plan. In addition, the function also leads any regulatory and external stress tests the Group is required to participate in. Since Q4 2020, the function is also responsible for analysing and approving residential mortgages in Malta under the approved delegated authority limits.
Financial & Market Risk	The Financial and Market Risk Department oversees all Interest Rate Risk in the Banking Book (IRRBB) and FX risk, including assessment and analysis of respective asset and liability behavioural modelling related assumptions. It is responsible for leading the ongoing development of market risk models including model design, calibration, stress testing and shock analysis of both earnings and income related interest rate risk scenarios, risk reporting and related model governance. Its main focus includes the development of the IRRBB framework, stress testing methodologies, scenario assumptions and market risk capital utilisation. The Department actively interacts with risk analytics, the ALM department and the Group ALCO and provides insight into capital planning, funding plans and product pricing. The role also performs the management and monitoring of the financial risks for MeDirect Belgium. The function provides risk management oversight of the Bank's capital and liquidity risk through complementary reporting for both Board level and Executive level audiences, as well as stress testing and performance tracking of the Bank's asset and liability portfolios, and maintenance of risk measurement tools and models.
Credit Risk	The Credit Risk function is responsible for the independent review of corporate credits both when they are initially proposed to the Credit Committee and throughout their lifecycle in the international corporate portfolio. It is the role of the Credit Risk team to discuss and challenge credit proposals, credit monitoring and other credit related information presented by the Corporate Credit team. The Credit Risk function highlight and analyse the core risk issues on each investment ahead of the Management Credit Committee. The Corporate Credit Risk function is additionally responsible for reviewing and assigning internal credit classifications, making recommendations for credit provisioning and/or write offs and the annual review of the Group's credit policy and associated credit framework. The team is also responsible for the management and monitoring of the structured finance portfolio and the CLO, as well as oversight of the GH1 structure. The credit risk function based in Belgium is also responsible for the oversight of the Dutch mortgages related credit risk.
Operational Risk	The team is responsible for the ongoing management of the Group's Operational Risk Management Framework covering six main pillars, namely: operational risk policies, operational risk awareness, risk & control self-assessments ("RCSAs"), operational risk control testing, operational risk reporting, incident management and business continuity. The Operational Risk Management Function is also responsible to manage the Reputational Risk Management Framework. This function also supports the Group in other key risk deliverables such as the Group's ICAAP, ILAAP and Recovery Plan, risk appetite and Internal Controls Reporting.
IT Security Risk	The team is primarily responsible for implementing the Information security strategy of the Group by ensuring that the Group adheres to international information security best practices, which includes identifying and keeping visibility of IT security risks affecting the Group. Responsibilities include the implementation and ongoing management of IT security technologies, coordinating and following up on vulnerability assessments and penetration tests, and managing information security incidents. The IT Security function also carries out security reviews to ensure that the Group is in line with the IT Security policy requirements, delivers information security awareness and liaises with external auditors and regulatory bodies where necessary.
Data Protection Risk	The Data Protection function holds the responsibility of the Group's Data Protection Officer ("DPO") and is responsible for the Group's Data Protection Policy and the Group's Data Retention and Archiving Policy. It focusses on advising the Group and all its employees about their obligations to comply with Data Protection Regulations, namely 'GDPR', train its staff and conduct internal controls. This function shall maintain a data inventory for all its key business processes where there is extensive processing of personal data.

2.1.2 *Overview of the management of key risks*

MDB Group's main activities are International Corporate Lending ("ICL"), Retail (banking, investment and wealth management services, primarily to mass affluent and affluent clients) and more recently, in Dutch NHG (national guaranteed) mortgages. MDB Group operates as a solely online bank in Belgium and with a small branch network in Malta, where the Group headquarters and operations are located. In addition, MeDirect Bank Malta holds a small local corporate lending portfolio and a payment services business.

In light of the Group's business strategy, the Group is exposed to a number of risks, which it manages at different organisational levels. The Group has divided its key risks under two main categories: Financial and Non-Financial Risks, each made up of a number of risk sub-categories:

FIGURE 2: FINANCIAL RISKS

FIGURE 3: NON-FINANCIAL RISKS

The Risk Management Function performs risk analyses to assess the impact and likelihood of these risks. Risks are also quantified to assess any impacts on capital and liquidity adequacy. Each risk pillar is managed through policies, risk appetite limits, key risk indicators, and internal controls. The Group has also established a robust and extensive risk management reporting framework, placing high importance on regular and transparent reporting mechanisms that enable the Board, its committees and relevant units to understand the key risks and to take mitigating actions, when required, in a timely and accurate manner.

Group policies apply to each of the Group's subsidiaries, although to an extent that subsidiaries may be required to adopt local policies within their respective frameworks that are required in order to reflect the entity's risk appetite, local regulations or specific asset classes they may operate. The risk management process for the principal areas of risk are detailed in section 2.2 – Information on risk management, objectives and policies by category of risks.

2.1.3 *Risk appetite*

The Group's risk appetite is established by the Board of Directors, and it defines the type and quantum of risks the Group is willing to accept in achieving its strategic objectives. It ensures that business activities provide an appropriate balance of return for the risks assumed, and that they remain within a suitable level for the Group.

The Group has in place a Risk Appetite Framework ("RAF") that outlines the overall approach, governance processes, controls and systems through which risk appetite, risk limits and thresholds are established, communicated and monitored. The RAF aligns to the main risks the Group manages in pursuit of its strategy.

2.1.4 *Risk appetite triggers*

The main component of the RAF is the Risk Appetite Statement ("RAS") and respective risk appetite early warning signals (EWS). It includes a number of quantitative risk appetite limits and early warning signals that govern day-to-day decision making across all businesses and risk types. Risk appetite limits define the quantitative levels of the Risk Appetite expressed for specific risks, where quantification is viable, to ensure that the actual levels of risk are within the agreed-upon risk appetite. Whilst the Risk Appetite, as approved by the Board, is defined as the degree of risk that the Board is willing to accept in pursuit of its business goals and strategy, risk appetite early warning signals determine the level of risk exposure above which risks are addressed and below which risks may be accepted at Executive Management Level. Different levels within each threshold trigger distinct escalation processes and management actions depending on the criticality of the risk appetite metric as well as the level of breach.

Capital adequacy	
Risk Metric	Actual (December 2020)
CET 1 capital ratio	14.84%
Tier 1 capital ratio	14.84%
Total capital ratio	17.33%
Leverage Ratio	5.7%
Liquidity	
Risk Metric	Actual (December 2020)
Liquidity Coverage ratio (LCR)	562.9%
Net Stable Funding ratio (NSFR)	120.8%*

* Actual NSFR based on the capital Requirements Regulation "CRR II" framework

Performance and adherence to risk appetite is performed at the Board Committee level (supported by the Board Risk Committee, Audit Committee, and Nomination and Remuneration Committee) and at Executive Committee level, including the Management EXCO, MCC, ALCO, and OpsCo. The Group has also implemented early warning notification thresholds to allow sufficient notification time for corrective measures being implemented where required.

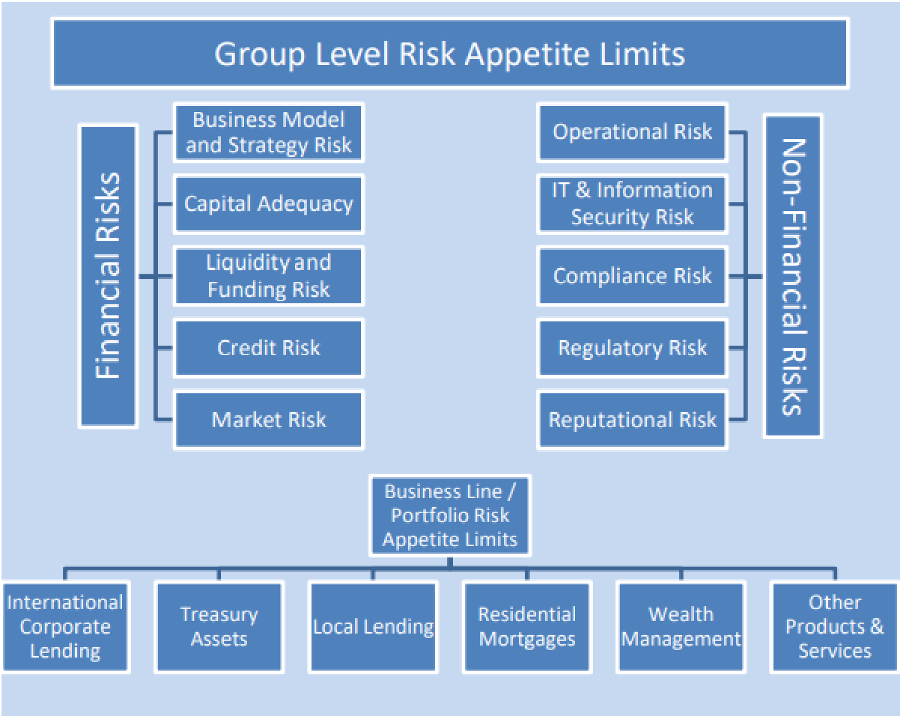

FIGURE 5: GROUP LEVEL RISK APPETITE LIMITS

The Group's Risk appetite limits aim to quantify the Group's Risk Appetite Statements and support sustainable business growth. The Group has also established a set of Key Risk Indicators ("KRIs") that are additional risk metrics intended to supplement the risk appetite limits. These are monitored as part of the its holistic risk management across risk types and are intended to measure and reflect the negative impact on the Group's performance.

2.1.5 Risk monitoring and reporting

The Group has established a robust and extensive risk management reporting framework, placing high importance on regular and transparent reporting mechanisms that enable the members of the Board, its committees and relevant units to understand the key risks and to take corrective action, when required, in a timely and accurate manner.

The Group's risk monitoring and reporting is consistently applied at a consolidated level, as well as on a solo level for MeDirect Malta and MeDirect Belgium. The risk reporting for MeDirect Belgium is conducted by the Group Risk Management function with oversight and direction from the MeDirect Belgium CRO. The monitoring of each risk pillar falls under the responsibility of specific teams within the Risk Management Function. Currently each risk team reviews and updates policies and associated risk frameworks that include information on internal processes and risk reporting responsibilities.

The Group's risk reporting framework includes various risk management reports. Where possible, the Group incorporates trended analysis into its risk reports, both to draw attention to the evolution of themes in the portfolio's risk profile and to increase confidence in the integrity of the information shown.

The Group's formal risk reporting schedule and processes have been designed to comply with the Basel Committee's "Principles for effective risk data aggregation and risk reporting" BCBS 239 (June 2012, revised January 2013). In particular, reporting frequencies have been established in accordance with Principle 10, with flash reports produced daily (either system-generated or created by operational departments) and more in-depth reports produced monthly.

Board oversight

All relevant risks faced by the Group are reviewed by the Groups' Board Risk Committee to assess whether they are consistent with the Group's risk appetite, and for reviewing management's proposed course of action if not. It is also responsible for assessing the Group's high-level controls, limits, and risk aggregation and reporting framework to ensure that these are sufficient to maintain the level of risk within its appetite.

The Board ensures proper oversight of the risks that the Group may be exposed to. A key role of the Board is to approve the Group's strategy and business plan, to ensure that the key goals in that strategy are and remain within the agreed risk appetite and to oversee the Executive Committee implementing it.

The Group has also in place a set of key performance indicators that are quantifiable measurements with the ultimate purpose of enabling decision-makers to act quickly and continue driving the business forward. The set of financial Key Performance Indicators ("KPIs") are aligned with the Group's Risk Appetite Framework and are benchmarked against industry standards. The set of financial KPIs are approved by the Board.

Reporting to the Board and Board Risk Committee

The Board and Board Risk Committee receive a comprehensive Group risk report for each month, compiled by the Risk Management Function with an executive summary written by the CRO. The CRO's executive summary is qualitative in nature and covers each of the Group's material risks. This commentary is also supported by a much more detailed report, the Group risk management report. This report is prepared on a consolidated basis as well as for MeDirect SA. The risk management reports are mainly divided into two sections: Risk shaping matters that includes; risk appetite limits, recovery plan indicators, an internal heat map, and external top and emerging risks, and: Risk oversight, which includes a comprehensive overview of each of the main financial and non-financial risks of the Group.

The Risk Shaping Matters report includes the CRO Executive Summary and key risk report, as well as a dashboard for risk appetite and recovery plan wherein actual performance is tracked against pre-set risk appetite limits and recovery plan indicators. The Group has an internal risk appetite heat map that provides an overview of risk performance against each of the key risk appetite themes with additional focus on those areas that are close to or breaching risk appetite thresholds.

The Risk Shaping Matters report is backed by more extensive risk reporting that includes risk oversight of the Group's risk pillars that are categorised as financial and non-financial risks:

Financial Risks

1) **Balance sheet overview (Business model and strategy risk):** provides an overview of the evolution of the Group's asset and liability portfolios over a period of time.

2) **Capital adequacy:** shows the Group's RWA evolution over time and how the Group's capital ratios can be affected by a range of stress and shock scenarios, both idiosyncratic and market-wide stresses. It also shows the impact on capital ratios from RCF utilisation.

3) **Liquidity risk:** provides details on the core liquid asset buffer and treasury asset composition over time. It also shows Maximum Cumulative Outflow ("MCO") reports showing stressed liquidity positions of two different severities over a range of time horizons from overnight to twelve months, as well as key assumptions that have been used in deriving these positions. This is done for the Group and its' subsidiaries. It also includes a commentary about the historic Liquidity Coverage Ratio ("LCR") and Net Stable Funding Ratio ("NSFR") evolution quarter on quarter.

4) **Credit risk:** provides details on a portfolio level, covering each of the asset classes of the Group. Credit risk information is analysed across the credit cycle, covering credit approvals and originations, credit performance on each lending portfolio, broken down by internal classification and borrowers classified as other than Regular, deteriorating credit performance and changes on classification over the month, with focus on those exposures that are classified as Under Surveillance, and Doubtful exposures and impairment levels, where applicable. In order to allow adequate peer analysis, a section on the evolution of the European Loan markets is also included in this section. It also shows the NPL ratio over time, including all its' components and any major changes over the prior month for the Group and its' subsidiaries. Credit risk KRIs for the ICL portfolio are also shown in this section.

5) **Market risk:** provides details on the Interest Rate Risk in the Banking Book (IRRBB) covering progression of the IRRBB metrics and the repricing gap, as well as oversight of the level of Foreign Exchange Risk limits (FX risk) monitored by the Group.

Non-Financial Risks

1) **Operational risk:** includes details about operational risk event including volume by causal categories and by impact categories, as well as gross operational losses month on month. This section includes an action log or commentary on the status of high risk impact IT incidents split by entity.

2) **IT and Information Security Risk:** includes a risk commentary and assessment of the major IT Security risk areas monitored and reported by the Risk Management function, covering systems and technology; policies; monitoring and testing; and user awareness. A sub-risk under IT and Information Security Risk is the Data Protection Risk, which includes the risk of failing to comply with Data Protection Regulations, namely 'GDPR'. The risk of data protection and data leakage is a prominent area of risk for banks to manage, both in terms of electronic data; such as customer databases or market sensitive internal reporting; and physical information; such as printed copies of customer details or physical copies of confidential documents or contracts.

3) **Compliance risk:** provides information on the compliance monitoring plan and other management information covering requests from the regulator and the number of suspicious transaction reports raised during that month.

4) **Regulatory risk:** provides a runway of the major regulatory changes and regulatory deadlines expected over the next quarters. It also provides a brief overview of the main regulatory updates that have been announced during that month. It tracks regulatory submissions, queries and/or requests for information from various regulatory bodies and supervisors received during the month. as well as supervisory dialogues for the reporting month and for the following month. Finally, it provides an overview of supervisory reviews and inspections.

5) **Reputational risk:** currently the risk management function is introducing a group-wide reputational risk management framework that will also include a number of KRIs and incident management for risk monitoring purposes.

Special papers are also presented to the Board Risk Committee at each meeting. These special papers cover emerging and top risks and other thematic risk reviews or regulatory announcements that could result in material impact to the Group. Any key correspondence from the regulator is also brought to the attention of senior management and the Board members. Items requiring specific attention by the Board Risk Committee or deeper dives on risk themes are included within such special papers, with actions and decisions taken as necessary as a result.

Other regular reports

Alongside the monthly Group risk management report, the EXCO members also receive a risk report on a weekly basis outlining the status of key risks against the approved risk appetite of the Group, including changes from the previous week. The weekly report is prepared on a consolidated basis as well as for MeDirect Belgium.

Daily liquidity and capital reports are also shared with the ALCO members and senior management. These reports include details of the liquidity position of the Group such as net cash and liquidity ratios, assets and liabilities, and capital ratios. These reports are prepared on a consolidated basis as well as for MeDirect Belgium.

Aside from internal reporting requirements, the Group is also subject to regulatory reporting such as Common Reporting ("CoRep") and Financial Reporting ("FinRep") as well as public disclosure requirements as stipulated in Part Eight of the CRR[1].

Risk culture

A strong risk-aware culture is defined as all employees of the Group being aware of their responsibilities towards the clients, colleagues and the institution itself, and their ability to manage risks on a day-to-day basis, taking into account the institution's policies, procedures and controls. The Group is aware that instilling a risk culture is key to delivering sustainable growth and profitability, and strives to continuously improve its risk culture through policies, communication and training of staff, which is done through a number of initiatives. These are namely, continuous training events, risk awareness notifications and campaigns, eLearning and mandatory Employee Training programmes, as well as embedding a culture of speaking-up being encouraged across the institution.

2.1.6 Internal escalation process

The Group has escalation processes in place that ensure that any information concerning risk appetite limit breaches and/or recovery indicator breaches is escalated without delay, to both the Board and the regulatory supervisors. Governance arrangements and escalation procedures are adequately specified for the Group, MeDirect Malta and the Belgian subsidiary.

The Group, MeDirect Malta and MeDirect Belgium make a distinction between critical risk appetite limits and non-critical risk appetite limits. Breaches of critical risk appetite limits require prompt notification and escalation to the Board. For consistency, those metrics identified as critical within the RAS, are also considered as critical for recovery planning purposes.

Early Warning Signals trigger a predetermined escalation process. While setting risk appetite limits, the Group adopts a 'traffic light approach' which features two additional stages of alert beyond Risk Appetite Limits to inform the Group's management that the recovery plan could potentially be invoked.

If the Group were to breach its risk appetite, the Group has Capital Conservation Plans, Contingency Funding Plans, and if required, a Group Recovery Plan that outlines a number of management actions that the Executive Committee and the Board should take at different levels of severity.

[1] (EU) No 575/2013

In certain cases, the Crisis Management Task Force may also be convened. Breaches of any of the risk policies are reported to the Committee that oversees the policy such as MCC or ALCO, with the possibility of escalation to Board Committees as outlined in the respective policies.

2.1.7 Stress testing

Stress testing is an integral element of the Group's risk management process, strategic planning, capital planning and liquidity planning. The Group applies various degrees of severity whilst ensuring the plausibility of the assumptions and scenarios. The stress testing methodology covers both idiosyncratic and macro-economic scenarios.

Stress testing is used to assess the effect of a given scenario, or shock, on the Group's statement of financial position, income statement and regulatory capital, leverage and liquidity ratios, and as a result the Group's ability to sustain any potential loss. In addition, stress testing is also used as a complementary framework to other measures of risk such as Economic Capital ("EC") , where applicable. The outcome of the stress testing determines the Group's capacity to sustain any potential loss in an adverse scenario and circumstances in the context of the Internal Capital Adequacy Assessment Process ("ICAAP") and the Internal Liquidity Adequacy Assessment Process ("ILAAP").

These stress testing processes within the ICAAP, ILAAP and Recovery Plan are primarily conducted by the Group Risk Management Function, under the responsibility of the Group CRO. The elements of the assumptions and scenarios that are used during the stress testing are discussed during the Asset Liability Committee ("ALCO"), which are then reviewed and approved at Board level.

The Group uses reverse stress testing as a regular risk management tool in order to improve the awareness of current and potential vulnerabilities faced by the Group. Reverse stress tests are used as part of the Group's business planning and risk management to understand the viability and sustainability of the Group's business model and strategy.

Since the Group has been identified as an Other Systemically Important Institution ("O-SII") and falls under the supervision of the ECB, it is also subject to supervisory stress testing. The Group uses this exercise as a benchmark for the internal stress testing.

2.1.8 COVID-19 global pandemic outbreak

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. This assessment was 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.

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, 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.

2.1.9 Risk governance structure

The Group has a well-established risk governance structure, with an active and engaged Board of Directors supported by an experienced senior management team and a centralised Risk Management Function that is independent of the business lines. Decision-making is primarily conducted through the Board of Directors with oversight from a Board level Risk Management Committee and delegated authority within Executive level Committees.

The key elements of the Group's governance infrastructure are described in the Group's Corporate Governance Framework. This framework supports other internal documents such as the Group's Articles of Association, Terms of Reference for the Board of Directors and its standing committees, and the Code of Business Conduct and Ethics.

The Board of Directors

The Group has a unitary board system, in which there is only one Board of Directors composed of both executive and non-executive Directors. The Board of Directors, either directly or through its Committees, ensure that decision-making is aligned with the Group's strategies and risk appetite. For each Board meeting, the members are provided with reports covering the key risks of the Group as well as updates on the Group's financial performance. The Board of Directors approve key policies, strategy and risk appetite.

The list of members who served on the Board of Directors can be found in the respective "Board of Directors" section of MDB Group Limited Annual Report and financial statements for the financial year ended 31 December 2020.

The Board has established committees to assist it in carrying out its responsibilities, where each committee must act in accordance with a Terms of Reference document as approved by the Board setting out matters relevant to the composition, responsibilities, authority and reporting of the committee, and such other matters as the Board considers appropriate. The Board-level committees may only act with delegated authority from the full Board of the Group within the limits of the authority reserved by the Group itself.

The Board has established the following committees:

- Audit Committee;
- Risk Committee; and
- Nominations and Remuneration Committee.

<u>Audit committee</u>

The purpose of the Audit Committee is to oversee the quality and integrity of the Group's financial reports, particularly the key financial judgements made within them. The Audit Committee also reviews accounting policies, the Group's compliance matters and also assesses the effectiveness of Internal Audit. The Group's Internal Audit Function and Finance Function reports to the Audit Committee on the effectiveness of policies owned by these two functions, procedures and internal controls.

<u>Risk committee</u>

The purpose of the Risk Committee is to oversee the effectiveness of the Group's Risk Management Function, the Compliance Function and the Money Laundering Reporting Officer (MLRO). As from April 2020, the Compliance Function started reporting to the Risk Committee. The Board Risk Committee is also responsible for reviewing the Group's risks in sufficient detail that it can assess whether they are consistent with the Group's risk appetite, and for reviewing management's proposed courses of action if not. It may then approve these plans or require them to be altered, as appropriate. It is also responsible for assessing the Group's high-level controls, limits, risk management controls and risk aggregation and reporting framework to ensure that these are sufficient to maintain its level of risk (including, but of course not limited to, operational risk) within its appetite.

<u>Nominations and remuneration committee</u>

This committee is responsible for making recommendations to the Board in respect of key appointments including:

- Board appointments including re-elections and succession planning, particularly in respect of Executive Directors;
- Membership of board committees; and
- Endorsement of senior executive appointments.

It is also responsible for monitoring the performance of directors and ensuring that their professional development is appropriately facilitated.

The Committee reviews the setting of remuneration levels (fixed and variable) as well as the structure of variable remuneration, for senior executives and material risk-takers within the Group as defined in the Group's Remuneration Policy. In this regard, it receives recommendations from the executive management of the Group for its consideration and approval.

In addition, the Committee is responsible for ensuring that the Group's Remuneration Policy itself, as well as the structure and levels of remuneration, are in accordance with prevailing laws and regulatory guidance, as well as with best practice, and are consistent with the long term sound and prudent management of the Group.

Executive Management Committee (EXCO)

The Board delegates responsibility for the day-to-day management of the Group to the CEO who chairs the EXCO. EXCO represents the principal forum for conducting the business of the Group and takes day-to-day responsibility for the efficient running of the business. In addition, EXCO is responsible for the formulation and implementation of Board approved strategies and plans. The Gorup has in place an EXCO that is focused on the business in each of the jurisdictions it operates in, i.e a Malta EXCO and a Belgium EXCO. The Group EXCO is mainly responsible for the ongoing priorities that underpin the Group's business model and the regulatory environment. EXCO serves as an internal advisory body with feedback to the Board via the CEO.

Whilst retaining the ultimate responsibility for actions taken, EXCO may delegate its responsibilities to a number of management sub-committees, each operating under their own terms of reference:

- Management Credit Committees ("MCC");
- Management Risk Committee ("MRC");
- Asset and Liability Committee ("ALCO");
- Operations Committee; and
- Compliance and Client Acceptance Committee ("CCAC").

Since September 2020, the Group has set up a Group Steering Committee. The purpose of the Group Steering Committee is to provide a forum for the six Executive Directors of the Group, i.e MeDirect Bank (Malta) plc and MeDirect Bank SA, to discuss the key strategic issues and initiatives, which together will ensure that the strategic objectives of the Group are delivered, in accordance with the Strategic Business Plans, which have been approved by the Boards of Directors at Group and Belgium level. The Committee complements the local Executive Committees, who remain the decision making bodies with regards to approval of such strategic initiatives.

Internal control functions

The Group has an adequate and effective internal control framework that includes a clear organisational structure and well-functioning independent internal risk management, compliance and audit functions that have sufficient resources to perform their functions. The Internal Control Framework is implemented through the three lines of defence model. The 1st line of defence comprise the business line management, and the internal control functions represent the 2nd and 3rd line of defence. The internal control functions are independent of the 1st line of defence with the Heads either being a member of the Board, or reporting directly to the Board and its Committees. Both the Group CRO and the Belgium CRO are members of the Boards of Directors for MeDirect Malta and MeDirect Belgium respectively, whilst being standing attendees of the Board Risk Committee. The Group Head of Compliance reports directly to the Group CEO with a reporting line to the Board Risk Committee. The Group Chief Internal Audit Officer has a direct reporting line to the Board Audit Committee.

The Group's Risk Management Function has grown in volume across both entities, with eighteen roles in total across Malta, Belgium and London. Staff turnover levels have remained very low and below market levels. Average tenure in the risk function is relatively strong, with a high level of loyalty evidenced from longer standing team members whom average 3.1 years in role with Risk. The Belgium CRO resigned and departed MeDirect Belgium in March 2021. A replacement CRO has been identified and should be announced, subject to regulatory approval, in the near future. The Belgium CEO is representing the CRO role for the duration of the interim period, and therefore carries right to veto any decision.

The Group's Compliance Function has increased in size over the last three years, as well as operationally transferring transactional activities to the 1st Line of Defence as part of the Compliance strategy. Staff turnover levels have been elevated since 2018, primarily due to increased demand for Compliance expertise in financial services and related industries locally in Malta, and limited supply of qualified and experienced Compliance professionals.

As a result of this, in 2021, the Group Compliance Function was split into two distinct functions; Regulatory Compliance and Financial Crime Compliance. This decision was taken by the Bank to further strengthen and enhance the expertise within both functions. Both functions have also grown significantly in terms of resource additions. A regulatory technology specialist also supports both functions. In line with the split of the Compliance Function described above, as of 30 April 2021, the Group Head of Compliance was replaced by a new Head of Financial Crime Compliance who recently joined the Bank and the Head of the Regulatory Compliance sub-group within the Compliance Function will be heading the newly separated Regulatory Compliance Function, in each case subject to regulatory approval.

In respect of MeDirect Bank SA, the Compliance team was further strengthened through the addition of a Compliance Head in 2020, and in the area of Financial Crime the Deputy Head of Compliance and AMLCO has been further supported through the addition of a new Financial Crime Officer.

A new Head of Legal and Company Secretary joined MeDirect Belgium in November 2020. In addition, the legal and corporate governance functions at both MeDirect Belgium and MeDirect Belgium were supplemented by additional hires to meet increasing demands from business functions and requirements for legal and corporate governance support.

Over the past three years the Group has strengthened the Internal Audit Function by adding more staff across Malta, Belgium and London to reach a total of eight full-time employees including the Chief Internal Audit Officer. Staff turnover was elevated over the past year, that was mainly driven by internal transfers. A new Head of Internal Audit based in Belgium was recruited during H1 2019 and the skillset of the team based in Malta was enhanced with the recruitment of a second senior manager who has extensive experience in IT. The number of Internal Audit resources remained stable over 2020. During the year, specialised audit skills were further strengthened, particularly those pertaining to IT and digital banking. In the coming financial year, Internal Audit resources are planned to be further increased, with heightened focus on the expansion of the Belgium based Internal Audit function.

Group Corporate Governance Framework

The key elements of the Group's governance infrastructure are described in the Group's Corporate Governance Framework. This framework supports other internal documents such as the Group's articles of association, terms of reference for the Board of Directors and its standing committees. The framework is reviewed annually or whenever there are material changes to the business model or internal structure of the Group.

Policy Standards

The Group maintains a centralised policy library that provides transparency across the group to enhance sharing of information. A policy standard document describing how documents shall be categorised using a 4-level risk based approach coupled with clear governance processes for the review and approval, is in place. An annual review of the policies shall be carried out by each department owner to ensure changes such as regulatory and organisational updates are completed in a timely manner. Apart from the centralised policy library, a policy awareness and training programme is in place that covers Regulatory and mandatory policies including online training programmes.

2.1.10 Risk management of the Group's regulated subsidiaries

The Group's Risk Management Framework, the Risk Policies and procedures are applied uniformly across the Group and its subsidiaries. Using its position as controlling shareholder if necessary, the Group adopts the following key principles when managing the risk of its subsidiaries:

- Subsidiaries will not take on any risk that is outside the Group's consolidated risk appetite, as expressed in its Group RAS, unless prior consent and dispensation is provided by the Group Board;
- The Group's risk reporting and evaluation processes will include risks borne within the subsidiaries in the same way as risks borne within the Group itself: such reports will be produced and reviewed on a consolidated basis (notwithstanding that additional reports may be produced at subsidiary level as described below);
- The Group will not take any action at subsidiary level without support from the relevant body of the subsidiary in question; and
- To the extent possible, subsidiaries will adopt risk management policies, processes, and reports that are consistent with those of the Group itself: in particular, subsidiaries will follow the day-to-day operational risk management (i.e. control) processes of the Group, although they may of course supplement these with additional control processes if they feel this is necessary or if local regulations and customs dictate.

Where risk reports are produced for management purposes, or regular analysis is performed, in respect of individual subsidiaries of the Group, the form of these reports and analysis will be kept as close as possible to that of the Group-level equivalents. Where local management, regulations or customs demand that additional or differently-presented information be shown on entity-level reports, the Group will in general aim to produce information in a common format acceptable at both levels.

2.2 Information on risk management, objectives and policies by category of risks

Risks are identified in the context of the business model and strategy of the Group, and within the parameters of the risk appetite of the Board. Other objectives are also taken into consideration:

- *Financial reporting objectives:* these relate to the preparation of reliable published financial statements and regulatory reporting;
- *Operational objectives and business targets:* these relate to the achievement of the Group's mission statement and address the effectiveness and efficiency of the Group's operations; and
- *Compliance objectives*: these relate to adherence to laws, rules and regulations to which the Group is subject, as well as prudential regulatory requirements.

The Risk Management Function relies on a number of techniques and methodologies to identify risk. Both normative and economic perspectives are taken into account during the risk identification process. Relevant risks are taken into consideration for the Group's ICAAP and ILAAP, while capital is allocated to cover those risks that are identified as material following a comprehensive risk assessment.

2.2.1 Credit risk

Credit risk is the risk of loss for the Group's business or of an adverse change in the financial position, resulting from fluctuations in the credit standing of issuers of securities, counterparties and any debtors in the form of default or other significant credit loss event (e.g. downgrade or default). The willingness to take on credit risk is focussed on risk-adjusted returns, in that the interest margin received after operational costs will outweigh any credit losses incurred, is a key part of the Group's business model.

Credit risk profile

The Group's credit risk emanates from four main sources: from its corporate lending activities, its Dutch NHG mortgage book, collateralised loan obligation ("CLO") management, for which a 5% vertical risk retention is held and from its treasury activities. The Group's corporate lending activity is mainly composed of its international syndicated corporate loans portfolio, as well as a much smaller portfolio of domestic corporate lending for which it has a lower risk appetite

Credit risk arises primarily in the form of deterioration in credit quality leading to an obligor defaulting on debt instruments held in the Group's investments portfolio or on loans extended to corporate counterparties or mortgage borrowers in the Netherlands.

Apart from these main sources of credit risk, the Group does take on credit risk in other areas too; these are listed in the following table along with the key risk mitigants. To the extent that new products and services are offered to the Group's customers that involve the extension of credit, the Group's approach is to require similar controls and mitigants to be put in place.

Source	Mitigant
Secured financing (high-quality liquid asset securities)	Being a securities lender/cash borrower: intrinsically a risk mitigant since correlation leads to a "right-way" exposure.
	Execution under market-standard Global Master Repurchase Agreement ("GMRA") documentation with major counterparties, or at Eurex or CBM; with daily margining.
	Concentration limits embedded in credit policy.
Secured financing and revolving credit facilities (less liquid assets)	Execution only with top-tier international counterparties.
	Limits by counterparty.
Exposure to hedging counterparties	Execution under market-standard International Swaps and Derivatives Association ("ISDA") documentation with major counterparties; daily margining. All Interest rate swaps are cleared through Eurex Clearing (CCP) which limits counterparty risk.
	All hedging instruments are highly liquid and based on easily observable market data.
Lending to local corporate customers	Currently lending is extended against tangible collateral, notably residential and commercial real estate, subject to a prudent collateral policy.
Residential mortgage lending in the Netherlands	Lending against residential real estate collateral, and loans are covered by the Nationale Hypotheek Garantie ("NHG") which covers up to 90% of the losses that remain after a foreclosure.
Encroachment (Group effects a foreign-currency client payment before euro funds have cleared)	Exposure very short-term in nature.

Counterparty credit risk

The CRR defines counterparty credit risk ("CCR") as the risk that the counterparty to a transaction could default before the final settlement of the transaction's cash flows.

Limits on counterparty exposure are established by the Treasury Management Credit Committee. Such limits relate to net exposure, after application of cash (and cash equivalent) collateral, as provided in industry-standard documentation such as the ISDA and GMRA agreements, and the Group Credit Policy.

The Group has not established any credit reserves in relation to counterparty credit risk.

<u>Credit risk quantification and assessment</u>

The Group adopts the standardised approach to credit risk as outlined in the CRR in order to apply its capital requirement for credit risk.

Besides allocating capital against its Pillar I risks that are based on the Group's accounting records, the Group carries out an assessment of any additional capital that is necessary to be set aside in order to withstand economic effects of risk-taking activities based on a capital add-on to the Pillar 1 capital requirements. This assessment is carried out at least on an annual basis as part of the ICAAP.

<u>Credit risk management and control</u>

The Group's lending activities are governed by the credit risk policy and associated credit frameworks, covering the international corporate loan portfolio (including the CLO activities), treasury portfolio, the local lending portfolio and the Dutch Mortgages portfolio. The Group's Corporate Credit Framework, the Credit Risk Policies and procedures are applied uniformly across the Group and its subsidiaries.

The Group's credit policy sets out a series of controls on how the Group mitigates its credit risk, covering:

- Credit governance;
- Credit approvals;
- Credit classifications and staging criteria;
- Credit monitoring;
- Deteriorating credits and forborne exposures; and
- Non-performing and default exposures.

Internal policies and frameworks are reviewed at least on an annual basis to keep abreast with ever changing market conditions and regulatory landscape. During the year ended 31 December 2020, improvements to credit processes have focussed on addressing residual findings from the ECB on-site inspection on credit risk that were note addressed in 2019, which included; Enhancing the BMS loan management system to increase the level of loan portfolio reporting and controls. In addition, MeDirect amended internal polices to reflect evolving EBA and other relevant regulatory guidelines in relation to Covid-19.

The Treasury Credit Framework governs the oversight and management of credit risk associated with the high-quality liquid assets held in the Group's treasury portfolio, including the semi-annual portfolio review process that assesses the related credit risk arising from macroeconomic and geopolitical risks.

Given the differing nature of the local lending portfolio, the credit risk emanating from these activities is managed and controlled through a number of policies and procedures. The Local Lending Credit Framework covers the Local Lending activities in Malta, monitoring and reporting requirements and the escalation and approval processes for the Bank. Since the Group holds collateral against loans and advance to local customers in the form of hypothecary rights over immovable assets, registered rights over movable assets and guarantees, the Group has in place a collateral policy that governs this process.

Collateral valuation

Local Lending Portfolio

The Group operates a local (Maltese) lending business, primarily focussing on bilateral corporate facilities mainly for the real estate related activities and working capital facilities.

The Group applies a number of limits to the Maltese Lending portfolio both at Portfolio level and at Single Name level for its corporate clients. These limits are approved by the Group's Board and documented in the Risk Appetite Statement, which is reviewed on an annual basis.

Additionally, Loan-to-Value ('LTV') limits are applied to any credit extended to real estate related transactions or where real estate is pledged as collateral, given that underlying asset values can be subject to market volatility. This limit is calculated on the market value of the security, prior to the application of the relative haircut.

The market value of the collateral is based on an assessment carried out by the Maltese Lending unit to determine whether the 'market value' of the collateral is the best estimate of the net realisable value of the said asset. The unit evaluates the valuation in the context of market impact of liquidation of the said collateral on liquidity, buy-sell spread and market float of the same class of assets.

The Group further appoints an independent valuer possessing the necessary qualifications, ability and experience to execute a valuation and who is independent from the credit decision process. The Group will ensure that the valuer has the necessary ability, experience and independence (to the property or borrower) prior to undertaking the review.

The Group applies haircuts in respect of the property valuation carried out by the independent valuer and is determined on a case-by-case basis taking into account particular characteristics such as valuer's expertise and experience, valuation/s of similar collateral and, locations and conditions of property as stipulated in the Group's collateral policy. Haircuts are applied to arrive at the best prudent estimate of the realisable value of the collateral and are documented in the credit memorandum together with an explanation of the suitability of chosen haircut. The haircut is discussed and ratified at the Group Management Credit Committee.

The value of collateral that is commercial real estate is monitored at least annually, while the value of residential real estate is reviewed once every three years. The value is monitored through the local Property Price Index as well by gauging asking prices of similar properties available on the market.

For individually significant loans, including but not limited to those exceeding €3 million or 5% of the Group's own funds, the value of the property securing such loans shall be reviewed by an independent valuer at least every three years.

If the market is subject to significant changes in conditions and publicly available information indicates that the value of the property may have declined materially relative to general market prices, an update of the valuation of the collateral shall be required.

The status of each item of Collateral listed is noted within the Credit Memo, in which the Maltese Lending unit must confirm that all legal and collateral documentation in connection with the Borrower has been reviewed and is in order. If it is not, the team member shall comment on the outstanding matters as required.

The guidelines on collateral haircuts are reviewed at least annually by the Group, and may from time to time, be amended to ensure that the Group's business continues to act in accordance with best practices.

Any proposed changes are escalated for approval to the Board Audit Committee and Board Risk Committee (for material changes) or to the Executive Committee (for non-material changes). Determination of whether a proposed change is deemed material is the responsibility of the Management Credit Committee Chairman.

Net realisable value

For liquidation purposes, the Group carries an assessment to determine whether the 'market value' of the collateral is indeed the best estimate of the net realisable value of the asset. For immovable property, forced sales discounts are applied to reflect the particular characteristics and conditions of the local market (e.g. type of property, time factor to realise collateral and location) so as to arrive at the best prudent estimate of the realisable value of the collateral.

Credit governance and approval process

International Corporate Lending Portfolio and Local Lending Portfolio

The Group has in place a governance process outlining roles and responsibilities, authorities, limitations and escalation processes for approving and reviewing credit exposures across the Group's lending portfolios.

Management of the Group's credit risk is the joint responsibility of the departments that originate this risk and of its Risk Management Function, under the oversight of the MCC and of the Board Risk Committee.

The Group adopts a typical three-lines-of-defence approach to credit risk management that utilises an independently run Risk Management Function as a second-line of defence as well as the Internal Audit Function acting as an independent third-line of defence for credit audits and reviews.

With these objectives in mind, responsibilities around the origination of new assets are divided as follows:

- Business units are responsible for identifying and sourcing lending opportunities and for all discussion with external parties, whether the proposed borrower itself or an intermediary such as the lead bank in a lending syndicate. They are also responsible for performing primary credit analysis on a proposed extension of credit (to include an impartial summary of all relevant information), for recommending a course of action and for co-ordinating the decision-making process. Where public investment-grade (i.e. BBB-/Baa3) credit ratings are available in respect of a bond issuer or other obligor, business units may reflect the underlying rating agency analysis in lieu of performing their own detailed independent credit analysis where this is permitted by the associated credit framework.

- The Risk Management Function is responsible for reviewing this primary credit analysis, for ensuring that any open items are discussed and resolved in advance of the formal decision-making forum and for providing its own recommendation on the appropriate course of action. For avoidance of doubt, Risk may not rely on external credit ratings as a substitute for performing its own credit analysis and assessment.

- The Internal Audit Function is responsible for periodic and thematic reviews of credit policies and the associated credit processes, in order to assess and review their effectiveness and adherence to them by both the business units (1st line of defence) and the Risk Management Function (2nd line of defence). The Internal Audit Function may also, at its own discretion, seek the involvement of third party audit firms to support any internal credit audits and reviews related activities.

The MCC of the Group is responsible for approving credit recommendations and making other credit decisions under their delegated authority, as defined in each associated credit frameworks. This includes:

- Whether to approve an extension of credit, and under what conditions;
- How to classify individual credits for risk and performance monitoring purposes;
- Whether to recommend Board approval for extensions of credit beyond its delegated authority;
- Consideration of any hedging strategies and whether to recommend them for Board approval;
- Review impairments and provisioning; and
- Monitor and provide oversight over the risk performance of the portfolio.

CLO Activities

The Group has two type of investments in CLOs, namely:
- The Grand Harbour 2019-1 CLO issued and managed by MDB ("CLO Issuance")
- MDB investments in CLOs managed by other institutions ("3rd party CLOs")

The CLO issuance in 2019 involved the Group transferring the ownership of a number of eligible assets being securitised to a securitisation special purpose entity ("SSPE"). As a result, the SSPE became entitled to the cash flows that are generated by the assets, including those resulting from the sale of such assets. The SSPE is structured to ensure the underlying exposures are placed beyond the reach of MDB and its creditors. Once notes were issued, MDB continued to act as a collateral manager and is paid by the SSPE for these services. Under the EU Securitisation Regulation, MDB retained a material net economic interest in the CLO.

In January 2021, FIL Investment Management Limited ("Fidelity") was granted delegated authority to manage the Grand Harbour 2019-1 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.

The Group's CLO Risk Management Policy outlines the risk management principles, governance structure, roles and responsibilities as well as an overview of the key risks and associated controls and metrics for monitoring such risks in relation to the Group's CLO issuance and management and 3rd party CLO investments.

The roles and responsibilities of each team are outlined below:

Allocation Manager	the person or number of persons who is/are responsible for allocating Assets to Accounts.
Allocation Proposer	a person or number of persons who is/are responsible for advising on the allocation of Assets to Accounts
Allocation Proposal	a proposal by an Allocation Proposer to an Allocation Manager to allocate an Asset to a particular Account or Accounts.
Allocation Team	The Allocation Proposer and the Allocation Manager handling a particular allocation of an Asset.

Credit Approval Process

CLOs issued by the Group

The same strict credit governance process applied for those loans that were transferred to the CLO structure. The three lines of defence model ('3LOD') was adopted. As the first line of defence, the Corporate Credit team was responsible for identifying and sourcing lending opportunities and for performing primary credit analysis, making recommendations and co-ordinating the decision-making process. Then as the second line of defence, the Risk Management function reviewed and challenged the primary credit analysis and identified key due diligence areas for investigation ahead of Management Credit Committee ("MCC"), during which credit limits were decided and approved. Any investment that fells outside of MCC's approval limits were escalated for review and discussion at Board level. Finally, as the third line of defence, the Internal Audit function performed an ad-hoc review relating to new CLO issuances. This review formed part of the Annual Internal Audit Plan.

Eligibility criteria

In order for approved loans to be transferred to the CLO structure, these had to meet a number of criteria, of which:

- Rated (either publicly or privately);
- Up to a certain size as proportion of the total portfolio (usually 2.5%, although CLO investors have preference for diversity so in practice a 1-1.5% average size is expected);
- Not rated Caa or CCC (and even B3/B- in some cases) as this is penalizing for rating agencies collateral quality tests;
- Obligors need to meet a minimum size (obligors with <€150 million total indebtedness are not eligible);
- Assets trading below 90%, and even below 95% should not exceed a minimal proportion of the total assets – successful placement of the transaction involves detailed investor scrutiny of the portfolio; and
- Minimum average spread levels in order to generate sufficient income to pay the interests on the CLO liabilities.

In January 2021, FIL Investment Management Limited ("Fidelity") was granted delegated authority to manage the Grand Harbour 2019-1 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. No further CLOs are expected to be issued by the Group in the future.

3rd party CLO investments

The investment approval process associated when the Group invests in 3rd party CLOs is similar to the credit approval process when it issues its own CLO. This process involves the Corporate Structured Finance team acting as the 1st line of defence by identifying and sourcing investment opportunities and performing primary credit analysis. Acting as the 2nd line of defence, the Credit Risk team reviews and challenges the credit analysis and provides an opportunity to identify potential due diligence areas for investigation ahead of Management Credit Committee ('MCC'). The MCC is responsible to approve or otherwise the limits within which the Corporate Structured Finance team can invest, in line with the Group's Risk Appetite Statement. Once approved, a funding request is sent and actioned by Treasury Function.

Allocation principles

Following approval by the MCC, any asset intended for a CLO is allocated by the Allocation Manager in accordance with the mandate, necessities of the respective CLO and a number of allocation principles that must be considered.

In the absence of other considerations, the loans are allocated on a pro rata basis. Each CLO shall formally submit their credit commitment request to Allocation Manager. Such requests will be aggregated and subsequently, a request for the whole Group will be submitted to the counterparty. If minimum transfer size or round amounts are breached due to pro rata allocations, the CLO Managers will decide which vehicle to assign the allocation to, based on liquidity and capital constraints of the underlying portfolio.

Where assets in accounts controlled by the Group are to be sold, CLOs and Non-Consolidated Entities shall have the right of first refusal.

Where a sale of assets to or from an account representing a CLO or other Unconsolidated Entity needs to be done in order to enhance the liquidity or credit standing of the CLO or Unconsolidated entity, the Allocation Manager shall give prior consideration to balancing the interests of that account, such as balancing the need for liquidity against the current market price of the Asset. If decision to sell and allocate is then made, any allocation of that asset to other accounts shall, to the extent possible, practicable, or equitable, be made on a pro-rata basis.

Where an allocation is to be made to a CLO, the Allocation Manager considers the benefits which will accrue to the CLO, while on the other hand evaluating the Allocation's effect on the CLO's liquidity, considering matters such as whether liquidity tolerances are likely to be approached and breached within a reasonable period following Allocation as well as the consequences thereof.

Sales of Assets across CLOs may be effected at any point in time subject to the Allocation Manager's discretion. There is no minimum hold period for selling assets, and assets within the CLO or Unconsolidated Entity may be bought and sold at any time, unless legal or regulatory restrictions apply.

In exceptional circumstances, such as where there is an extra high volume of selling, buying or allocation of Assets, where it is evident that the processes outlined above become ineffective due to then prevailing circumstances, the Allocation Manager may, after consulting with relevant stakeholders, follow any procedure which preserves the spirit of fairness in the procedures or principles outlined in the Group's Asset Allocation Policy with respect to a specific allocation or group of allocations.

All credit decisions, approved or otherwise, applicable for the international lending portfolio (including the CLO activities) and local lending portfolio are documented and retained, with suitable MCC minutes recorded or approval comments where decisions are made under delegated credit authorities. Retention of credit decisions are maintained for the lifetime of the credit facility, subject to any data retention regulation as outlined in the Group's Data and Retention Policy.

Dutch Mortgages Portfolio

As from September 2019, MeDirect Belgium started investing in Dutch NHG (government guaranteed) mortgages, as part of its strategy to diversify Group credit portfolio and expand its presence to a third European market. MeDirect Belgium operates in the residential Dutch mortgage market through the purchasing of the receivables of newly originated Dutch mortgage loans through HollandWoont B.V., a multi investor mortgage platform and a subsidiary of Dutch Mortgage Portfolio Management BV (DMPM) ('Lender of Record'), which is part of Blauwtrust Groep (BTG). BTG is a well–established provider of services to the Dutch Mortgage market and is best known under the name of its servicing subsidiary Quion.

Within BTG several entities act as subservicers for MeDirect Belgium:

- Distribution management/marketing through Conneqt Mortgage Distribution;
- Lender of record ('LoR') activities through HollandWoont, a subsidiary of DMPM;
- Mortgage origination and underwriting through Quion;
- Mortgage primary servicing through Quion; and
- Special servicing through Quion.

DMPM acts as a portfolio manager and monitors the activities of the different sub-servicers. All subservicers have reporting obligations to the investor. The outsourced activities have been agreed in a servicing agreement between HollandWoont and the sub-servicers, including Service Level Agreements per entity.

NHG provides detailed instructions on underwriting and servicing of mortgage loans. Non-compliance to the instructions, registered in Conditions & Norms, will lead to a complete or partial loss of compensation in case of a default. Conditions & Norms set the maximum borders of the credit policy a mortgage lender can apply, but it is up to the lender to accept the full scheme or apply a more prudent credit policy.

HollandWoont will only originate new mortgages that are covered by NHG. The operating model below shows the process from loan origination to full loan settlement:

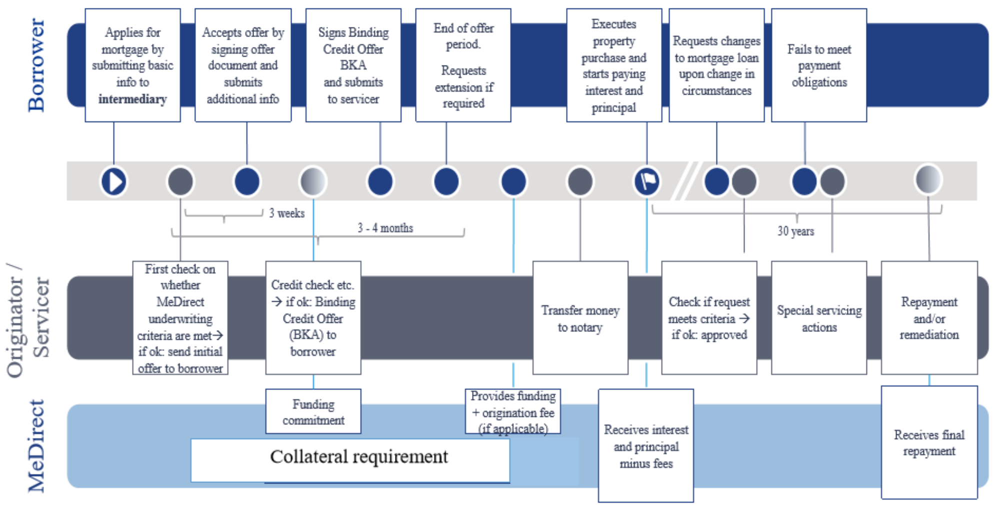

FIGURE 6: DUTCH MORTGAGES OPERATING MODEL

Pricing

As a Lender of Record HollandWoont is responsible for setting the market rates and investors in the platform set the minimum interest rates the investor is willing to accept to buy the mortgage receivables. In case the LoR decides to set the market rates at a level below the minimum rates of the investor no more new applications will be allocated to the investor.

Existing borrowers can apply for an increase of their mortgage or a second lien mortgage. They can also use the option to port their loan to a new property. In these cases the loan can (partly) loose the guarantee of NHG and becomes (partly) non-NHG eligible. For mortgages moving into the Non-NHG space an add-on to the interest rate is applied to cover the additional risk the investor (MeDirect Bank) accepts. This additional spread will be added to the regular NHG-rates and is based on the Loan to Value (LTV).

Subscription and Pricing Committee

The Group has established a Subscription and Pricing Committee ('SPCO') that is convened periodically to set the amount of mortgages that the Group is willing to purchase for a specific time frame and sets the specific minimum pricing. The SPCO is a sub-committee of the Asset and Liability Committee ('ALCO') and is primarily responsible for:

- Reviewing and setting the investment appetite of the Group for mortgages and setting subscription amounts for applications to be allocated during the upcoming quarters;
- Reviewing and setting of the minimum pricing of the mortgage asset classes;
- Monitoring of the Dutch mortgage market;
- Monitoring of the existing portfolio of mortgages and managing the performance of the existing portfolio against market offerings and internal forecasts; and
- Asset and liability management in the context of the growth of this portfolio.

New loans

Situations may occur that the NHG conditions require interpretation or an exception needs to be applied. In these instances the Credit Officer of the Portfolio Manager (DMPM) will review and provide guidance to the servicer (Quion, responsible for underwriting). The investor/MeDirect Bank is not involved in these decisions and it must be noted that these decisions always need to comply with the Norms and Conditions of NHG.

Special Servicing

- In cases related to Special Servicing (default management) and specified in a Portfolio Management Procedure, the Credit Officer of DMPM will draft a Summary Proposal highlighting the specific situation and a brief summary of the requested or proposed solution. This Summary Proposal will not include privacy sensitive data and will be sent by email to MDB. MDB is requested to provide a Credit Recommendation by signing the Summary Proposal and returning it by email within two Business Days to the Portfolio Manager.

- Within the mandates described in the Dutch Mortgage Credit Framework , the Head of Dutch Mortgages, CEO, CFO and CRO are authorised to provide the Credit Recommendation on behalf of MeDirect Belgium.

Credit classification and staging criteria

International Corporate Lending Portfolio and Local Lending Portfolio

Credit exposures are classified into credit classification categories as part of the credit approval process. The classification decision is ultimately the responsibility of the MCC unless otherwise stated, and should be continuously ratified as part of the credit monitoring process.

The Group adopts a five-scale internal credit classification rating scale. This aligns to the Group's standardised approach to credit risk and for the purpose of adherence of IFRS 9 principles, provides alignment and consistency.

Internal Credit Classification		
Internal Rating		**Internal Rating Definition**
1	**Regular**	No material credit concerns
2	**Focus**	No immediate prospect that a credit loss will ultimately be suffered, but worthy of closer credit oversight
3	**Under Surveillance**	Significant increase in credit risk with identified concerns and some prospect that a credit loss may ultimately be suffered
4	**Doubtful or Defaulted**	Likely that the contractual terms of the debt will not be met and that a credit loss will be suffered, or an actual event of default has been evidenced
5	**Write-off**	Full or partial credit impairment suffered, with little prospect of recovery

The Group's IFRS 9 general approach is applicable for all assets that are not credit impaired at the point of investment (initial recognition). The general approach adopts the IFRS 9 three-stage methodology that is summarised below:

- **Stage 1 (Performing)** — Stage 1 includes assets that have not had a significant increase in credit risk since the point of initial recognition or that have low credit risk at the reporting date.
- **Stage 2 (Under-Performing)** — Stage 2 includes assets that are seen to have had a significant increase in credit risk since the point of initial recognition but do not have objective evidence of impairment. Generally, a significant increase in credit risk will occur before there is objective evidence of impairment or a default occurs.
- **Stage 3 (Non-Performing)** — Stage 3 includes assets where there is objective evidence of impairment at the reporting date. Assets in this stage will be considered as "Non-performing" and generally be assessed individually for provisioning purposes.

<u>Credit hedging</u>

To provide additional credit risk mitigation, the Group may also consider managing credit risk through credit hedges. Entry into any such hedges will also be subject to prior approval by the Board of Directors.

Throughout the financial year, the Group did not enter into any credit derivative hedges.

<u>Credit monitoring</u>

International Corporate Lending Portfolio and Local Lending Portfolio

As part of the Group's robust approach to credit risk management, the Group ensures that close and continuous oversight of each of its respective lending and treasury portfolios is undertaken.

The Risk Management Function is responsible for ensuring that all significant credit risks are appropriately being identified and managed by the respective business functions (1st line of defence) and clearly incorporated into the Group's risk management and reporting framework. Additionally, the risk management function is responsible for overseeing that appropriate monitoring of the credit performance of each lending portfolio, including, amongst other things, monitoring portfolio risk and concentration risk, monitoring credit quality trends and provision levels and reviewing and taking appropriate action in connection with any violations of credit limits and policies.

The CRO assigns ownership and responsibility for the monitoring of such risks and is responsible for ensuring that adequate controls are in place to ensure that risk management is in compliance with regulatory requirements and with the Group's risk appetite as approved by the Board of Directors.

Besides from allocating specific concentration limits for each asset portfolio it manages, the Group has in place a number of quantitative credit risk metrics to monitor its lending portfolios. Since the Covid-19 outbreak in March 2020, the Group has ceased any new market originations for the international corporate lending portfolio but still maintains limits for assets already held on its' books, including:

- Single name limits;
- Portfolio limits;
- Leverage limits; and
- Incremental lending limits.

The Group also maintains portfolio-related Key Risk Indicators (KRIs) for the International Corporate Lending portfolio as follows:

- Covenant limits;
- Single financial sponsor limits;
- Sector concentration limits; and
- Geographical concentration limits.

The Group has also in place a number of risk metrics to monitor the Local Corporate Lending portfolio:

- Single name concentration;
- Loan-to-value ("LTV") limit;
- Unsecured lending limit; and
- Total portfolio.

The Group also maintains portfolio-related key risk indicators (KRIs) for the International Corporate Lending portfolio, including:

- Covenant limits;
- Single financial sponsor limits;
- Sector concentration limits; and
- Geographical concentration limits.

The Group also has in place a number of risk metrics to monitor the Maltese Mortgages Lending portfolio:

- Single name limits;
- Loan-to-value ("LTV") limit;
- Debt service-to-income (DSTI) limits;
- Unsecured lending limit; and
- Total portfolio.

As both the Local Corporate Lending portfolio and the Maltese Mortgages Lending portfolio are not core business lines of the Group and have high dependency on Maltese real estate market conditions, the Group has risk appetite limits for total commitments on the portfolios, split between corporate and retail.

With regards to the Treasury portfolio, the Group seeks to invest in securities of the highest credit quality that are relatively protected from potential downgrades and highly liquid on the secondary market whilst abiding by the list of permitted activities and products as included in the Group's Treasury Credit Framework. Preference is given to fixed income instruments that are deemed eligible marketable assets by the ECB, and eligible as high quality liquid assets ("HQLA") for LCR and NSFR purposes.

To support monitoring of risks associated with CLOs, the Group has several dashboards in place covering:

- Loans/bonds on the Group's Balance Sheet that may be transferred to a CLO;
- Own CLOs post settlement (and an aggregate dashboard covering all such CLOs issued); and
- 3rd party CLO investments (and on an aggregate dashboard covering all such investments).

Additionally, the Group's Risk Appetite Statement has been translated into a set of risk limits and notification thresholds at the operational level and these limits and thresholds have been coded into the dashboards to allow easy identification of risk metrics that have been breached or are in the amber notification threshold.

Risks are monitored on an ongoing basis and in a timely manner, including performance information, exposure type, the percentage of loans at each rating level in particular proportion of CCC assets, default rates, prepayment rates, amongst others. Collateral Quality Tests (such as WARF and Diversity Score), Portfolio Profile Tests and Coverage Tests will be also be closely monitored.

In addition to the qualitative risk statement, risk appetite for investment in the senior tranches of CLOs managed by 3rd parties is expressed through the following limits and indicators:
1. Only CLO tranches in Euro will be considered; and
2. Only AAA rated tranches by at least 2 reputable rating agencies will be considered.

The Group has a 'high' risk appetite to invest in prime NHG-backed Dutch residential mortgage loans and actively seeks to take on this risk as an important driver of revenues. Failure to adequately manage the risks involved in this business activity can result in a high cost of risk. As a result, strong control have been applied.

A number of risk metrics were put in place to monitor the Dutch NHG-Backed Mortgages:

- Loan-to-value ("LTV") limit;
- Cost of Risk limits;
- NHG Pay-Out limit;
- Interest-Only loans limits; and
- Non NHG eligible loan limit.

For the Dutch Mortgages portfolio, as a professional provider of outsourcing services to the financial industry, the vendor has a risk management framework in place, based on the 3LOD model and comprising RCSA, ISAE 3402, ISO 27001 and independent auditing of the portfolio.

The Group's oversight is primarily based on the existence of aforementioned standards, secondarily on monitoring via daily and monthly reports and thirdly on additional audits by subject matter experts within the Group.

The following are the NHG scheme related risks:

- Unsecured exposure risk;
- Amortisation profile risk;
- Underwriting risk;
- Collateral valuation risk;
- Fraud risk; and
- NHG suspensory conditions.

Unsecured exposure risk

The credit risk associated with this business line is considered to be low, since Dutch mortgage loans are guaranteed by the Dutch national mortgage guarantee scheme (NHG), which protects borrowers from any residual debt after a foreclosure following a default on their mortgage loan. The NHG Guarantee covers the outstanding principal, accrued unpaid interest and disposal costs. Lenders/investors benefit from the guarantee as the loss will be covered by the NHG. 10% of the realised loss will be for the investor/lender.

Amortisation profile risk

The NHG Guarantee assumes that a mortgage loan amortises over a 30-year period regardless of the actual loan amortisation profile. Consequently, the credit protection amount of the NHG guarantee on mortgage loans decreases over time, assuming repayment of the guaranteed residential mortgage loan within 30 years and according to the annuity method. Thus, depending on the NHG terms and conditions that apply to the individual mortgage loan, the credit protection provided by the NHG guarantee may only be partial and is decreasing over time.

The typical share of interest-only loans in existing NHG portfolios is about 30% of the total volume. The HollandWoont (and MDB) aims at reaching a share of interest-only loans well below this figure given its negative impact on credit and interest rate risk.

Underwriting risk

The NHG Guarantee has prescriptive eligibility rules. In the event that a loan is underwritten in breach of the NHG eligibility conditions, all or part of the claimed amount may not be covered by the NHG guarantee.

For the Group, this risk is mitigated by a contractual provision in its agreement with HollandWoont that the Lender of Record is liable for losses on a mortgage loan due to non-compliance with the NHG eligibility criteria at the time of origination or when servicing the loan. The Lender of Record bears the responsibility for ensuring that each application meets the NHG criteria.

Collateral valuation risk

Inaccurate / inappropriate valuation of collateral can lead to an increase in observed losses (additional losses on the secured part on the loan). Furthermore, the collateral value drives the amount that can be borrowed within the eligibility criteria of NHG, hence it is of paramount importance in the credit granting process.

Fraud Risk

In the case of proven fraud, the NHG Guarantee will not pay out any of the claimed amount. This risk is mitigated by the fraud detection controls put in place by the Lender of Record during the underwriting process.

NHG suspensory conditions

Normally immediately after passing the deed the guarantee provided by NHG is valid. Under specific circumstances however coverage from NHG does not start until ‘conditions precedent’ have been fulfilled. In these cases the ‘NHG suspensory conditions’ are applied.

The risk for a bank in these situations is always temporary, and specific underwriting guidelines will be applied on the individual situations mentioned above. Materiality of the risk is comparable to the risk of a non NHG mortgage. For the newly built houses an additional guarantee on finishing the construction is required.

Further advances

When extending additional lending limits to existing clients, the credit risk will be reassessed.

Other risks

The NHG portfolio is also susceptible to macro-economic risks such as the possibility that:

- The Homeownership Guarantee Fund (“WEW”) being insufficient to cover the losses on NHG-backed loans;
- The Dutch Government no longer backing the WEW; and
- NHG no longer considered as a credit risk mitigant following a change in the regulation.

KPIs and KRIs used to monitor the Dutch Mortgages Portfolio

The Group has also in place a number of KPIs and KRIs that are monitored as part of the daily and monthly reports that are received from the lender of record:

- Loan-to-value (“LTV”) ratio;
- Loan-to-income (“LTI”) ratio;
- Cost of Risk;
- NHG Pay-Out ratio;
- Interest-Only loans ratio; and
- Non NHG eligible loan ratio.

The Internal Audit Function is responsible for ensuring that the Group’s credit portfolios are regularly reviewed from an audit perspective, as part of the internal audit plan.

<u>Deteriorating credits and forborne exposures</u>

The default internal credit classification at the point of origination is “Regular”. This applies across all business lines and all lending portfolios, regardless of the underlying credit risk or probability of default for each instrument. Each respective MCC as outlined in each credit framework is responsible for monitoring the credit performance of each credit exposure. The Group has processes and procedures in place to identify deteriorating credit and forborne exposures.
For the international lending portfolio, the Group uses an external credit risk-modelling provider that is appropriate for benchmarking its corporate lending portfolio. For the local lending assets, the Group does not use external credit ratings (as all exposures are unrated) or rely on an external

risk-modelling providers for benchmarking its local lending portfolio as no robust database or provider exists for the asset class. The Group therefore will use the evidence of past-due information as the primary quantitative driver of significant increase in credit risk ("SICR") triggers, alongside qualitative forward-looking SICR assessments.

The Group adopts the usage of external public ratings for Treasury Assets, using public ratings (where available) from Moody's, Standard & Poor's and Fitch. Deterioration in the available public rating from the point of inception to non-investment grade (below BBB-/Baa3) will therefore be the primary quantitative SICR trigger for the treasury portfolio.

Forbearance measures consist of concessions extended to any exposure towards a debtor facing or about to face difficulties in meeting its financial commitments ("financial difficulties"). With reference to paragraph 178 of Annex V of Commission Implementing Regulation (EU) No 680/2014, a forborne exposure can be underperforming (Stage-2) or non-performing (Stage-3).

Following regulatory guidance in light of Covid, borrowers who are assessed to have benefited from COVID-19 relief measures are classified as 'Forborne (COVID-19)', so the Group can distinguish between those borrowers who are experiencing temporary financial difficulties as a result of the economic shock from the COVID-19 pandemic and/or are benefiting from COVID-19 related measures such as payment moratoria, and those borrowers who will experience financial difficulty over the longer term and so classified as 'Forborne'.

As prescribed by EBA standards, the regulatory forbearance classification shall be discontinued when all the following conditions are met:

- The contract is considered as performing, including if it has been reclassified from the non-performing category after an analysis of the financial condition of the debtor showed it no longer met the conditions to be considered as non-performing;
- A minimum 24-month probation period has passed from the date the forborne exposure was considered as underperforming;
- Regular payments of more than an insignificant aggregate amount of principal or interest have been made during at least half of the probation period; and
- None of the exposures to the debtor is more than 30 days past due at the end of the probation period.

The Group recognises that on occasion the application of these tests may be more ambiguous than for typical bilateral loans; the MCC is responsible for any interpretation required.

Non-performing and default exposures

The Group's credit policy outlines the Group's approach to identifying non-performing, impaired and default exposures, as well as provisioning and write-off criteria as defined in accordance with EBA Guidelines Article 178 of Regulation (EU) No 575/2013, the ECB guidance to banks on non-performing loans (March 2017) and the EBA report for non-performing and forborne exposures (October 2018). In addition, credit policy takes into consideration the ECB announcements concerning relief measures that will be implemented as a response to the COVID-19 pandemic, and ESMA and EBA statements on the impact on accounting reporting linked to IFRS9 and the definition of Default and Forbearance. All published in March 2020.

The Group is required to identify Non-Performing Exposures ("NPEs") and to assess the recoverability of the recognised exposure. 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. Therefore, the probability of default is measured at the level of the debtor, while the loss given default measures the loss incurred by the different tranches.

The governance of assessing NPEs and Default triggers is undertaken as part of the ongoing credit monitoring processes. Where NPEs or Default indicators are observed, immediate assessment by the respective MCC is required and a ratification of the internal credit classification conducted.

Definition of default

In accordance with the definition of defaulted exposures, provided under Article 178 of the CRR, the Group identifies a "default" where a financial asset is 90-days past due its contractual repayment for any amount of principal, interest or fee that has not been paid at the date it was due. However, the Group relies on the definitions of "Unlikeliness-to-Pay" for additional default criteria in terms of article 178 (3) of the CRR, which aligns closely with the definition of NPEs specified above.

Definition of impaired

Where a non-performing or default trigger has been identified and applied to a financial asset, the obligor's related facilities must also be assessed to determine whether they are also impaired for the same reason and/or are unlikely to pay.

According to the EBA guidelines on the application of the definition of default, in general one would expect that all exposures treated as credit-impaired.

An impairment allowance requirement is determined based on the Group's provisioning policy.

In light of the Covid-19 outbreak, the Group has adopted a revised approach to the assessment of UTP triggers taking guidance from the EBA statement on the application of the prudential framework regarding Default, Forbearance and IFRS9 in light of Covid-19 measures dated 25 March 2020

2.2.2 Capital adequacy

Capital adequacy is a measure of the financial strength of the Group. This is usually expressed as a ratio of its Core Equity Tier 1 Capital (CET1) capital, Tier 1 Capital (Tier 1), or its Total Capital (Tier 1 + Tier 2 capital) to its total risk weighted assets (RWA).

Capital adequacy requirements have increased in importance as regulators seek to ensure that banks and financial institutions have sufficient capital to keep them out of difficulty, even during periods of heightened cyclicality. The Group has always sought to maintain an appropriate level and quality of capital to support its prudential requirements with sufficient contingency to withstand severe but plausible stress scenarios.

The Group and its subsidiaries are subject to prudential requirements under the ECB Supervision Review and Evaluation Process ("SREP") and are bound by the terms of the capital requirements outlined within the SREP decision. The Group's management has a significant level of control and oversight over its capital ratios. It uses the capital base as its main constraint for curbing asset growth in reaction to market changes whilst aiming to strike an appropriate balance between risk and sustainable returns.

The Group has developed an ICAAP to consider the capital required given its businesses and risk profile, both from a normative and economic perspective. This is defined by sound, effective and comprehensive strategies and processes to assess and maintain on an ongoing basis the amounts, types and distribution of internal capital that the Group considers adequate to cover its nature and level of risks to which it is or might be exposed to.

The Group's ICAAP is aligned with regulatory requirements, as well as best commercial and governance practice, and are demonstrated through the Group's internal reporting.

The Group's risk appetite covers capital adequacy and has established a number of risk appetite limits and KRIs in order to manage and monitor this risk. Actual performance is monitored against these pre-set limits and are disclosed in the daily, weekly and monthly risk reports.

The Group actively monitors the following capital ratios and leverage ratios, allocating specific risk appetites supported by quantitative risk appetite limits. The four ratios below represent the capital metrics the Group is willing to commit to limiting its appetite to:

- CET 1 ratio;
- Tier 1 capital ratio;
- Total capital ratio; and
- Leverage ratio.

The Group has no appetite for breaches of the formal minimum capital ratios as set out by the Governing Council of the ECB under Article 26(8) of Council Regulation (EU) No 1024/20131, pursuant to Article 16 of that Regulation, to fulfil the prudential requirements and comply with the Pillar II requirements. In addition, the Group has no appetite for breaching minimum capital requirements as part of the SREP process and designed to supplement any of these measures with institution specific (Pillar II) capital.

The Group has zero tolerance for breaching its Overall Capital Requirement (OCR) plus the Pillar II Guidance (P2G) as a result of actions that are within its control. The Group additionally has a very-low risk appetite for breaching its OCR in stressed conditions. The Group adopts very stringent procedures and processes to ensure that these minimum requirements are met at all times. It therefore ensures that an adequate management buffer is in place and has set risk appetite limits above its OCR and P2G.

Moreover, under the Basel III framework, banks must meet a 3% leverage ratio minimum requirement at all times. The Group has maintained a Leverage Ratio well above the Basel III minimum and it maintains very low appetite for even approaching this threshold.

The Group is willing to accept some volatility to this ratio if suitable lending or investment opportunities arise, provided that the overall goal of maintaining significant headroom to the regulatory minimum is not threatened. The Group anticipates that as strategic diversification business plans evolve, particularly into the residential mortgage market, the Group's leverage ratios will come more into line with other banks and therefore expects its leverage ratio to reduce modestly, but remain above risk appetite.

2.2.3 Liquidity and Funding risk

(Disclosures related to liquidity risk management according to EU LIQA)

During 2017, the EBA issued a set of guidelines (EBA/GL/2017/01) which aim to harmonise the disclosures in line with CRR 575/2013 Article 435(1) in relation to liquidity risk. Additional disclosures on liquidity risk can be found under note 2 to the MDB Group Limited Annual Report and financial statements for the financial period ended 31 December 2020.

Liquidity risk is the risk of the Group being unable to generate sufficient funding resources to meet financial obligations as they fall due in business as usual and stress scenarios. Funding risk arises from higher funding costs or lack of availability of funds.

The Group actively manages stable and efficient access to funding and liquidity to support its ongoing operations. The Group's appetite for liquidity and funding risk is embedded through the Liquidity Risk Management Framework and Policy, which stipulates the funding restrictions of the Group, and the approval thresholds for usage of certain funding instruments.

Liquidity and funding risk appetite limits inform the Group of the potential for, or an actual deterioration of its capacity to meet its current and foreseen liquidity and funding needs.

Liquidity risk identification

The Risk Management Function is responsible for designing the risk appetite statement that is presented for discussion and challenge by the Board Risk Committee members, and ultimately approved by the Board of Directors. This process leads to the creation of granular liquidity risk appetite limits that are monitored across the internal functions of the Group. Notification and escalation processes are in place in order to ensure timely and adequate flow of information up to Committee and Board levels.

The Group makes use of Risk and Control Self-Assessments ("RCSAs") to identify, document and assess its key risk and controls, as is clearly described within the Group's Risk Register. This bottom-up approach to risk identification is also applied to liquidity risks across the Group. The RCSA results are then used to help identify KRIs and define risk appetite metrics.

The Group has identified the following risk drivers related to liquidity:

- *Sustained period of deposit outflow:* The risk of a potential demand on liquidity from customer deposit flight;
- *Off balance sheet risk:* The risk of an unexpectedly heavy series of utilisation on committed undrawn credit facilities;
- *Maturity mismatch:* A mismatch occurs as banks borrow short-term and lend on a much longer-term basis;
- *Currency mismatch:* Liquidity risk exposures arising from the use of foreign currency deposits to fund domestic currency assets as well as the funding of foreign currency assets with domestic currency;
- *Intraday liquidity risk:* The risk that the Bank is unable to meet payment obligations at the time expected, thereby affecting its own liquidity and that of other parties;
- *Intragroup liquidity risk:* The risk that the entity that provides funding to another entity may be unable to continue providing this funding;
- *Contingency liquidity risk:* The risk that assets cannot be sold in the market quickly or only by incurring a heavy discount, or the risk that funding cannot be raised against these assets; and
- *Short-term liquidity risk:* The risk of an inadequate level of assets which the potential to be used as collateral to raise additional HQLA or are eligible at central banks and as such may potentially be additional sources of liquidity.

Liquidity risk quantification and assessment

Following the identification of liquidity and funding risks, the Risk Management Function performs a risk analysis to assess the significance and likelihood of these risks. The Group's assessment of risks to liquidity and funding is primarily done through the ILAAP.

For the ILAAP, the Group models two liquidity stress scenarios on the basis of an idiosyncratic (severe) and a market-wide (extreme) stress scenario and a reverse liquidity stress test. This also form part of the Group's monthly risk report. The Group has also extended the range of liquidity stress scenarios in order to explore in more detail the range of liquidity sensitivities the Group may experience in stress scenarios.

Principle 12 in the BCBS "Principles for Sound Liquidity Risk Management and Supervision" requires banks to maintain a cushion of unencumbered, high quality liquid assets to be held as insurance against a range of liquidity stress scenarios. The outcome of the liquidity stress testing is used to determine this cushion or liquidity buffer.

In line with Principle 17 in the BCBS guidelines, the Group is also required to maintain a prudent funding structure drawn from diverse funding sources in the short-, medium- and long-term. The Group's funding plan provides a detailed description and quantitative overview of the various funding sources. The Group has also in place a liquidity contingency funding plan that identifies the various funding sources that the Group can rely on during a distressed situation.

An analysis of asset encumbrance is also an important consideration and is critical to assess the ability of the Group to handle funding stress, and its ability to switch from unsecured to secured funding under stressed conditions.

Mismatching of assets and liabilities, and currencies may also lead to a degree of liquidity risk.

Liquidity risk management and controls

The Group has adequate internal controls to ensure the integrity of its liquidity risk management process. As described within the Group Risk Management Framework, the Group has adopted a risk management and internal control structure, referred to as the Three Lines of Defence. In this model, the Treasury Function acts as the first line of defence towards liquidity risk, the Risk Management Function as the second line, and the Internal Audit Function as the third line.

The Group has in place a Liquidity Risk Management Framework and Policy, that are complimented by other policies such as the Stress Testing Policy, the Liquidity Contingency Plan Policy, the Risk Appetite Policy and the ICAAP and ILAAP Policy. These policies set the standards and rules around liquidity risk management for the Group. By definition, they provide a cornerstone of the Group's Risk Management Controls.

Funding strategy

The Group's funding profile has evolved over the years from a reliance on wholesale funding to deposit funding. The evolution of the funding profile was, in part, a result of a strategic shift on the asset side of the balance sheet. The Group's intention going forward is to remain mainly deposit funded as it gives more long term stability to the Group. In 2020, the Group entered into its diversification strategy by adding on balance sheet securitization as part of the funding plan of the new asset class - NHG mortgages, as well as developing a broader range of wholesale funding options for contingency funding capacity. MeDirect Belgium's €350 million transaction was the first Dutch residential mortgages securitisation placed with a third party institutional investor during the peak of the COVID-19 outbreak. A second RMBS transaction, which raised €350 million at even more attractive funding cost levels, closed in early 2021. Over the coming 3 years securitization is expected to grow with the balance sheet. This new long-term funding source will diversify and compliment the Group's experience with successful deposit funding in its home-markets. Other funding sources such as repo facilities and third-party warehouse lines on Mortgages are to be used as bridging instruments to deposits or securitization in the short to medium-term. The Group considers bilateral repurchase agreements (i.e. not executed via Eurex) and central bank facilities as alternative sources of funding, which are not intended to be utilized extensively under business-as-usual conditions.

For liquidity purposes, the Group's statement of financial position is managed on a day-to-day basis by the Treasury Team, under the leadership of the Group Head of Treasury and the supervision of the Group Chief Financial Officer. The Group's funding strategy is that management of its day-to-day liquidity position should not require actions that potentially compromise its medium-term or long-term objectives.

The Group's funding strategy for business as usual activities is facilitated by maintaining a positive funding gap and by monitoring the Group's maturity ladder, which is used by the Group to determine the availability of liquid assets to meet the liquidity gaps across a range of time buckets. The Group ensures it maintains a significant buffer of HQLAs that can be readily converted into cash or are eligible to be pledged as collateral in order to raise wholesale repo funding to meet liabilities as they fall due.

Liquidity risk management buffers

The Group's Liquidity Risk profile is also a key consideration of the Group's risk appetite limits and KRIs. The Group controls the appetite it is willing to accept in terms of liquidity risk by ensuring adequate management buffers exist, in conjunction with early notification thresholds, to help avoid the Group taking on liquidity risk outside of its agreed risk appetite. These liquidity management buffers are additionally embedded into the Liquidity Risk Monitoring and Reporting framework to ensure regular oversight is in place.

Liquidity stress testing and Contingency funding planning

In conjunction with the above controls, the Group's Risk Management Function performs regular stress testing of its liquidity profile, as well as the availability and viability of contingency funding options through both its ILAAP and monthly Maximum Cumulative Outflow ("MCO") report each month. These reinforce the Group's oversight of liquidity risk, by not only focussing its risk reporting on the 'current' state, but also providing regular and timely reporting of the potential 'stress' liquidity profile of the Group. The monthly MCO reports are also a standing agenda item at Executive level for the Group's ALCO and Board Risk Committee.

Liquidity risk governance

The Group's overall liquidity and funding position is managed in the normal course of business by its Treasury Function, under the supervision of the ALCO and by following processes set out in the Group's LRMP.

The Group's Risk Management Function ensures that all liquidity risks are identified, measured, overseen and appropriately reported. The Group's 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. 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.

Liquidity risk monitoring and reporting

The Group's intention is to be able to adhere to its risk appetite limits as well as satisfy any regulatory or statutory minimum liquidity requirements even during times of stress. The Group also seeks to project key liquidity ratios forward through time. While acknowledging that the principal liquidity ratios cover a range of time horizons from one day to one year, the Group does not solely rely on the regulatory liquidity ratios to ensure it has adequate liquidity when these ratios are above their minimum regulatory levels. In part, this reflects the fact that the Group's own assumptions on deposit withdrawal or haircuts may differ and are generally more conservative than those mandated by the LCR and NSFR.

Consistent with its practice in other areas of risk analysis and reporting, and also consistent with Principle 10 of the Basel Committee's "Principles for effective risk data aggregation and risk reporting", the Group performs and reports on these projections monthly, to allow for in-depth review and analysis at ALCO and the Board Risk Committee. Reliable management reporting provides the Executive Committee and the Board with timely and forward-looking information on its 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 has in place a number of quantitative risk appetite metrics to be able to monitor liquidity risk:

- LCR;
- NSFR;
- Survival Period;
- Liquid Asset Buffer;
- Encumbrance Ratio (excluding Treasury portfolio); and
- Level of SSLs with at least 3 prices.

The Group will at all times ensure that it is in full compliance with all applicable regulatory requirements.

The following table provides an analysis of the data points used in the calculation of the liquidity coverage ratio:

EU LIQ1: LCR Disclosure table

MDB Group Limited (Consolidated)	Total unweighted value (average)				Total weighted value (average)			
EUR 000s								
Quarter ending on:	**31-Dec-20**	**30-Sep-20**	**30-Jun-20**	**31-Mar-20**	**31-Dec-20**	**30-Sep-20**	**30-Jun-20**	**31-Mar-20**
Number of data points used in the calculation of averages	12	12	12	12	12	12	12	12
HIGH-QUALITY LIQUID ASSETS								
1 Total high-quality liquid assets (HQLA)	-	-	-	-	**617,549**	**621,604**	**649,381**	**663,751**
CASH – OUTFLOWS								
2 Retail deposits and deposits from small business customers, of which:	2,054,547	1,727,818	1,374,305	994,553	130,785	122,107	112,074	100,722
3 Stable deposits	*1145*	*1114*	*996*	*784*	*57*	*56*	*50*	*39*
4 Less stable deposits	1,296,581	1,209,029	1,107,743	993,737	130,696	122,020	111,995	100,651
5 Unsecured wholesale funding	118,891	118,942	114,615	102,222	43,899	43,907	42,487	38,012
7 Non-operational deposits (all counterparties)	*118,891*	*118,942*	*114,615*	*102,222*	*43,899*	*43,907*	*42,487*	*38,012*
9 Secured wholesale funding	-	-	-	-	13,778	12,339	8,325	4,267
10 Additional requirements	343,210	369,735	418,726	493,763	62,716	68,251	89,366	95,122
11 Outflows related to derivative exposures and other collateral requirements	*17,426*	*16,164*	*14,819*	*13,473*	*17,426*	*16,164*	*14,819*	*13,473*
13 Credit and liquidity facilities	*325,784*	*353,571*	*403,908*	*480,290*	*45,290*	*52,087*	*74,547*	*81,649*
14 Other contractual funding obligations	15,646	19,828	25,216	22,529	11,722	15,924	21,290	18,578
16 TOTAL CASH OUTFLOWS	-	-	-	-	**262,900**	**262,529**	**273,542**	**256,702**
CASH – INFLOWS								
	13,908	12,899	5,154	-	5,162	5,017	4,725	-
18 Inflows from fully performing exposures	93,597	91,206	127,738	128,836	90,942	88,674	124,072	124,399
19 Other cash inflows	31,078	29,902	21,897	17,799	27,785	26,333	18,186	13,147
20 TOTAL CASH INFLOWS	**138,583**	**132,932**	**154,360**	**146,635**	**123,889**	**120,024**	**146,984**	**137,546**
EU-20c Inflows subject to 75% cap	138,583	132,932	154,360		123,889	120,024	146,984	137,546
21 LIQUIDITY BUFFER	-	-	-	-	**617,549**	**621,604**	**649,381**	**663,751**
22 TOTAL NET CASH OUTFLOWS	-	-	-	-	**139,010**	**142,505**	**140,026**	**132,624**
23 LIQUIDITY COVERAGE RATIO (%)	-	-	-	-	**462%**	**463%**	**491%**	**527%**

In line with Principle 17 in the BCBS guidelines, 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 RMBS structures), senior unsecured or subordinated;
- Issuance of capital instruments;
- Interbank funding (either secured, for example through repo or 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).

With respect to derivatives, as noted in the preceding table EU LIQ1, as part of the Group's liquidity outflows, an amount is included in relation to additional liquidity outflows corresponding to collateral needs from the impact of an adverse market scenario on derivative transactions, as required in Commission Delegated Regulation 2017/208. This amount corresponds to the largest absolute net 30-day collateral flow realised during the 24 months preceding the reporting date of the LCR calculation.

The Group is predominantly funded in euro, with approximately 95% of total liabilities being in euro. The only major currency is the Pound Sterling, which represented 3% of total liabilities. In this respect, a currency mismatch is present between the euro-denominated LCR and the Pound Sterling-denominated LCR. In fact, as at 31 December 2020, the euro-denominated LCR was 559.2% while the Pound Sterling-denominated LCR was not calculated given there were no liquid assets held that were denominated in Pound Sterling. In this respect, the LCR Regulation only requires the LCR to be met on a total currency basis, and is not required to be met on a currency by currency basis. The Pound Sterling funding is considered negligible within the context of the Group, as the total LCR for the Group as at 31 December 2020 amounted to 562.9%.

All items in the Group's LCR calculation have been included in the EU LIQ1 table.

The level of intragroup support between legal entities within the Group affects the extent to which failure of one entity poses contagion risk for other entities within the Group. Under stress or in a recovery situation, intragroup liquidity flows are important as they can provide MeDirect Malta or MeDirect Belgium with vital funding.

MeDirect Malta operates as a provider of equity capital to MeDirect Belgium. It also operates as a provider of liquidity management instruments by absorbing excess liquidity through inter-company.

Each subsidiary manages its own capital and liquidity position in a manner consistent with its own strategy and planned business growth and with local regulatory requirements, and within the context of the group-level strategy. Capital or liquidity requirements that are necessary to support planned growth, rather than arising from the subsidiary's current position, will normally be determined by the subsidiary's Board itself as part of the subsidiary's budgeting process. If the subsidiary's Board determines that an increase in the entity's capital or intercompany borrowing is desirable, either to address current weakness or to support future growth, then it would request such an increase from MeDirect Malta.

The Group generates the majority of its deposit growth through MeDirect Bank in Belgium. This bank holds its liquidity reserve with MeDirect Malta, the National Bank of Belgium and correspondent banks. MeDirect Malta is provided liquidity from MeDirect Belgium through interbank deposit balances; however, intragroup liquidity management is thereby constrained due to the application of Large Exposure Rules under Articles 387-403 of the Capital Requirements Regulation (CRR).

In September 2020, 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. This additional funding represents a small proportion of our total funding but it conforms MeDirect's ability to avail from relatively easily accessible and flexible source of funding.

2.2.4 Business model and strategy risk

Strategic risk is directly linked to the business model of an institution and how effectively the institution manages to translate its budget and forecasts into actual performance. Another consideration is the challenging environment that banks operate in and the various factors that each bank has to face, such as declining margins, loss of market position or customers, and higher costs such as reorganisation costs.

The Group acknowledges that reported earnings inherently carry some level of volatility and seasonality. Hence, even though they are not always the best indicator of the Group's performance, they do represent a useful risk metric. The Group has in place a range of financial KPIs as well as KRIs it monitors to assess the Group's business model and strategic risk.

The following show the quantitative business model key risk indicator metrics the Group monitors performance to the following:

- Annualised Return on equity (RoE);
- Annualised ICL WAY;
- Annualised deposits interest cost;
- Annualised net interest margin;
- Cost to income ratio; and
- ICL RWA.

The monitoring of these measures ensures that the business model performance is consistent with the expectations of the stakeholders; to withstand unexpected shocks; and earnings (and cash flows) are consistent with funding strategies.

Different factors that could affect the business model and strategy of the Group are also taken into consideration in the scenario analysis for the ICAAP.

2.2.5 Market risk

(Disclosures related to market risk according to EU MRA)

The Group is exposed to the risk of an adverse change in its financial situation, resulting, directly or indirectly, from fluctuations in the level or volatility of market prices of assets and liabilities and from adverse movements in interest rates, credit spreads and FX rates. This can affect the Group's profitability (Net Interest Income ("NII")) and capital measures.

The Group has a portfolio of Treasury securities (held mainly as High Quality Liquid Assets - HQLAs) which give rise to the Credit Spread Risk in the Banking Book ("CSRBB"). Exposure to movements in securities prices can be decomposed into the exposure to interest rates and to spreads which fluctuate on a daily basis as a result of the changes in the market demand and liquidity for certain securities. Additionally, the Group originates loans and gathers funds in foreign currencies (other currencies than Euro) that are not always offset creating the exposure to the FX risk in the Group.

The Group does not run a Trading Book and accordingly has limited exposure to market risk in the normal sense that shifts in market variables drive the Group's income. The Group is, of course, not entirely immune to the effects of market movements and manages this exposure accordingly.

Market risk identification, quantification and assessment

The Group assumes three types of market risk, namely:

i. Interest Rate Risk

Interest Rate Risk in the Banking Book ("IRRBB") refers to the current or prospective risk to the Group's net Economic Value of Equity ("EVE"), capital and Net Interest Income ("NII") earnings arising from adverse movements in interest rates that affect the Group's banking book positions.

Exposure to the IRRBB is differentiated by various sub-categories such as:
- Gap risk (repricing risk);
- Option risk;
- Basis risk; and
- Yield risk (exposure to the parallel and non-parallel interest rate curve shifts).

The Bank 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 ΔNII, ΔEVE and PV01 sensitivity.

The Group's exposure to interest rate risk arises predominantly from repricing risk emanating from its asset/liability structure. Specifically, a lag exists between the Group's loans which reprice periodically (generally every three months), the mortgage loans portfolio characterised by its long term structure and its associated hedging portfolio and the term structure of customer deposits. The exposure to interest rate 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. There is also a possible impacts of the Mark-to-Market ("MtM") value arising from fixed rate assets if the interest rates increase in case of realisation. As the balance sheet management strategy is not to realise those investments by setting an adequate liquidity and hedging strategy, the materialisation of this risk in the P&L remains low.

The presence of interest rate floors embedded in the majority of the loans enable the Group to mitigate the repricing risk of its asset/liability structure.

The Group considers the materiality of IRRBB to be relevant enough to assess the level of Internal Capital required to mitigate such risks. This risk is assessed separately within the IRRBB Internal Capital section of the Group's ICAAP.

CSRBB is a risk that banks need to monitor and assess in their interest rate risk management framework. CSRBB refers to the risk driven by changes in the market perception about the price of credit risk, liquidity premium and potentially other components of credit-risky instruments inducing fluctuations in the price of credit risk, liquidity premium and other potential components, which is not explained by IRRBB or by expected credit/(jump-to-)default risk

The Group quantified the credit spread through the difference between the security's market yield at the valuation date and the risk free rate. The credit spread is an important market risk category for the Group given the existence of the Treasury securities, mainly held for liquidity purposes. This risk is however mitigated by the high credit quality requirement set in the Treasury's policy, the short spread duration of those securities and the hold to maturity oriented strategy of the Group.

ii. Foreign Exchange (FX) Risk

The Group is mainly exposed to currency risk on foreign exchange movements relating to the GB Pound and US Dollar, originating from the Group's corporate banking business. 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 within strict risk appetite limits.

FX risk is not considered sufficiently material to warrant the calculation of economic capital for Pillar II internal capital. The Group's principal deposits and credit portfolio are both concentrated in Euros and the Group's appetite for taking on foreign exchange risk is very low. The Treasury function is responsible for maintaining FX risk for unhedged positions within tight limits set out in the risk appetite statement of the Group. In substance, in the case of FX risk, the threshold is so tight that the associated economic capital requirement would be negligible.

iii. CVA Risk

Under CRD IV / CRR, institutions are required to hold additional own funds due to the CVA risk arising from Over-The-Counter ("OTC") derivatives, thus resulting in an additional capital charge when entering into such OTC trades. This charge is designed to cover losses arising from the situation where a counterparty's financial position would worsen and thereby the market value of its derivatives obligation would decline, even though there is no actual default. Thus, the CVA charge tries to cover the risk of deterioration in the creditworthiness of a counterparty.

Given the negligible level of Pillar-I capital requirements for CVA, no economic capital calculation is performed and hence no add-on assigned. The Group has no trading book and no derivatives of the various forms that led to the importance of CVA risk to be recognised.

<u>Market risk management and controls</u>

Treasury, under the oversight of the CFO, are responsible as first line of defence for managing interest rate risk within the prevailing interest rate risk strategy as set by the ALCO, and subject to internal limits. In order to manage its interest rate risk, the Group may establish trading lines with counterparties that enable it to execute derivatives transactions approved for this purpose.

The Group Risk Management Function owns the IRRBB policy and control the policy is respected as second line of defence. The Group Risk Management Function is responsible for the model update, calibration and back testing. In addition, it must assure that IRRBB models have been reviewed and validated in line with the Group's Model Governance Policy.

The Group Risk Management Function ensures that any updates in the IRRBB framework are promptly reflected in the Group's IRRBB policy, metrics and regular reporting. The Group has in place risk appetite limits and risk indicators to monitor IRRBB. The Group CRO recommends the Group's Risk Appetite limits in line with the Board of Directors' risk appetite and escalates any potential limit breaches in line with the internal escalation process.

The Internal Audit function is responsible for periodic and thematic reviews of this policy in order to assess, review effectiveness and adherence to this policy.

<u>Market risk monitoring and reporting</u>

The Group has established a number of metrics related to IRRBB that are monitored and reported to ALCO on a monthly basis and to the senior management on a weekly basis. Actual performance is assessed against the pre-set limits of these metrics. These metrics are also included in the monthly Group risk management reports that are circulated to the Board Risk Committee and Board members.

The Group monitors the following quantitative market risk metrics:
- Primary FX unhedged exposure;
- ∆NII under six regulatory scenarios and four management scenarios;
- ∆EVE under six regulatory scenarios and four management scenarios; and
- PV01 to Own Funds.

∆NII and ∆EVE metrics are both evaluated under six regulatory scenarios on both EVE and NII and four management scenarios.

2.2.6 Operational risk

Operational risks can arise from all business lines and from all activities which are carried out by the Group. Failure to manage these risks 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.

Operational risk management encompasses the process of identifying operational risks, measuring the Group's exposures to these risks, ensuring that effective capital planning and monitoring is in place, taking steps to control or mitigate risk exposures, and reporting the Group's risk exposures and capital positions. It also ensures that the Group's risk appetite for operational risk is translated in a form that can be implemented and managed in practice, by allocating risk appetite levels to the different sub-risk categories.

The Group seeks to minimise operational risks through its control environment. This is primarily achieved through a collaborative approach to managing operational risks between the first, second and third lines of defence. The Group has also an Operational Risk Policy in place, which covers areas related to the identification and categorisation of operational risks, the measurement and monitoring of operational risk, control testing, operational risk reporting and business continuity.

Operational risk identification and categorisation

The Group carries out a structured analysis of the current and emerging risks that the Group is facing, in order to understand and manage these risks as appropriate. There are various operational risk subtypes, including but not limited to fraud (internal/external), business disruption due to reduced or non-availability of a 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.

Risk Control Self-Assessments

RCSAs are used to identify the Group's key operational risks. The Operational Risk function is primarily responsible for driving the completion of this process. The Operational Risk Policy lists the overall objectives of the RCSAs as follows:

- Identify the key current and emerging operational risks to the business, with risk identification based on both risks that the business has experienced in the past and plausible risks that the business has yet to experience;
- Understand and evaluate the main drivers of the operational risks;
- Consider market trends of top and emerging risks across the industry;
- Assess the operational risks in terms of their overall significance for the business – based on both the likelihood and impact (frequency and severity) of potential losses;
- Drive improvement actions for those operational risks where further controls and monitoring is required; and
- Provide consistent information on operational risks that can be aggregated and reported to senior management to inform decision-making.

The outputs from the RCSA process are reviewed and challenged by the Operational Risk Management Function and shared with the Group CRO to provide a top-down challenge. This output is also shared with the Board Risk Committee annually.

During 2020, the RCSA process was considerably expanded and covered additional business areas, through more than 30 workshops carried out with the Business Units. The output was then inputted in the Enterprise, Risk and Compliance tool (ERIC) which was introduced to facilitate the implementation of the RCSA methodology. Following the completion of the workshop, the ERIC tool was rolled out to all business owners so that they are able to update their respective RCSA's on an ongoing basis. The following risk themes were identified during the 2020 workshops:

- Fraud risk, which may arise from a number of activities, carried out internally or externally. Internal fraud is a civil or criminal activity carried out by at least one internal party, such as an employee or distribution associate, which is often as a result of collusion, rogue trading, insider trading, financial reporting fraud, misappropriation of assets, or identity theft. External fraud is the civil or criminal activity carried out by customers, contractors or third parties (excluding cyber-attacks) Examples of such type of fraud include: collusion, fraud, misuse of position, misappropriation of assets and identity theft.

- Infrastructure risk, which may arise from reduced or non-availability of any aspect of a fully functioning business environment including: corporate facilities, physical assets, human resources and/or technology, security, failures in licence management and insufficient software/application support. The Group has identified two sub-categories within this risk: i) physical safety, which refers to the risk of damage to non-IT physical assets, physical data, corporate facilities or human resources, and ii) business continuity, which is required if the Group experiences business disruption that may be experienced from reduced availability or non-availability of business activity due to issues related to facilities or human capital. System failures (hardware or software), disruption in telecommunication, power failure and other events impeding the normal day to day operations, can result in interrupted business and financial loss.

- Outsourcing and Oher Third Parties risk refers to the failure to establish and manage adequate outsourcing arrangements, transactions or other interactions to meet the expected or contracted quality of service with external parties such as independent brokers, fund managers insurers and other parties. This risk may have serious consequences such as business disruption and reputational impacts. Regulatory oversight of outsourcing arrangements has become more prominent, particularly since the institution is viewed as systemically important. This risk may also arise from internal parties, where the Group fails to establish and manage adequate outsourcing arrangements, transactions or other interactions with service providers within the Group, for example: failure to meet agreed quality of service levels, inadequate contracting, poor relationship governance, service provider failure. The Group's outsourcing policy provides guidelines in line with regulatory requirements, which amongst other things, defines responsibilities and what activities can be outsourced.

- People risk reflects the ability of the Group to manage the capacity and capability levels of one of its core assets: its employees. The Group assesses this risk in the context of recruitment of people with the right skill-set, development of its employees with the right training and behaviour, being able to retain key employees, as well as maintaining robust succession plans. It also includes remuneration considerations, such as having adequate structures and engagement levels that help align the conduct of employees with the risk and strategic objectives of the Group.

- Process risk, may arise from inadequate or failed business processes that deliver products and services in order to grow shareholder value. Inadequate or failed processes may relate to aggregation of data and reporting, inadequate or failed transaction processing (including delays as well as errors), governance or general process management, financial or risk modelling, product development, product introduction, mergers and acquisitions, and the execution risk of failure to deliver change programmes or key strategic and regulatory projects.

- Data and internal model risk arises from failure in a process designed to ensure data entry impacting the ability of the management to meet data standards (data governance) and from failures in the maintenance of, and lack of assurance of the accuracy and consistency of the data over its life-cycle (data integrity). Additionally, data used in modelling and the governance of models presents concurrent risks related to the integrity of model construction, validation and oversight.

  Data and model governance management has increased in importance and the Group is aware that inappropriate data and model governance management can have serious consequences, potentially leading to dissatisfied customers, loss of business opportunities, financial losses, reputational damage and legal/regulatory fines.

- Project execution risk arises from failure in delivering significant processes (mostly regulatory related). This risk has gained significant importance during the past few years, in light of the rapidly changing regulatory and structural environment in recent years, where financial institutions have been obliged to make wholesale changes to strategies, processes, systems, reporting, and even the way they choose to select and maintain relationships with customers.

Operational risk assessment and measurement

The results of the RCSA analysis are also used to assess and measure the various inherent risks and the effectiveness of the corresponding controls, to derive to the residual risks that the Group is facing. The RCSAs are often presented as matrices of operational risks by business unit i.e. heat maps indicating where the greatest areas of operational risk lie at a given point in time.

The RCSA results and documentation are leveraged for creating KRIs. The risk themes identified during the RCSA process are also used when coordinating the Group's ICAAP regulatory deliverable and to calculate the internal capital add-on for operational risk. A scenario is assigned to each operational risk category. The operational risk team ensures that each scenario corresponds to plausible risk event or issue that the Group could expect to face in a stressed environment.

Operational risk control testing

The primary responsibility for the development and implementation of controls to address operational risks is assigned to senior management within each business unit. This responsibility is supported by the development of overall Group standards for the management of operational risk in the following areas:

- Requirements for appropriate segregation of duties, including the independent authorisation of transactions;
- Requirements for the reconciliation and monitoring of transactions;
- Compliance with regulatory and other legal requirements;
- Documentation of controls and procedures;
- Requirements for the periodic assessment of operational risks faced and the adequacy of controls and procedures to address the risks identified;
- Requirements for the reporting of operational losses and proposed remedial action;
- Development of contingency plans;
- Training and professional development; and
- Risk mitigation, including insurance where this is effective.

Control testing responsibilities fall dually within the remit of the risk owner (i.e. first line of defence) and the operational risk function (second line of defence). Following the periodic RCSA process, key controls linked to 'very high' and 'high' inherent risks are tested to assess their effectiveness. Testing of key controls associated to inherently medium and low risks is not mandatory. However, monitoring should be implemented ensure the inherent risk rating remains low.

Control testing focuses on:

- The use of a risk-based approach;
- Prioritisation of material inherent operational risks and controls over less material ones;
- Documentation of roles and responsibilities for designing, implementing and monitoring controls; and
- Linkages for material risk controls and business recovery planning and disaster recovery processes.

First line of defence should provide mitigating actions to address any control weaknesses identified through the control testing. The Operational Risk team will in turn monitor the implementation of these mitigating actions.

Operational risk monitoring and reporting

Monitoring of operational risks are key to assessing how much the Group could lose in terms of both the income statement and capital cost due to operational risk losses at various levels of certainty.

The Group has in place a number of quantitative risk appetite limits to monitor operational risk:

- Significant operational losses;
- Fraud related incidents and losses;
- Outsourcing risk and SLA breaches;
- Staff attrition rates;
- Status of key strategic deliverables overdue; and
- Critical system and single incident down time.

These limits are further supported by a number of KRIs that are used to provide a basis for estimating the loss corresponding to an operational risk or estimate the current level of operational risk exposure.

The actual performance against risk appetite limits and KRIs is tracked on a daily, weekly and monthly basis, and disclosed in the weekly and monthly Group risk management reports.

2.2.7 *IT and information security risk*

The Group's definition of IT and Information Security Risk aligns to the EBA guidelines on ICT and Security Risk Management (EBA/GL/2019/04). IT and Information Security Risk is defined as the loss due to breach of confidentiality, failure of integrity of systems and data, inappropriateness or unavailability of systems and data or inability to change IT within a reasonable time and costs when the environment or business requirements change. This includes security risks resulting from inadequate or failed internal processes or external events including cyber-attacks or inadequate physical security.

The Group acknowledges its obligation to protect the data, security and privacy of its customers. Any breach due to misconfigured, weak and/or poorly managed security systems may cause serious reputational consequences.

The Group's risk appetite towards information security risk covers the processes and methodologies designed and implemented to protect information of all types, including electronic, or any other form of confidential, private and sensitive information or data from unauthorised access use, misuse, destruction, modification, or disruption.

The quantitative IT and information security risk metrics, which the Group is willing to commit to limiting its appetite to, are the following:

- Significant cyber security incident;
- Outstanding core access rights reviews;
- Malware detection on infrastructure and DDOS attempt identification;
- Data leakage and data protection breaches;
- Overdue High risk findings and
- Overdue Critical findings resulting from penetration testing exercises

There is a probability that the Group experiences reduced availability or non-availability due to technological issues, which can emanate from issues relating to systems supporting core activities/processes of the business, which could fail or otherwise negatively impact business continuity and scalability required to support the growth and changing needs of the business, or issues resulting from cyber-attacks.

Cyber risk is an increasing risk for banks and the Group has identified cyber-security as one of the material inherent risks facing the Group. The Group remains highly vigilant of cyber risk trends and technologies. The Group is obliged by law to protect the data of its customers, systems and infrastructure, any breach due to inappropriate security systems might result in significant fines as well as major reputational consequences.

The Group has deployed a number of internal controls based on information security best practices to reduce technology risk across all layers, of which internal policies and qualitative risk appetite limits. Since May 2017, the Group is also required to report significant cyber incidents to the ECB.

2.2.8 *Financial crime compliance risk*

Financial crime compliance risk arises due to risk of financial costs and reputational damage associated with non-compliance with internal policies, procedures and code of business, as well as consequences from non-compliance with specific local or international rules, regulations, prescribed practices or ethical standards.

The Group has identified the following sub-categories for financial crime compliance risk:

- Money laundering and sanctions risk which may arise from a number of sources, such as inadequate customer due diligence processes both at on-boarding and during the lifetime of the relationship; failure to detect and monitor High Risk relationships, such as those associated with Politically Exposed Person ("PEP") relationships, and lack of AML awareness in staff leading to negligence or failure to escalate suspicious incidents to the necessary regulatory bodies.

- Bribery and corruption risk, which may arise from the Group being used to process bribes funding or from Group officials being bribed into accepting illicit activity. The Group treats such acts as serious in nature and it ensures that staff are abiding by internal policies established to manage this specific risk.

The Group has measures in place to monitor financial crime compliance risk, including various internal policies that are specific for sub-categories within this risk, namely: i) the anti-money laundering policy; ii) sanctions policy; iii) customer risk assessment policy; iv) records retention policy; v) client acceptance policy; and vi) anti-bribery and corruption policy.

As third line of defence, the Internal Audit function also carries out audit reviews on a regular basis, in line with the annual Internal Audit Plan.

Regulatory Compliance Risk

Apart from Financial Crime Compliance Risk, the Group also faces Regulatory Compliance Risk that needs to monitor. The Group has identified the following sub-categories for regulatory compliance risk:

- Conduct risk; which is the risk that the conduct, acts or omissions of the Group, or employees and officers of the Group, will deliver poor or unfair outcomes for customers and/or adversely affect market integrity. Legislation such as MiFID II and various local conduct of business guidelines impose obligations on the Group in this context.

- Conflicts of interest: arise where the personal interests of a staff member or officer of the Group conflict with the interests of the Group, or where the interests of the Group conflict with those of its customer. If unmanaged, conflicts of interests can lead to poor outcomes for the Group and customers. Various regulations, including MiFID II, impose specific requirements on the identification and management of conflicts of interest.

- Client assets and client money risk, which is the risk of not adequately segregating client assets and client money, as well as failures in client money reconciliations. Current regulation, namely MiFID II, already contains high-level obligations requiring firms to have adequate arrangements in place to safeguard clients' rights in a situation where the firm holds financial instruments or funds belonging to the clients.

- Market abuse: this risk arises from certain behaviour, such as "insider dealing" and market manipulation, which are considered to be abusive and harmful to market behaviour and are therefore deemed to be unlawful. Market Abuse is subject to the EU Market Abuse Regulation and firms are subject to various relevant obligations, such as the reporting of suspicious transactions through "Suspicious Transaction and Order Reporting" (STOR).

As part of the Group's risk appetite, the Group keeps track of all the regulatory deadlines and submissions, in order to prevent supervisory fines, sanctions, penalties and other restrictions that may be imposed by the regulator. The Group also acknowledges that inability or failure to meet regulatory deadlines or misinterpretation of new and updates in regulation, as well as association with AML and financial crime, may result in major repercussions on the reputation of the Group.

2.2.9 Regulatory risk

Regulatory Risk is the risk of both regulatory actions and reputational damage associated with non-compliance with regulatory obligations and requirements, as well as consequences from non-compliance with specific local or international rules, regulations, laws or standards. It has been observed across international financial markets that adherence to the complex and ever increasing obligations of various regulators is a significant challenge and non-compliance can have significant financial and reputational consequences.

The Group will not tolerate systemic failures to comply with the relevant laws, regulations and codes of conduct applicable to its business activities.

A total of three sub-categories of regulatory risk were identified:

- *Regulatory change risk* that may result from delayed implementation of a new regulation or misinterpretation of the requirements of a new regulation or an update to existing regulation.

- *Regulatory reporting risk*, which arises from failing to meet regulatory reporting requirements and deadlines. Reporting requirements are becoming more extensive, more frequent, and more complex, with regulators demanding more timely and accurate reporting.

- *Regulatory engagement risk,* which includes the lack of communication with the supervisor and regulatory bodies, inconsistencies in the submission of necessary information addressing regulatory requests, erroneous or inappropriate submission of data and documentation, and failure to meet regulatory deadlines.

- *Supervisory reviews and inspections,* The Group is subject to an annual supervisory review and evaluation process ("SREP") by the Joint Supervisory Team ("JST"). At the end of the process, a SREP decision letter is sent to the Group in which it sets out specific Qualitative Requirements and Recommendations that the Group needs to implement and rectify by a specific date. The Group may also be subject to on-site inspections ("OSI") during the year, in which a formal letter including a number of recommendations will be sent to the Group.

The Group has established a Regulatory Oversight Steering Working Group to ensure changes to regulations are captured, reviewed and embedded within the Group's policies and processes. The purpose of this steering group is to oversee all regulatory compliance matters that may apply to Group as well as to the Group's external environment, thereby ensuring that all regulatory obligations are appropriately assessed. The Steering group is made up of various individuals from different teams across the Group (including representatives from the Belgian subsidiary) and meets whenever deemed necessary by the Group Regulatory Affairs function. The Steering Working Group escalates material regulatory matters to the EXCO, whenever required.

2.2.10 Reputational risk

Reputational risk is the risk of loss resulting from damages to the Group's reputation. Although this risk is difficult to quantify, it may result in lost revenue; increased operating, capital or regulatory costs, or destruction of shareholder value.

The Group does not knowingly conduct business or organise its operations to put its reputation at risk. The Group seeks to mitigate this risk by primarily avoiding activities that inherently attract higher risk of reputational damage.

The main three sub-categories for reputational risk are the following:

- Customer reputational risk;
- Firm specific reputational risk; and
- Market and industry reputational risk.

The Group has internal policies in place listing permitted actions and consequences for failure to comply with these internal standards.

The Group has in place a Reputational Risk Management Framework that is based on four main pillars: i) a Reputational Risk Policy that outlines the principles, classification, assessment and risk drivers; ii) a forward looking scenario assessment that is mainly driven by scenario workshops, RCSAs or other Bank events (lessons learnt); iii) monitoring of the reputational risk profile through a number of KRIs involving social media diagnostics and customer complaints, and iv) promoting a Group-wide risk culture that boosts awareness of reputational risk and its impact on the Group's business activities.

Additionally, the Group safeguards its reputation when considering launching new products (which are reviewed thoroughly in the OpsCo) and governed by the Products and Services Approval and Review Policy.

Reputational risk may also arise from external dependencies such as external service providers. The Group has a 'Monitoring Framework for Third Party Outsourcing' in place to help manage and mitigate the risk arising from these third party activities, as well as the Group Foreign Exchange (FX) Risk policy and the Group Risk Appetite Statement listing approved counterparties and associated limits.

2.2.11 Environmental, Social and Governance ("ESG") risk

As risk profiles in the banking industry are expanding, the Group is taking the necessary steps to carry out an assessment of the ESG risks. In fact ESG risks can be highly complicated and mission-critical, requiring diligent and informed board oversight. The Group will be developing a structured framework to be used to manage and mitigate the ESG risks. The Group will be narrowing in on ESG risks in order to determines which ESG risks are most relevant to the Group's operations and stakeholders and which ones are most impactful in terms of cost, risk and growth are critical for the Group boards of directors.

Not only does the Group consume resources and have an environmental footprint like any business, but also provides financing to infrastructure, building and other projects that impact the environment. The Group is aware that a responsible banking approach and skillful management of ESG can improve risk-adjusted returns, enhance reputation, spark commercial opportunities, mitigate portfolio risks, and improve market positions and value.

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 our 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.

The Group is committed to uphold high standards of corporate governance and aims at implementing all recommendations raised by regulators in order to strengthen further its corporate governance framework.

The Group is developing the overall internal governance framework in relation to ESG risks that would involve the allocation of responsibilities to the Board and the committees in relation to ESG factors and ESG risks, consideration for ESG-related aspects when setting the risk appetite, the incorporation of ESG related aspects in the existing policies and the consistency in the implementation of ESG risk-related objectives and/or limits among the three lines of defence.

The governance framework would be complemented by a risk management framework that would entail the implementation of an identification process for newly relevant ESG factors, the incorporation of ESG risks in the ICAAP and ILAAP frameworks, ensuring stress testing capabilities of the Group to evaluate ESG risks and ensuring that the Group has the necessary expertise within the risk management function in evaluating ESG risks.

2.3 Risk statement

The Board is committed to set the tone from above by instilling a risk-aware culture across the Group where everyone is aware of the different risks that the Group faces as well as the risk management processes that should be embedded in key decision-making.

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.

The Group's 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. The Group is committed to upholding high standards of corporate governance, sound risk management principles and business practices to achieve sustainable, long-term growth.

The Group has 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 faced today and in the future. The risk management practices continue to evolve and improve to enable better outcomes for all stakeholders and to consider any changes, such as for example heightened regulatory change. At the centre of the risk management framework is a strong risk culture and continuously increasing 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, customers and employees. The disruption to customers has primarily been seen in terms of the credit profile of a select number of clients within the Group's 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 the Group has 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 the Group's employees, operations, and the security of customers and the community. MeDirect has always been very aware of the importance of good business continuity planning, which has equipped the Group's teams to mobilise remote working rapidly and adapt processes to support employees and 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 the 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. The Group's risk management framework has been robustly delivered in 2020 despite the challenges faced and the capital and liquidity positions continue to be at healthy levels, well above the minimum regulatory requirements.

As part of its strategic transformation, MeDirect continued to diversify and optimise the lending portfolios through the transition from the 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, the Group has seen a strong performance and steady growth in the new Dutch residential mortgage business line not just in terms of business volumes but also in building the Group's presence in the Dutch securitisation market.

MeDirect is now looking to expand further our Dutch residential mortgage business and are also exploring new opportunities in the attractive Belgian residential mortgage market. The Group also recently launched an innovative and attractive home loan offering in Malta.

In doing this, the Board is aware that it faces a heightened level of strategy execution risk, however the Board believes that the risk management process includes adequate policies, procedures, risk limits and risk controls that ensure timely and continuous identification, measurement and assessment, management, monitoring and reporting of these risks at the business line, consolidated and sub-consolidated levels.

Detailed information on the credit portfolio is found in section 2.2 – Information on risk management, objectives and policies by category of risks.

3 Scope of application of the regulatory framework

The accounting framework used in preparing the consolidation of the Group's financial statements is IFRS as adopted by the EU, whereas the prudential consolidation in the statement of capital is based on CRR 575/2013. However consolidation under prudential requirements does not differ from consolidation under the accounting standards.

It should be noted that the UK left the EU on 31 January 2020 as a result of the decision of the referendum on 23 June 2016. However the UK still remained subject to EU law during a transitional period which ended on 31 December 2020 and as a result, the UK will be treated as a third country as from 1st January 2021 onwards, the treatment of which is subject to equivalence assessments. Therefore for the purposes of all the below tables and reporting as at 31 December 2020 the UK is still applied the same regulatory treatment as the rest of EU member states.

The following tables provide a breakdown of the relationship between the different categories of the financial statements and the risk categories in accordance with prudential requirements.

EU LI1 – Differences between accounting and regulatory scopes of consolidation and the mapping of financial statement categories with regulatory risk categories

Carrying amount of items	Carrying amount as reported in published financial statements €000	Carrying amount under scope of regulatory consolidation €000	Subject to the credit risk framework €000	Subject to the CCR framework €000	Subject to the securitisation framework €000	Subject to the market risk framework €000	Not subject to capital requirements or subject to deduction from capital €000
ASSETS							
Balances with central banks and cash	490,680	490,680	490,680	-	-	-	-
Derivative financial instruments	1,841	1,841	-	1,841	-	-	-
Loans and advances to financial institutions	263,775	263,775	223,991	39,784	-	-	-
Loans and advances to customers	2,020,760	2,020,760	2,020,760	-	-	-	-
Investments							
- Treasury portfolio	857,719	857,719	857,719	-	-	-	-
- Securitisation portfolio	293,206	293,206	-		293,206		
Property and equipment	11,711	11,711	11,711	-	-	-	-
Intangible assets	15,842	15,842	7,115	-	-	-	8,727
Non-current assets classified as held for sale	1,785	1,785	1,785	-	-	-	-
Current tax assets	1,582	1,582	1,582	-	-	-	
Deferred tax assets	18,550	18,550	13,233	-	-	-	5,317
Prepayments and accrued income	16,524	16,524	16,524	-	-	-	-
Other assets	47,575	47,575	47,046	-	-	-	529
Total assets	**4,041,550**	**4,041,550**	**3,692,147**	**41,625**	**293,206**	**-**	**14,572**
EQUITY							
Called up issued share capital	55,738	55,738	-	-	-	-	55,738
Share premium	13,756	13,756	-	-	-	-	13,756
Shareholders' contributions	136,300	136,300	-	-	-	-	136,300
Reserve for general banking risks	3,357	3,357	-	-	-	-	3,357
Other reserves	- 13	- 13	-	-	-	-	- 13
Retained earnings	45,580	45,580	-	-	-	-	45,580
Total equity	**254,718**	**254,718**	-	-	-	-	**254,718**
LIABILITIES							
Derivative financial instruments	14,344	14,344	-	14,344	-	-	-
Amounts owed to financial institutions	352,067	352,067	-	-	-	-	352,067
Amounts owed to customers	2,749,929	2,749,929	-	-	-	-	2,749,929
Debt securities in issue	553,849	553,849	-	-	-	-	553,849
Subordinated liabilities	54,650	54,650	-	-	-	-	54,650
Current tax liabilities	89	89	-	-	-	-	89
Deferred tax liabilities	881	881	-	-	-	-	881
Provisions for liabilities and other charges	3,916	3,916	-	-	-	-	3,916
Accruals and deferred income	32,940	32,940	-	-	-	-	32,940
Other liabilities	24,167	24,167	-	-	-	-	24,167
Total liabilities	**3,786,832**	**3,786,832**	**-**	**14,344**	**-**	**-**	**3,772,488**
Total equity and liabilities	**4,041,550**	**4,041,550**	**-**	**14,344**	**-**	**-**	**4,027,206**

EU LI2 – Main sources of differences between regulatory exposure amounts and carrying values in financial statements

		Total	Items subject to Credit risk framework	CCR Framework	Securitisation Framework	Market Risk Framework
		€000	€000	€000	€000	€000
1	**Assets carrying amount under the scope of regulatory consolidation**	4,026,978	3,692,147	41,625	293,206	-
2	**Liabilities carrying value amount under the regulatory scope of consolidation**	-	-	-	-	-
3	**Total net amount under the regulatory scope of consolidation**	4,026,978	3,692,147	41,625	293,206	-
4	**Off-balance-sheet amounts**	747,414	744,951	2,463	-	-
5	**Differences in valuations**	-	-	-	-	-
6	**Differences due to expected credit losses**	-	-	-	-	-
7	**Differences due to credit risk mitigation techniques**	(30,052)	-	(30,052)	-	-
8	**Differences due to credit conversion factors**	(497,801)	(497,801)	-	-	-
9	**Other differences**	(947)	(947)	-	-	-
19	**Exposure amounts considered for regulatory purposes**	4,245,592	3,938,350	14,036	293,206	-

The following table provides an overview of the accounting and regulatory consolidation methods for each entity within the Group. Any company or associate that cannot be consolidated based on their business activities are accounted for using the equity method. Further information on the Group's equity accounted investees and subsidiaries can be found in note 9 to the Financial Statements.

EU LI3 – Outline of the differences in the scopes of consolidation (entity by entity).

Name of the entity	Method of accounting consolidation	Method of regulatory consolidation	Description of the entity
MDB Group Limited	Full consolidation	Full consolidation	Holding company
MeDirect Bank (Malta) plc	Full consolidation	Full consolidation	Credit institution
MeDirect Bank SA	Full consolidation	Full consolidation	Credit institution
Medifin Estates	Full consolidation	Full consolidation	Property leasing entity
Grand Harbour I B.V.	Full consolidation	Full consolidation	Special purpose entity
BASTION 2020-1 NHG B.V.	Full consolidation	Full consolidation	Special purpose entity
Cavalier 2020 BV	Full consolidation	Full consolidation	Special purpose entity

EU LIA - Explanations of differences between accounting and regulatory exposure amounts:

- Off-balance sheet amounts and potential future exposure for counterparty risk

Off-balance sheet amounts subject to credit risk and securitisation regulatory frameworks include undrawn portions of committed facilities, various trade finance commitments and guarantees. A credit conversion factor ('CCF') is applied to these items and potential future exposures ('PFE') are added for counterparty credit risk.

- Differences due to expected credit losses

The carrying value of assets is net of credit risk adjustments, while the regulatory exposure value is net of credit risk adjustments after application of IFRS 9 transitional provisions.

- Differences due to credit risk mitigation

Exposure value under the standardised approach is calculated after deducting credit risk mitigation whereas accounting value is before such deductions.

4 Credit risk and credit risk mitigation ("CRM")

The Group Risk Appetite Statement and internal policies governing the treasury and the lending portfolios, include a list of permitted asset classes, countries and currencies, whilst a high degree of diversification is implemented through single issuer, industry and geography concentration limits.

4.1 Credit risk exposure – analysis by exposure class

The following table shows the net exposure values as at 31 December 2020 by exposure classes and the average net exposure value over the period, based on the values at each quarter end of the observation period.

EU CRB-B: Total and average net amount of exposures

	Net value of exposures at end of year[2] €000	Average net exposures over the year €000
15 **Total IRB approach**	-	-
16 Central governments or central banks	522,144	444,685
17 Regional governments or local authorities	132,515	137,334
18 Public sector entities	106,553	106,668
19 Multilateral development banks	40,924	45,467
20 International organisations	25,996	25,991
21 Institutions	306,293	281,850
22 Corporates	1,072,747	1,196,175
23 of which SMEs	11,093	5,335
24 Retail	178,238	144,492
25 of which SMEs	1,430	2,186
26 Secured by mortgages on immovable property	1,298,348	1,035,177
27 of which SMEs	51,735	43,076
28 Exposures in default	170,974	165,092
29 Items associated with particular high risk	78,858	70,213
30 Covered bonds	478,374	516,435
33 Equity exposure	-	-
34 Other items	37,614	44,989
35 **Total standardised approach**	4,449,578	4,214,568
36 **Total**	**4,449,578**	**4,214,568**

Note: Securitisation positions are not included in this table.

[2] **Net value of exposures**: For on-balance-sheet items, the net value is the gross carrying value of the exposure less allowances/impairments. For off-balance-sheet items, the net value is the gross carrying value of exposure less provisions.

4.2 Credit risk exposure – analysis by geographical distribution

The following table shows the distribution of the exposures (net values of on-balance sheet and off balance sheet balances) as at 31 December 2020 by geographical distribution broken down by exposure classes.

EU CRB-C: Geographical breakdown of exposures

		Net value of exposures												
		Malta	**Belgium**	**United Kingdom**	**Germany**	**Italy**	**France**	**Netherlands**	**Austria**	**Luxembourg**	**United States**	**Sweden**	**Other geographi-cal areas**	**Total**
		€000	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**
6	**Total IRB approach**	-	-	-	-	-	-	-	-	-	-		-	-
7	Central government or central banks	189,195	313,907	-	-	19,042	-	-	-	-	-	-	-	**522,144**
8	Regional governments or local authorities	-	-	-	132,515	-	-	-	-	-	-	-	-	**132,515**
9	Public sector entities	-	-	-	29,785	-	62,328	-	10,405	-	-	-	4,035	**106,553**
10	Multilateral development banks	-	-	-	-	-	-	-	-	-	-	-	40,924	**40,924**
11	International organisations	-	-	-	-	-	-	-	-	-	-	-	25,996	**25,996**
12	Institutions	57,223	31,511	63,046	9,732	-	5,039	87,093	38,384	3,302	7,094	-	3,869	**306,293**
13	Corporates	29,090	-	280,476	69,308	103,587	166,613	115,289	15,427	78,582	93,129	63,097	58,149	**1,072,747**
14	Retail	4,150	-	199	-	-	-	173,889	-	-	-	-	-	**178,238**
15	Secured by mortgages on immovable property	57,070	-	-	-	-	-	1,241,234	-	-	-	-	44	**1,298,348**
16	Exposures in default	9,893	-	42,343	34,522	22,733	11,558	7,932	-	23,339	12,052	-	6,602	**170,974**
17	Items associated with particular high risk	72,147	-	-	-	-	6,711	-	-	-	-	-	-	**78,858**
18	Covered bonds	-	-	41,064	92,587	8,233	74,015	25,365	77,916	12,675	-	41,105	105,414	**478,374**
22	Other items	37,614	-	-	-	-	-	-	-	-	-	-	-	**37,614**
23	**Total standardised approach**	**456,382**	**345,418**	**427,129**	**368,449**	**153,595**	**326,264**	**1,650,802**	**142,132**	**117,898**	**112,275**	**104,202**	**245,033**	**4,449,578**
24	**Total**	**456,382**	**345,418**	**427,128**	**368,449**	**153,595**	**326,264**	**1,650,802**	**142,132**	**17,898**	**112,275**	**104,202**	**245,033**	**4,449,578**

Note: - Securitisation positions are not included in this table.

The materiality of countries to be disclosed is based on a threshold of 2% of total exposure value under the standardised approach.

Other countries account for circa 5.5% of the total net exposure value and comprise of 9 countries, the main ones being Spain, Denmark and “Other” relating to Supranational Entities.

4.3 Credit risk exposure – analysis by industry distribution

The following table shows the distribution of the exposures (net values of on-balance sheet and off balance sheet balances) as at 31 December 2020 by industry broken down by exposure classes.

EU CRB-D: Concentration of exposures by industry

		Net value of exposures							
		Financial and insurance activities €000	**Professional, scientific and technical activities €000**	**Administrative and support service activities €000**	**Real estate activities €000**	**Manufacturing €000**	**Information and Communication €000**	**Others €000**	**Total €000**
6	**Total IRB approach**	-	-	-	-	-	-	-	-
7	Central government or central banks	503,102	-	-	-	-	-	19,042	**522,144**
8	Regional governments or local authorities	-	-	-	-	-	-	132,515	**132,515**
9	Public sector entities	53,996	-	-	-	-	-	52,557	**106,553**
10	Multilateral development banks	-	40,924	-	-	-	-	-	**40,924**
11	International organisations	-	-	-	-	-	-	25,996	**25,996**
12	Institutions	-	306,293	-	-	-	-	-	**306,293**
13	Corporates	561,357	203,790	105,211	2,305	45,146	67,666	87,272	**1,072,747**
14	Retail	1,175	-	-	47	-	-	177,016	**178,238**
15	Secured by mortgages on immovable property	17,161	1,049	-	35,970	-	-	1,244,168	**1,298,348**
16	Exposures in default	40,843	25,769	45,947	9,611	11,211	12,053	25,540	**170,974**
17	Items associated with particular high risk	6,345	-	-	41,242	-	-	31,271	**78,858**
18	Covered bonds	-	478,374	-	-	-	-	-	**478,374**
22	Other items	37,614	-	-	-	-	-	-	**37,614**
23	**Total standardised approach**	1,221,593	1,056,199	151,158	89,175	56,357	79,719	1,795,377	**4,449,578**
24	**Total**	**1,221,593**	**1,056,199**	**151,158**	**89,175**	**56,357**	**79,719**	**1,795,377**	**4,449,578**

Note: Securitisation positions are not included in this table.

4.4 Credit risk exposure – analysis by residual maturity

The following table shows the distribution of the exposures (net values of on-balance sheet balances) as at 31 December 2020 by residual maturity broken down by exposure classes.

EU CRB-E: Maturity of Exposures

	Net value of exposures					
	On demand €000	**Less than or equal to one year €000**	**Over one but less than or equal to five years €000**	**Over 5 years €000**	**No stated maturity €000**	**Total €000**
6 **Total IRB approach**	-	-	-	-	-	-
7 Central government or central banks	503,102	-	19,042	-	-	**522,144**
8 Regional governments or local authorities	-	10,006	40,641	81,868	-	**132,515**
9 Public sector entities	-	11,219	95,334	-	-	**106,553**
10 Multilateral development banks	-	-	40,924	-	-	**40,924**
11 International organisations	-	-	25,996	-	-	**25,996**
12 Institutions	195,923	51,713	28,552	30,105	-	**306,293**
13 Corporates	1,523	172,634	883,513	15,077	-	**1,072,747**
14 Retail	1,527	52,795	16,570	107,346	-	**178,238**
15 Secured by mortgages on immovable property	19,340	297,927	112,826	868,255	-	**1,298,348**
16 Exposures in default	6,122	70,948	93,671	233	-	**170,974**
17 Items associated with particular high risk	6,712	9,733	52,404	10,009	-	**78,858**
18 Covered bonds	-	157,670	225,908	94,796	-	**478,374**
22 Other exposures	37,614	-	-	-	-	**37,614**
23 **Total standardised approach**	771,863	834,645	1,635,381	1,207,689	-	**4,449,578**
24 **Total**	771,863	834,645	1,635,381	1,207,689	-	**4,449,578**

Note: Securitisation positions are not included in this table.

4.5 Credit quality analysis

The following tables provide a comprehensive picture of the credit quality of the Group's assets by exposure class as at 31 December 2020 in line with EBA guidelines on disclosures, by exposure class, industry and geography.

EU CR1-A: Credit quality of exposures by exposure class and instrument

	Gross carrying values[3] of					
	Defaulted exposures €000	**Non-defaulted exposures €000**	**Specific credit risk adjustments €000**	**Accumulated write offs €000**	**Credit risk adjustment charges of the period €000**	**Net values[4] €000**
15 **Total IRB approach**	-	-	-	-	-	-
16 Central governments or central banks	-	522,144	-	-	(30)	522,144
17 Regional governments or local authorities	-	132,524	9	-	(11)	132,515
18 Pubic sector entities	-	106,567	14	-	4	106,553
19 Multilateral development banks	-	40,930	6	-	4	40,924
20 International organisations	-	25,996	-	-	(2)	25,996
21 Institution	-	306,293	-	-	(0)	306,293
22 Corporates	-	1,086,134	13,387	-	8,727	1,072,747
23 of which SMEs	-	11,102	*9*	-	9	*11,093*
24 Retail	-	178,238	0	-	(8)	178,238
25 of which SMEs	-	1,430	*0*	-	0	*1,430*
26 Secured by mortgages on immovable property	-	1,298,701	353	-	266	1,298,348
27 of which SMEs	-	51,939	*204*	-	204	*51,735*
28 Exposures in default	225,078	246	44,215	10,135	31,028	170,974
29 Items associated with particular high risk	6,712	72,435	289	-	225	78,858
30 Covered bonds	-	478,379	5	-	(8)	478,374
34 Other exposures	-	37,614	-	-	-	37,614
35 **Total standardised approach**	231,790	4,286,201	58,278	10,135	40,195	4,449,578
36 **Total**	**231,790**	**4,286,201**	**58,278**	**10,135**	**40,195**	**4,449,578**
37 of which: Loans and advances	231,790	1,268,166	57,894	10,135	39,810	**1,431,927**
38 of which: Debt securities	-	1,191,762	384	-	384	**1,1,91,378**
39 of which: Off-balance-sheet exposures	12,600	412,612	3,758	-	3,578	**421,454**

Note: Securitisation positions are not included in this table.

In December 2018, the EBA published its Final Report for Guidelines on disclosure of non-performing and forborne exposures (EBA/GL/2018/10). Such guidelines were issued as part of the Action Plan made in summer of 2017 by the Council of the EU, whereby it was concluded that the EBA has to issue guidelines consistent with the ECB's 'Guidance to banks on non-performing loans' issued in March 2017, and indeed these disclosures are meant to address the key disclosure recommendations as provided for in Appendix 7 of ECB Guidance. The relevant disclosures can be found below, in the current section and in section 4.6.

All tables disclosed in this Pillar 3 disclosures report emanating from this guideline have been initialled as 'EBA-NPL'.

[3] **Gross carrying values**: This represents the accounting value before any allowance/impairments but after considering write-offs. Moreover, this amount does not take into account any credit risk mitigation technique in the application of Part Three, Title II, Chapter 4 of the CRR. Off-balance-sheet items are disclosed for their nominal amount gross of any credit conversion factor applicable in accordance with Article 111 and 166 of the CRR or credit risk mitigation techniques, and gross of any provision. Moreover, any accrued interest emanating from the exposure is included as part of the gross carrying value.

[4] **Net values** is the summation of the gross carrying values of defaulted and non-defaulted exposures, less any specific credit risk adjustments. The Group does not account for any general credit risk adjustments.

In this respect, the Group's NPL ratio as at 31 December 2020 amounted to 9.52%. In line with the EBA Guidelines on management of non-performing and forborne exposures (EBA/GL/2018/06), following the Group's NPL ratio exceeding 5%, the Group has developed and is implementing an NPE action plan, which was formally discussed and approved at Board level. Management is providing an update to the Board on the level of NPEs on an ongoing basis.

The increase in the NPL ratio was mainly driven by a limited number of NPEs which consist of single name concentrations. Following the Group's change in strategy and transformation programme, the Group is moving to a stronger credit profile following the reduction of its exposure to leveraged corporate lending and increasing its exposure to Dutch State-guaranteed residential mortgages, where NPEs are expected to be considerably lower.

A number of NPEs had been expected to cure during 2020, thus reducing the NPL ratio. However, the impacts of the COVID-19 outbreak have led to new cases of NPEs. The Group constantly monitors the quality of its loan portfolios in line with its credit policy.

In terms of Section 2.6 of the Guidance on non-performing loans issued by the ECB in March 2017, high NPL banks are required to disclose to the regulator its NPL strategy by submitting the first table provided in Appendix 7 of the same document.

The tables that follow are presented based on the EBA definitions of 'non-performing' and 'forborne' exposures.

EBA-NPL 5: Quality of non-performing exposures by geography

		Gross carrying[5]/nominal amount				Accumulated impairment	Provisions on off balance sheet commitments and financial guarantees given	Accumulated negative changes in fair value due to credit risk on non-performing exposures
			Of which non-performing		Of which subject to impairment			
				Of which defaulted				
		€000	€000	€000	€000	€000	€000	€000
1	**On balance sheet exposures**	**3,291,044**	**203,986**	**203,704**	**3,291,044**	**54,662**		**-**
2	Malta	*92,837*	*10,461*	*10,179*	*92,837*	*541*		-
3	Belgium	*610*	-	-	*610*	-		-
4	United Kingdom	*355,544*	*60,289*	*60,289*	*355,544*	*21,757*		-
5	Germany	*341,603*	*37,166*	*37,166*	*341,603*	*2,989*		-
6	Italy	*163,240*	*35,523*	*35,523*	*163,240*	*13,905*		-
7	France	*247,419*	*12,149*	*12,149*	*247,419*	*1,718*		-
8	Netherlands	*1,212,323*	*11,919*	*11,919*	*1,212,323*	*5,790*		-
9	United States	*63,980*	*13,093*	*13,093*	*63,980*	*1,924*		-
10	Austria	*133,650*	-	-	*133,650*	*51*		-
11	Sweden	*89,601*	-	-	*89,601*	*312*		-
12	Denmark	*52,283*	-	-	*52,283*	*102*		-
13	Ireland	*293,551*	-	-	*293,551*	*346*		-
14	Other countries	*244,403*	*23,386*	*23,386*	*244,403*	*5,227*		-
15	**Off balance sheet exposures**	**714,249**	**12,600**	**12,600**	**714,249**		**3,783**	
16	Malta	*70,595*	-	-	*70,595*		-	
17	Belgium	-	-	-	-		-	
18	United Kingdom	*78,730*	-	-	*78,730*		*488*	
19	Germany	*20,580*	-	-	*20,580*		*46*	
20	Italy	*4,995*	-	-	*4,995*		*39*	
21	France	*70,255*	-	-	*70,255*		*311*	
22	Netherlands	*342,100*	-	-	*342,100*		*379*	
23	United States	*45,779*	-	-	*45,779*		*613*	
24	Austria	*8,875*	-	-	*8,875*		*68*	
25	Sweden	*14,978*	-	-	*14,978*		*66*	
26	Denmark	-	-	-	-		-	
27	Ireland	-	-	-	-		-	
28	Other countries	*57,362*	*12,600*	*12,600*	*57,362*		*1,773*	
29	**Total**	**4,005,293**	**216,586**	**216,304**	**4,005,293**	**54,662**	**3,783**	**-**

[5] The gross carrying amount disclosed in tables referenced as 'EBA-NPL' is in line with paragraph 34 of Part 1 of Annex V to Commission Implementing Regulation (EU) No 680/2014, which is defined as the amount to be reported in the asset side of the balance sheet. The carrying amount of financial assets shall include accrued interest.

The following table provides an overview of the credit quality of loans and advances to non-financial corporations by their respective industry as at 31 December 2020, as per the EBA Guidelines on disclosure of non-performing and forborne exposures.

EBA-NPL 6: Credit quality of loans and advances to non-financial corporations by industry

		Gross carrying amount				Accumulated impairment	Accumulated negative changes in fair value due to credit risk on non-performing exposures
			Of which non-performing		Of which loans and advances subject to impairment		
				Of which defaulted			
		€000	€000	€000	€000	€000	€000
1	Manufacturing	67,047	11,772	11,772	67,047	1,092	-
2	Construction	7,105	-	-	7,105	38	-
3	Professional, scientific and technical activities	225,506	28,330	28,330	225,506	4,606	-
4	Information and communication	54,139	13,093	13,093	54,139	1,937	-
5	Wholesale and retail trade	26,240	17,812	17,812	26,240	8,758	-
6	Real estate activities	69,315	10,179	10,179	69,315	409	-
7	Administrative and support service activities	97,503	44,525	44,525	97,503	9,774	-
8	Others	66,748	16,403	16,403	66,748	1,319	-
9	**Total**	**613,603**	**142,114**	**142,114**	**613,603**	**27,933**	**-**

The following table provides an overview of forborne exposures as at 31 December 2020 as per the EBA Guidelines on disclosure of non-performing and forborne exposures.

EBA-NPL 1: Credit quality of forborne exposures

		Gross carrying amount/nominal amount of exposures with forbearance measures				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		Collateral received and financial guarantees received on forborne exposures	
		Performing forborne	Non-performing forborne			On performing forborne exposures	On non-performing forborne exposures		Of which collateral and financial guarantees received or non-performing exposures with forbearance measures
				Of which defaulted	Of which impaired				
		€000	€000	€000	€000	€000	€000	€000	€000
1	Loans and advances	189,579	142,244	142,006	103,774	4,933	27,795	13,625	9,338
5	*Other financial corporations*	*83,132*	*34,151*	*34,151*	*26,369*	*2,524*	*8,243*	-	-
6	*Non-financial corporations*	*105,517*	*107,855*	*107,855*	*77,167*	*2,397*	*19,552*	*12,469*	*9,100*
7	*Households*	*930*	*238*	-	*238*	*12*	-	*1,156*	*238*
9	Loan commitments given	30,935	-	-	-	297	-	-	-
10	**Total**	**220,514**	**142,244**	**142,006**	**103,774**	**5,230**	**27,795**	**13,625**	**9,338**

The following table provides a split of those exposures classified as forborne exposures as at 31 December 2020 as per the EBA Guidelines on disclosure of non-performing and forborne exposures.

EBA-NPL 2: Quality of forbearance

		Gross carrying amount of forborne exposures €000
1	Loans and advances that have been forborne more than twice	-
2	Non-performing forborne loans and advances that failed to meet the non-performing exit criteria	-

4.6 Impairment loss measurement guidelines

The scope of the impairment loss measurement guidelines are to establish effective provisioning standards, internal controls, reporting requirements and approval processes that will govern the on-going monitoring of credit risk exposures inherent in the investment securities and loan and advances portfolios.

An exposure is "past due" when any amount of principal, interest or fee has not been paid at the date it was due. Past due but not impaired loans are those loans and advances for which contractual interest or principal payments are past due but the Group believes that impairment is not appropriate on the basis of the stage of collection of amounts owed to the Group.

In accordance with the policy, impaired investment securities and loans are either those that are more than 90 days past due, or those for which the Group establishes that it is unlikely that it will collect the full principal and/or interest due in accordance with the contractual terms of the underlying agreement(s).

However, as outlined previously where contractual interest or principal payments are past due, but the Group believes that impairment is not appropriate on the basis of the stage of collection of amounts owed to the Group, such facilities are considered as past due but not impaired loans. Related credit losses, which may arise, are partly covered by Stage 1 and Stage 2 credit loss allowances.

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

This review evaluated the portfolio to identify problematic exposures, and impairments were booked to cover all expected future losses. This assessment was conducted based on a thorough review of all borrowers on a name-by-name basis, often involving direct communication with the senior management of individual borrowers and, where applicable, the examination of detailed reviews performed by independent experts. This review was undertaken conservatively with the aim of identifying and providing for all currently expected credit losses.

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

The following table provides an aging analysis of performing and non-performing exposures as at 31 December 2020, as per the EBA Guidelines on disclosure of non-performing and forborne exposures. The gross carrying values indicated is before impairments and provisions but after the write-offs reported in the MDB Group Limited Annual Report and financial statements for the financial period ended 31 December 2020.

EBA-NPL 3: Credit quality of performing and non-performing exposures by past due days

		Gross carrying amount/nominal amount		
		Performing exposures		
			Not past due or past due ≤ 30 days	Past due > 30 days ≤ 90 days
		€000	**€000**	**€000**
1	Loans and advances	1,938,628	1,937,665	965
2	*Central banks*	-	-	-
4	*Credit institutions*	*69,377*	*69,377*	-
5	*Other financial corporations*	*324,320*	*324,320*	-
6	*Non-financial corporations*	*471,489*	*471,293*	*197*
7	*Of which SMEs*	*68,208*	*68,011*	*197*
8	*Households*	*1,073,442*	*1,072,676*	*768*
9	Debt securities	1,148,429	1,148,429	-
11	*General governments*	*230,133*	*230,133*	-
12	*Credit institutions*	*611,690*	*611,690*	-
13	*Other financial corporations*	*293,937*	*293,937*	-
14	*Non-financial corporations*	*12,669*	*12,669*	-
15	Off balance sheet exposures	701,649	701,649	-
19	*Other financial corporations*	*197,213*	*197,213*	-
20	*Non-financial corporations*	*199,302*	*199,302*	-
21	*Households*	*305,134*	*305,134*	-
22	**Total**	1,938,628	1,937,665	965

		Gross carrying amount/nominal amount								
		Non-performing exposures								
		€000	Unlikely to pay that are not past due or past due ≤ 90 days €000	Past due > 90 days ≤ 180 days €000	Past due > 180 days ≤ 1 year €000	Past due > 1 year ≤ 2 years €000	Past due > 2 years ≤ 5 years €000	Past due > 5 years ≤ 7 years €000	Past due > 7 years €000	Of which defaulted €000
1	Loans and advances	196,994	93	238	-	39	1,464	5,159	203,704	196,994
2	*Central banks*	-	-	-	-	-	-	-	-	-
4	*Credit institutions*	-	-	-	-	-	-	-	-	-
5	*Other financial corporations*	*61,343*	-	-	-	-	-	-	*61,343*	*61,343*
6	*Non-financial corporations*	*135,452*	*2*	-	-	*39*	*1,464*	*5,159*	*142,115*	*135,452*
7	*Of which SMEs*	*3,516*	*2*	-	-	*39*	*1,464*	*5,159*	*10,179*	*3,516*
8	*Households*	*200*	*91*	*238*	-	-	-	-	*246*	*200*
9	Debt securities	-	-	-	-	-	-	-	-	-
11	*General governments*	-	-	-	-	-	-	-	-	-
12	*Credit institutions*	-	-	-	-	-	-	-	-	-
13	*Other financial corporations*	-	-	-	-	-	-	-	-	-
14	*Non-financial corporations*	-	-	-	-	-	-	-	-	-
15	Off balance sheet exposures	12,600	-	-	-	-	-	-	12,600	12,600
19	*Other financial corporations*	-	-	-	-	-	-	-	-	-
20	*Non-financial corporations*	*12,600*	-	-	-	-	-	-	*12,600*	*12,600*
21	*Households*	-	-	-	-	-	-	-	-	-
22	**Total**	**209,594**	**93**	**238**	**0**	**39**	**1,464**	**5,159**	**216,304**	**209,594**

The amounts in the preceding table represent the gross carrying amount of the non-performing exposures. As a result of the COVID-19 pandemic, assessments of lending portfolios were made on an ongoing basis throughout the second quarter of 2020, and impairments were revisited in light of the changed outlook. During the year MeDirect recognised changes in expected credit losses and other credit impairment charges amounting to €65.3 million. Provisions for expected credit losses increased predominantly as a result of management estimates of the COVID-19 impact on its borrowers.

Based on the Group’s detailed name by name portfolio analysis, provisions were taken on all borrowers whom have defaulted, as well as all non-defaulted borrowers that showed potential future characteristics of unlikeliness to pay. The Group also amended Stage 1 and Stage 2 provisions to reflect rating migrations and updates to the macroeconomic outlook. As a result of its forward looking approach to impairments, the Group believes that it has accounted for all currently expected credit losses for the financial year ended 31 December 2020.

Out of the €6.10 million past due more than 90 days stated in EBA-NPL 3 above, all are considered as credit impaired. As stated earlier, those exposures classified as past due but not impaired would be treated as such as although contractual interest or principal payments is past due, the Group believes that impairment is not appropriate on the basis of the stage of collection of amounts owed to the Group. However, related credit losses, which may arise, would be partly covered by Stage 1 and Stage 2 credit loss allowances.

As per the Article 111 of CRR, the exposure values of assets shall be their accounting values remaining after specific credit risk adjustments while any general credit risk adjustments are treated as part of Tier 2 capital. Regulation 183/2014 defines what should be treated as general or specific credit risk adjustments, which can result from impairments, value adjustments or other provisions.

Such adjustments shall be equal to all amounts by which the Common Equity Tier 1 capital has been reduced in order to reflect losses exclusively related to credit risk according to the applicable accounting framework and recognised as such in the income statement. Losses which are a result of current or past events affecting certain exposures and losses for which historical experience (on the basis of current observable data) indicates that the loss has occurred but it is not yet known which individual exposure suffered these losses, are treated as specific credit risk adjustments.

Amounts which are freely and fully available, as regards to timing and amount, to meet credit risk losses that have not yet materialised and amounts which reflect credit risk losses for a group of exposures for which there is currently no evidence that a loss event has occurred, are treated as general credit risk adjustments.

According to these definitions, the Group's specific and general impairment allowances as calculated under IFRS 9, are classified as specific credit risk adjustments and are deducted from the accounting values to determine the exposure amounts.

There are no other amounts apart from the impairment allowances that are classified as specific or general credit risk adjustments.

The following table provides an overview on the credit quality of performing and non-performing exposures according to their staging allocation as at 31 December 2020, as per the EBA Guidelines on disclosure of non-performing and forborne exposures.

EBA-NPL 4: Performing and non-performing exposures and related provisions

		Gross carrying amount/nominal amount					
		Performing exposures			Non-performing exposures		
			Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3
		€000	€000	€000	€000	€000	€000
1	Loans and advances	1,938,628	1,724,936	213,694	203,986	-	164,510
2	*Central banks*	-	-	-	-	-	-
4	*Credit institutions*	*69,377*	*69,377*	-	-	-	-
5	*Other financial corporations*	*324,320*	*231,479*	*92,841*	*61,343*	-	*53,560*
6	*Non-financial corporations*	*471,489*	*353,887*	*117,602*	*142,115*	-	*110,422*
7	*Of which SMEs*	*68,208*	*51,623*	*16,585*	*10,179*	-	*6,662*
8	*Households*	*1,073,443*	*1,070,193*	*3,251*	*528*	-	*528*
9	Debt securities	1,148,429	1,146,774	512	-	-	-
11	*General governments*	*230,133*	*230,133*	-	-	-	-
12	*Credit institutions*	*611,690*	*611,690*	-	-	-	-
13	*Other financial corporations*	*293,937*	*292,282*	*512*	-	-	-
14	*Non-financial corporations*	*12,669*	*12,669*	-	-	-	-
15	Off balance sheet exposures	701,649	651,360	50,289	12,600	-	12,600
19	*Other financial corporations*	*197,213*	*175,981*	*21,232*	-	-	-
20	*Non-financial corporations*	*199,302*	*170,489*	*28,813*	*12,600*	-	*12,600*
21	*Households*	*305,134*	*304,890*	*244*	-	-	-
22	**Total**	**3,788,706**	**3,523,070**	**264,495**	**216,586**	**-**	**177,110**

		Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions						Accumulated partial write-off	Collateral and financial guarantees received	
		Performing exposures – accumulated impairment and provisions			Non-performing exposures – accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions				On performing exposures	On non-performing exposures
			Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3			
		€000	€000	€000	€000	€000	€000	€000	€000	€000
1	Loans and advances	(11,564)	(6,685)	(4,880)	(42,727)	-	(41,656)	-	1,146,410	9,610
2	*Central banks*	-	-	-	-	-	-	-	-	-
4	*Credit institutions*	-	-	-	-	-	-	-	-	-
5	*Other financial corporations*	*(5,822)*	*(2,997)*	*(2,825)*	*(20,386)*	-	*(20,386)*	-	*6,107*	-
6	*Non-financial corporations*	*(5,610)*	*(3,588)*	*(2,023)*	*(22,323)*	-	*(21,252)*	-	*67,198*	*9,100*
7	*Of which SMEs*	*(465)*	*(338)*	*(127)*	*(27)*	-	-	-	*67,198*	*9,100*
8	*Households*	*(132)*	*(100)*	*(32)*	*(18)*	-	*(18)*	-	*1,073,105*	*510*
9	Debt securities	(371)	(250)	(121)	-	-	-	-	-	-
11	*General governments*	*(23)*	*(23)*	-	-	-	-	-	-	-
12	*Credit institutions*	*(198)*	*(198)*	-	-	-	-	-	-	-
13	*Other financial corporations*	*(151)*	*(30)*	*(121)*	-	-	-	-	-	-
14	*Non-financial corporations*	-	-	-	-	-	-	-	-	-
15	Off balance sheet exposures	(2,295)	(1,728)	(567)	(1,488)	-	(1,488)	-	-	-
19	*Other financial corporations*	*(1,268)*	*(818)*	*(450)*	-	-	-	-	-	-
20	*Non-financial corporations*	*(1,010)*	*(894)*	*(115)*	*(1,488)*	-	*(1,488)*	-	-	-
21	*Households*	*(17)*	*(15)*	*(2)*	-	-	-	-	-	-
22	*General governments*	-	-	-	-	-	-	-	-	-
23	**Total**	**(14,230)**	**(8,663)**	**(5,568)**	**(44,215)**	**-**	**(43,144)**	**-**	**1,146,410**	**9,610**

Note: The above table excludes non-performing exposures which are allocated to stage 1 – such exposures would be classified as non-performing but still part of stage 1 due to the non-performing exit criteria as required under EBA Final draft Implementing Standards on Supervisory reporting on forbearance and non-performing exposures. The tables also exclude debt securities measured at fair value.

The following table provides an analysis the change in stock of specific credit risk adjustment for the financial year ended 31 December 2020.

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

	Accumulated specific credit risk adjustment €000	Accumulated general credit risk adjustment €000
1 Opening balance at 1 Jan 2020	18,083	-
2 Increases due to amounts set aside for estimated loan losses during the period	47,013	-
3 Decreases due to amounts reversed for estimated loan losses during the period	(6,700)	-
6 Impact of exchange rate differences	(118)	-
9 **Closing balance at 31 December 2020**	**58,278**	**-**
10 Recoveries on credit risk adjustments recorded directly to the statement of profit or loss	-	-
11 Specific credit risk adjustments recorded directly to the statement of profit or loss	31,370	-

The Group does not account for any general credit risk adjustments.

The Group's impaired and past due but not impaired loans and advances to customers were primarily concentrated in Europe.

There were no other adjustments including those determined by business combinations, acquisitions and disposals of subsidiaries, and transfers between credit risk adjustments.

The following tables provide an analysis of the changes in stock of defaulted loans and debt securities throughout the financial year. The gross carrying value is inclusive of accrued interest.

EU CR2–B: Changes in the stock of defaulted and impaired loans and debt securities

	Gross carrying value defaulted exposures €000
1 Opening balance at 1 January 2020	115,060
2 Loans and debt securities that have defaulted or impaired since the last reporting period	165,307
3 Returned to non-defaulted status	(51,857)
4 Amounts written off	(9,946)
5 Sold and /or repaid loans and debt securities	(24,266)
6 Other changes	(258)
Closing balance at 31 December 2020	**203,986**

The increase in the loans and debt securities that have defaulted or impaired since the last reporting period is attributable to an increase in the impaired loans in the international lending portfolio.

EBA-NPL 8: Changes in the stock of non-performing loans and advances

		Gross carrying amount €000	Related net accumulated recoveries €000
1	Initial stock of non-performing loans and advances (1 Jan 2020)	115,060	
2	Inflows to non-performing portfolios	165,307	
3	Outflows from non-performing portfolios	(76,382)	
4	*Outflow to performing portfolio*	*(41,911)*	
5	*Outflow due to loan repayment, partial or total*	*(6,711)*	
8	*Outflow due to sale of instruments*	*(17,555)*	-
9	*Outflow due to write-off*	*(9,946)*	
10	*Outflow due to other reasons*	*(259)*	
13	**Final stock of non-performing loans and advances (31 December 2020)**	**203,986**	

4.7 Exposures with renegotiated terms and the Group's forbearance policy

The contractual terms of an exposure 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. 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') typically as part of a syndicate lender group, 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 EBA final draft Implementing Technical Standards (2014) and refers 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. The Group's Credit Committees regularly review reports on forbearance activities.

The Group defines 'restructured exposures' 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 initially categorises a forborne exposure as performing and classifies the exposure as forborne non-performing at a later date once unlikely-to-pay indicators are evidenced, as outlined in the Non-Performing and Default Exposure section of the Group's Credit Policy.

Credit policy takes into consideration the ECB announcements concerning relief measures that will be implemented as a response to the COVID-19 pandemic, and ESMA and EBA statements on the impact on accounting reporting linked to IFRS9 and the definition of Default and Forbearance. All published in March 2020.

The measures that governments and credit institutions proposed to address the adverse systemic economic impact of the COVID-19 pandemic would not automatically lead to a reclassification under the definition of forbearance. As per the EBA announcement the offering and acceptance of terms set out in general moratoria would not necessarily lead to a reclassification of any loan under the definition of forbearance, as either performing or non-performing forborne. In other words, no automatic reclassification is needed when general measures are being offered.

For the purposes of supervisory reporting, the definition of forbearance is designed to be reported when credit institutions offer specific measures to help a specific borrower who is experiencing or likely to experience temporary financial difficulties with their repayment obligations. The individual assessment of the borrower's financial difficulties and granting measures tailored to this financial situation of the borrower are critical in terms EBA's definition of forbearance. The moratoria being introduced as a response to COVID-19 pandemic aim to address systemic risks and alleviate potential risks that may occur in the wider EU economy in the future. In this sense, these measures are not borrower-specific, although they may be based on broader product classes, as the length of the delays in payments is fixed for every borrower irrespective of the borrowers' specific financial circumstances.

Following regulatory guidance in light of Covid, borrowers who are assessed to have benefited from COVID-19 relief measures are classified as 'Performing Forborne (COVID-19)', so the Group can distinguish between those borrowers who are experiencing temporary financial difficulties as a result of the economic shock from the COVID-19 pandemic and/or are benefiting from COVID-19 related measures such as payment moratoria, and those borrowers who will experience financial difficulty over the longer term and so classified as 'Forborne'.

4.8 Credit risk mitigation

(Qualitative disclosure requirements related to CRM techniques according to Table 7 EU CRC)

It is the Group's practice to lend on the basis of the customer's ability to meet its obligations out of its cash flow resources rather than rely on the value of security offered. In fact, the majority of Group's loans are not secured by any type of collateral, and the amount of collateral received is immaterial in terms of the total exposure of the Group.

However the Group still uses various techniques as allowed by the CRD IV in order to mitigate credit risks such as netting and set off, and in some cases use of collateral. Credit risk mitigation is recognised only when it is legally enforceable and effective, which in order to do so requires adequate monitors and valuation of collateral received.

The Group does mortgage lending in the Netherlands under the NHG mortgage criteria under the standardised approach to credit risk.

The risk-weights for exposures secured by mortgages on residential property are set by Articles 123 to 125 of the Capital Requirements Regulation (CRR). Thus the valuation of the collateral is an important component to determine the portion of the Dutch mortgage exposure that should be considered to be secured by property and the portion, if any, of the Dutch mortgage exposure that should be treated as a retail exposure under article 123 of the CRR.
As from 31 March 2020, following changes to the Dutch National Mortgage Guarantee (NHG), when applying a risk weighting to mortgage loans, the Group is taking into account the terms and conditions that govern the National Mortgage Guarantee (NHG) scheme and, hence, the credit

protection it provides. In the case of residential mortgage loans that are guaranteed by the NHG, the risk-weights for such exposures are amended in accordance with the credit risk mitigation framework of Part Three, Title II, Chapter 4 of the CRR, given that the NHG guarantee now meets the conditions of, in particular, Articles 213 to 215 of the CRR.

Thus, as from 31 March 2020, with respect to NHG-mortgages the actual coverage of the guarantee is being taken into account. Thus, the amortisation of the NHG coverage value, as well as the 10% own risk factor, is now being taken into account in the establishment of the protected amount (the factor GA as laid out in Article 235 of the CRR).

In addition to the risk-weights and capital charges for NHG-mortgages under Pillar I, the Group is now taking into account under Pillar II specific risks of NHG-mortgages in its internal capital adequacy assessment process (ICAAP).

4.8.1 Capital allocation and capital buffers for credit risk

The Group adopts the standardised approach to calculate its capital requirement for credit risk. The Group's credit framework contains enough detail specifying how the Group calculates the risk weights of the exposures covered by the framework, wherever the regulatory framework permits elections or other choices to be made.

Besides allocating capital against its Pillar I risks that are based on the Group's accounting records, the Group also carries an assessment of the extra capital proportionate to Pillar II risks as part of its annual ICAAP. The ICAAP chapter on credit risk, describes the Group's approach for allocating capital for this risk. Since the Group is not rated, it is not required to allocate internal capital or allocate collateral in the eventuality of a downgrade in its credit rating.

4.8.2 On and off balance sheet netting and set-off

(Qualitative disclosure requirements related to CRM techniques according to Table 7 EU CRC)

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is the intention to settle on a net basis or realise the asset and settle the liability simultaneously. The level of offsetting within the Group is deemed to be minimal. Further information regarding the offsetting policies of the Group can be found in note 2.2.10 of the MDB Group Annual Report and Financial Statements for the financial period ended 31 December 2020.

4.8.3 Collateral and other credit enhancements

(Qualitative disclosure requirements related to CRM techniques according to Table 7 EU CRC)

Collateral received by the Group includes residential and commercial property, as well financial collateral such as debt securities and cash on deposit.

Most of the immovable property collateral received is located in Malta, and in the Netherlands (in the frame of the Dutch Mortgage business). In particular, in relation to the local lending portfolio, a charge over collateral is obtained and considered in determining the credit decision and pricing. In the event of a default, the Group may utilise the collateral as a source of repayment. Depending on its form, collateral can have a significant financial effect in mitigating exposure to credit risk. The Group follows Articles 124 to 126 of the CRR in order to determine whether exposures are fully and completely secured by immovable property, and which risk weight to apply in order to calculate the own funds requirement.

In order to make use of the financial collateral for credit risk mitigation purposes, the Group follows the conditions set out in Chapter 4, Title I, Part Three of CRR, in particular applying Article 222 of the said regulation. Collateral that is not eligible in terms of CRR is not taken into consideration for credit risk mitigation.

To determine the overall credit exposure limit, the Group applies a number of limits to the Maltese Lending portfolio both at Portfolio level and at Single Name level. These limits are decided by the Group's board and disclosed as part of the Group's Risk Appetite Statement which is revised on an annual basis.

Loan-to-Value limits are applied to any credit extended to real estate related transactions or where real estate is pledged as collateral, given that underlying asset values can be subject to market volatility. These limits are calculated on the market value of the security, prior to the application of the relative haircut as described below.

The market value of the collateral is based on an assessment carried out by the Maltese Lending unit to determine whether the 'market value' of the collateral is the best estimate of the net realisable value of the said asset. The unit evaluates the valuation in the context of market impact of liquidation of the said collateral on liquidity, buy-sell spread and market float of the same class of assets. The Group applies haircuts in respect of the property valuation carried out by the independent valuer and is determined on a case-by-case basis taking into account particular characteristics such as valuer's expertise and experience, valuation/s of similar collateral and, locations and conditions of property. Haircuts are applied to arrive at the best prudent estimate of the realisable value of the collateral and are documented in the credit memorandum together with an explanation of the suitability of chosen haircut. The haircut is discussed and ratified at the Local Lending – Management Credit Committee.

The value of collateral that is commercial real estate is monitored at least annually, while the value of residential real estate is reviewed once every three years. The value is monitored through the local Property Price Index as well by gauging asking prices of similar properties available on the market. For individually significant loans, including but not limited to those exceeding €3 million or 5% of the Group's own funds, the value of the property securing such loans shall be reviewed by an independent valuer at least every three years. If the market is subject to significant changes in conditions and publicly available information indicates that the value of the property may have declined materially relative to general market prices, an update of the valuation of the collateral shall be required.

The guidelines on collateral haircuts are reviewed by the Group at least annually, and may from time to time, be amended to ensure that the Group's business continues to act in accordance with best practices.

The following table shows an analysis of the on-balance sheet exposure value (carrying amount net of provisions) as at 31 December 2020 that is covered by eligible collateral in line with CRR requirements highlighting the amount of the exposure value which is unsecured and secured:

EU CR3: CRM techniques - Overview

	Exposures Total unsecured - Carrying amount[6] €000	Exposures Total secured - Carrying amount[7] €000	Exposures secured by collateral[8] €000	Exposures secured by financial guarantees[9] €000
1 Total loans and advances	983,589	993,857	40,220	953,637
2 Total debt securities	1,169,984	38,624	-	38,624
3 Total exposures	**2,153,573**	**1,032,481**	**40,220**	**992,261**
4 of which Defaulted	**151,742**	**7,902**	7,892	9

The following table shows an analysis of loans and advances that are secured by immovable property, split by the LTV of the respective loans and advances as at 31 December 2020, in line with the EBA Guidelines on disclosure of non-performing and forborne exposures.

EBA-NPL 7: Collateral valuation – loans and advances

		Loans and advances				
			Performing		Non-performing	
		€000	€000	Of which past due > 30 days ≤ 90 days €000	€000	Unlikely to pay that are not past due or are past due ≤ 90 days €000
1	Gross carrying amount	**2,142,615**	**1,938,628**	**965**	**203,986**	**196,994**
2	Of which secured	*1,156,658*	*1,147,015*	*965*	*9,642*	*2,712*
3	Of which secured with immovable property	*1,155,745*	*1,146,102*	*965*	*9,642*	*2,712*
4	Of which instruments with LTV higher than 60% and lower or equal to 80%	*216,050*	*210,406*		*5,644*	*-*
5	Of which instruments with LTV higher than 80% and lower or equal to 100%	*772,492*	*772,336*		*156*	*156*
7	Accumulated impairment for secured assets	**54,291**	**11,564**	**18**	**42,727**	**42,716**
8	Collateral					
9	Of which value capped at the value of exposure	*1,156,167*	*1,146,538*	*965*	*9,628*	*2,698*
10	Of which immovable property	*1,155,254*	*1,145,625*	*965*	*9,628*	*2,698*
11	Of which value above the cap	*171,763*	*160,370*	*1,236*	*11,393*	*6,577*
12	Of which immovable property	*169,646*	*158,253*	*1,236*	*11,393*	*6,577*

[6] **Exposures unsecured – Carrying amount**: The carrying amount of exposures (net of allowances/impairments) that do not benefit from a CRM technique, regardless of whether this technique is recognised under Part Three, Title II, Chapter 4 in the CRR.

[7] **Exposure - secured – Carrying amount**: Carrying amount of exposures that have at least one CRM mechanism (collateral, financial guarantees, credit derivatives) associated with them.

[8] **Exposures secured by collateral**: carrying amount of exposures (net of allowances/impairments) partly or totally secured by collateral.

[9] **Exposures secured by financial guarantees**: Carrying amount of exposures (net of allowances/impairments) partly or totally secured by financial guarantees.

		Loans and advances						
		Non-performing						
		Past due > 90 days						
		€000	Of which past due > 90 days ≤ 180 days €000	Of which past due > 180 days ≤ 1 year €000	Of which past due > 1 year ≤ 2 years €000	Of which past due > 2 years ≤ 5 years €000	Of which past due > 5 years ≤ 7 years €000	Of which past due > 7 years €000
1	Gross carrying amount	**6,993**	**93**	**238**	**-**	**39**	**1,464**	**5,159**
2	Of which secured	*6,931*	*91*	*238*	-	-	*1,443*	*5,159*
3	Of which secured with immovable property	*6,931*	*91*	*238*	-	-	*1,443*	*5,159*
4	Of which instruments with LTV higher than 60% and lower or equal to 80%	5,643	*91*	-	-	-	*1,443*	*4,109*
5	Of which instruments with LTV higher than 80% and lower or equal to 100%	-	-	-	-	-	-	-
7	Accumulated impairment for secured assets	5,171	12	-	-	-	-	5,159
8	Collateral							
9	Of which value capped at the value of exposure	*6,931*	*91*	*238*	-	-	*1,443*	*5,159*
10	Of which immovable property	*6,931*	*91*	*238*	-	-	*1,443*	*5,159*
11	Of which value above the cap	*4,817*	-	*996*	-	-	*375*	*3,446*
12	Of which immovable property	*4,817*	-	*996*	-	-	*375*	*3,446*

The following table details out the types of eligible collateral held for each exposure class as at 31 December 2020:

	Exposure value post CCF and CRM[10]					
	Secured by collateral		**Secured by financial guarantees**			
	Secured by residential immovable property €000	**Secured by commercial immovable property €000**	**Secured by debt securities €000**	**Secured by cash on deposit €000**	**Other types of secured exposures €000**	**Unsecured exposures €000**
Central governments or central banks	-	-	-	-	1,041,110	522,144
Regional governments or local authorities	-	-	-	-	-	132,515
Public sector entities	-	-	-	-	-	106,553
Multilateral development banks	-	-	-	-	-	40,924
International organisations	-	-	-	-	-	25,996
Institutions	-	-	-	-	-	267,909
Corporates	-	-	-	-	-	892,499
Retail	-	-	-	-	-	90,214
Secured by mortgages on immovable property	64,409	28,714	-	-	-	9,879
Exposures in default	3,015	4,886	-	-	-	157,298
Items associated with particular high risk	31,250	1,441	-	-	-	10,985
Covered bonds	-	-	-	-	-	478,374
Other	-	-		4,077	-	37,614
Total	**98,674**	**35,042**	**-**	**4,077**	**1,041,110**	**2,772,902**

[10] **Exposure value post CCF and CRM**: This amount represents the exposure value after taking into account specific credit risk adjustments as defined in the Commission Delegated Regulation (EU) No 183/2014 and write-offs as defined in the applicable accounting framework, all credit risk mitigants and CCFs. This is the amount to which the risk weights (according to Article 113 and Part Three, Title II, Chapter 2, Section 2 of the CRR) are applied.

The following disclosure on foreclosed assets obtained from non-performing exposures as at 31 December 2020 is in line with the EBA Guidelines on disclosure of non-performing and forborne exposures.

EBA-NPL 9: Collateral obtained by taking possession and execution processes and EBA-NPL 10: Collateral obtained by taking possession and execution processes – vintage breakdown

No collateral was obtained by taking possession of tangible assets.

The following table shows the exposures together with the relevant credit risk mitigation undertaken for each class as at 31 December 2020:

EU CR4: Standardised approach – Credit risk exposure and CRM effects

	Exposures before CCF and CRM[11]		Exposures post CCF and CRM		RWA and RWA density	
Exposure classes	**On-Balance sheet amount €000**	**Off-Balance sheet amount €000**	**On-Balance sheet amount €000**	**Off-Balance sheet amount €000**	**RWAs €000**	**RWA density %**
1 Central governments or central banks	522,144	-	1,513,045	50,209	21,689	1%
2 Regional governments or local authorities	132,515	-	132,515	-	-	0%
3 Public sector entities	106,553	-	106,553	-	4,035	4%
4 Multilateral development banks	40,924	-	40,924	-	-	0%
5 International organisations	25,996	-	25,996	-	-	0%
6 Institutions	292,608	-	254,224	-	41,267	16%
7 Corporates	727,856	344,716	726,876	165,447	892,323	100%
8 Retail	120,587	57,651	77,799	12,415	67,660	75%
9 Secured by mortgages on immovable property	1,002,085	296,263	92,525	10,477	55,937	54%
10 Exposures in default	159,862	11,112	159,644	5,556	215,384	130%
11 Items associated with particular high risk	43,676	35,183	43,676	-	65,513	150%
12 Covered bonds	478,374	-	478,374	-	48,190	10%
16 Other items	37,614	-	38,644	3,048	37,663	90%
17 Total	**3,690,794**	**744,924**	**3,690,794**	**247,151**	**1,449,662**	**37%**

The table above does not cover derivative instruments exposures and CCP exposures as at 31 December 2020 with an exposure value of €13.7 million post CCF and CRM, of which the respective RWAs amounted to €11.4 million.

[11] **Exposures before CCF and CRM**: This represents the Group's on-balance-sheet and off-balance exposures (respectively) under the regulatory scope of consolidation (in accordance with Article 111 in the CRR), net of specific credit risk adjustments (as defined in the Commission Delegated Regulation (EU) No 183/2014) and write-offs (as defined in the applicable accounting framework), but before (i) the application of CCFs as specified in the same article and (ii) the application of CRM techniques specified in Part Three, Title II, Chapter 4 of the CRR.

EU CR5: Standardised approach Exposure Value

	Exposure value post CCF and CRM									
	0% €000	**10% €000**	**20% €000**	**35% €000**	**50% €000**	**75% €000**	**100% €000**	**150% €000**	**250% €000**	**Total €000**
1 Central governments or central banks	1,554,579	-	-	-	-	-	-	-	8,675	**1,563,254**
2 Regional governments or local authorities	132,515	-	-	-	-	-	-	-	-	**132,515**
3 Public sector entities	86,377	-	20,176	-	-	-	-	-	-	**106,553**
4 Multilateral development banks	40,924	-	-	-	-	-	-	-	-	**40,924**
5 International organisations	25,996	-	-	-	-	-	-	-	-	**25,996**
6 Institutions	86,275	-	169,638	-	2,264	-	9,732	-	-	**267,909**
7 Corporates	-	-	-	-	-	-	892,499	-	-	**892,499**
8 Retail	-	-	-	-	-	90,214	-	-	-	**90,214**
9 Secured by mortgages on immovable property	-	-	-	64,549	10,216	-	28,237	-	-	**103,002**
10 Exposures in default	-	-	-	-	-	-	64,831	100,368	-	**165,199**
11 Items associated with particular high risk	-	-	-	-	-	-	-	43,676	-	**43,676**
12 Covered bonds	-	474,843	3,531	-	-	-	-	-	-	**478,374**
16 Other items	4,028	-	-	-	-	-	37,663	-	-	**41,691**
17 Total	**1,930,694**	**474,843**	**193,345**	**64,549**	**12,480**	**90,214**	**1,032,962**	**144,044**	**8,675**	**3,951,806**

4.9 Settlement risk

The Group's activities may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of an entity to honour its obligations to deliver cash, securities or other assets as contractually agreed.

Mitigation of settlement risk

For all types of investment transactions the Group mitigates this risk by conducting settlements through a settlement/clearing agent to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations. Settlement limits form part of the credit approval/limit monitoring process described earlier. Furthermore, the Group has a number of master netting agreements covering repurchase transactions and securities with its counterparties.

4.10 Credit Valuation Adjustment ("CVA")

The CRR requires financial institutions to calculate own funds requirements for CVA risk, in accordance with Article 382, which is a capital charge to reflect potential mark-to-market losses due to counterparty migration risk on bilateral OTC derivative contracts.

Using the regulatory formula, capital required in respect of CVA risk as at 31 December 2020, is calculated to be €64,893 on a total exposure of €3,947,654.

EU CCR2: CVA Capital Charge

	Exposure value €000	**RWAs €000**
4 All portfolios subject to the standardised method	3,948	811

4.11 Exposures in equities

The equity instruments held by the Group as at the end of the reporting period had a value of €6.7 million.

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. This listed equity was classified at fair value through other comprehensive income on initial recognition.

The total Equity holding did not fall under the definition of "qualifying holding"[12] and was below the small trading book business threshold (Article 94 of CRR) given that it was less than 5% of total assets and therefore was not eligible to be part of a trading book.

The listed equity stake referred to above had a fair value of €6.7 million at the end of the year as there were unrealised losses of €667 thousand as at 31 December 2020. This equity was classified in the exposure category "Items associated with particular high risk".

4.12 Measures applied in response to the COVID-19 crisis

In light of the COVID-19 pandemic the Group has undertaken a number of measures in order to support the business community, including the Malta Development Bank Guarantee Scheme and the granting of moratoria in line with CBM Directive 18.

As required by the EBA Guidelines on reporting and disclosure of exposures subject to measures applied in response to the COVID-19 crisis (EBA/GL/2020/07) and MFSA Banking Rule BR/23, the below tables disclose information on exposures to which such measures are applied.

Template 1: Information on loans and advances subject to legislative and non-legislative moratoria

		Gross Carrying Amount							
		Total exposures	Performing			Non Performing			**Inflows to non-performing exposures**
				Of which: exposures with forbearance measures	Of which: Instruments with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)		Of which: exposures with forbearance measures	Of which: Unlikely to pay that are not past-due or past-due <= 90 days	
		€000s	**€000s**	**€000s**	**€000s**	**€000s**	**€000s**	**€000s**	**€000s**
1	Loans and advances subject to moratorium	**4,607**	1,857	-	-	2,750	2,750	2,512	-
2	of which: Households	**282**	45	-	-	238	238	-	-
3	*of which: Collateralised by residential immovable property*	**282**	45	-	-	238	238	-	-
4	of which: Non-financial corporations	**4,324**	1,812	-	-	2,512	2,512	2,512	-
5	*of which: Small and Medium-sized Enterprises*	**4,324**	1,812	-	-	2,512	2,512	2,512	-
6	*of which: Collateralised by commercial immovable property*	**2,922**	1,812	-	-	1,110	1,110	1,110	-

[12] CRR defines "qualifying holding" as a direct or indirect holding in an undertaking which represents 10% or more of the capital or of the voting rights or which makes it possible to exercise a significant influence over the management of that undertaking.

		Accumulated impairment, accumulated negative changes in fair value due to credit risk						
		Total	Performing			Non Performing		
				Of which: exposures with forbearance measures	Of which: Instruments with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)		Of which: exposures with forbearance measures	Of which: Unlikely to pay that are not past-due or past-due <= 90 days
		€000s	**€000s**	**€000s**	**€000s**	**€000s**	**€000s**	**€000s**
1	Loans and advances subject to moratorium	**(60)**	(45)	-	-	(15)	(15)	(15)
2	of which: Households	**-**	-	-	-	-	-	-
3	*of which: Collateralised by residential immovable property*	**-**	-	-	-	-	-	-
4	of which: Non-financial corporations	**(60)**	(45)	-	-	(15)	(15)	(15)
5	*of which: Small and Medium-sized Enterprises*	**(60)**	(45)	-	-	(15)	(15)	(15)
6	*of which: Collateralised by commercial immovable property*	**(52)**	(45)	-	-	(6)	(6)	(6)

The moratoria granted are in the form of postponement of principal and/or interest for a predefined limited period of time and those still active which are reported in the above table were granted to households and to borrowers in the real estate and accommodation industry. No economic losses were realised.

Template 2: Breakdown of loans and advances subject to legislative and non-legislative moratoria by residual maturity of moratoria

		Gross Carrying Amount								
		Number of obligors	Total	Of which: legislative moratoria	Of which: expired	Residual maturity of moratoria				
						<= 3 months	> 3 months <= 6 months	> 6 months <= 9 months	> 9 months <= 12 months	> 1 year
			€000s	**€000s**	**€000s**	**€000s**	**€000s**	**€000s**	**€000s**	**€000s**
1	Loans and advances for which moratorium was offered	**32**	**30,861**	28,639						
2	Loans and advances subject to moratorium (granted)	**31**	**28,639**	28,639	24,032	4,607	-	-	-	-
3	of which: Households		**1,226**	1,226	943	282	-	-	-	-
4	*of which: Collateralised by residential immovable property*		**887**	887	604	282	-	-	-	-
5	of which: Non-financial corporations		**21,607**	21,607	17,283	4,324	-	-	-	-
6	*of which: Small and Medium-sized Enterprises*		**21,607**	21,607	17,283	4,324	-	-	-	-
7	*of which: Collateralised by commercial immovable property*		**13,845**	13,845	10,923	2,922	-	-	-	-

Most moratoria where granted for a period of 3-6 months. Following the expiry of the moratorium, exposures amounting to €3.1m were granted an extension falling within the 3-6 month bracket, depending on the industry performance and financial standing of the borrower.

Template 3: Information on newly originated loans and advances provided under newly applicable public guarantee schemes introduced in response to COVID-19 crisis

Facilities amounting to €1.5m guaranteed by the Malta Development Bank were granted to two borrowers in the construction and retail industries. These facilities are not fully drawn as at 31 December 2020. The term of these two loans are 48 and 70 months respectively, and the guarantee is valid for 48 months. The guarantee for the 70 month term loan can be increased to cover the full term subject to additional terms and conditions.

	Gross Carrying Amount €000s		**Maximum amount of the guarantee that can be considered €000s**	**Gross carrying amount €000s**
		Of which forborne:	Public guarantees received	Inflows to non-performing exposures
Newly originated loans and advances subject to public guarantee schemes	**1,004**	**-**	903	**-**
of which: Households	**-**			**-**
of which: Collateralised by residential immovable property	**-**			**-**
of which: Non-financial corporations	**1,004**	**-**	903	**-**
of which: Small and Medium-sized Enterprises	**1,004**			**-**
of which: Collateralised by commercial immovable property	**-**			**-**

5 Counterparty credit risk

(Qualitative disclosure requirements related to CCR according to Table 3 EU CCRA)

Counterparty credit risk ("CCR") refers to the risk that the counterparty to a transaction could default before the final settlement of the transaction's cash flows. The Group is primarily exposed to counterparty credit risk through derivative exposures, which have largely been limited to interest rate and currency hedges of the Group's investment portfolio, and to other derivatives exposures that can be priced on a real time basis.

The Group was not involved in any credit derivative transactions during the year, and the derivative transactions falling under intermediation activities were immaterial in relation to the total derivative transactions undertaken by the Group. Due to this, the Group does not allocate a capital add-on for counterparty concentration. A description of the methodology used by the Group to allocate internal capital for concentration risk is given in section 3 'Credit Risk and Credit Risk mitigation'.

Counterparty credit risk in respect of currency swaps and forwards, interest rate swaps, options, swaptions and any other derivative instruments that entail credit exposures shall only be entered into with counterparties approved by ALCO. Entry into any derivative exposure will be subject to prior implementation of appropriate settlement and risk management infrastructure pursuant to a signed ISDA/CSA Agreement. Any new counterparties and associated limits may be approved by the Treasury Management Credit Committee. This list of approved derivative counterparties and associated limits is included in the Group's Risk Appetite Statement. Entering into bilateral secured financing transactions bearing any counterparty risk which cannot be executed under a signed GMRA or ISDA agreement is also outside the Group's risk appetite.

The Group's Treasury Function ensures that margin calls arising from the Group's repo and derivatives obligations are monitored on a daily basis. Exposure to derivative counterparties and the related credit risk is mitigated through the use of netting and collateralisation agreements.

As the Group is not an externally rated entity, the Group does not carry any exposure to counterparty credit risk impact given a downgrade in its credit rating.

5.1 Analysis of counterparty credit risk exposure

In order to determine the potential future credit exposure, the notional amounts or underlying values, as applicable, are multiplied by the percentages stipulated in the CRR, Table 1 of Article 274(2)(c). These are based on contract type and residual maturities.

EU CCR1: Analysis of CCR exposure by approach

At 31 December 2020	Replacement cost/current market value €000	Potential future credit exposure €000	EAD post CRM €000	RWAs €000
1 Mark to market	1,666	12,195	13,861	11,377
11 **Total**	**1,666**	**12,195**	**13,861**	**11,377**

Analysed as follows:	Residual maturity	Notional amount (€000)	Applicable percentage [13]	Replacement cost (€000)	Potential future exposure (€000)	Risk-weight	Risk-weighted assets (€000)
Interest rate swaps and other exposures to a Central Clearing Counterparty				-	9,732	-	100%
Interest rate swaps	Over one year, not exceeding five years	337,436					
Interest rate swaps	Over five years	645,900					
Foreign currency contracts	One year or less	114,935	1.00%	540	1,149	540	20%
Foreign currency contracts	One year or less	129,754	1.00%	966	1,298	966	50%
Contracts concerning equities	Over five years	160	10.00%	160	16	160	100%

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

	Exposure value €000	Risk weighted assets €000
Institutions	13,685	11,201
of which exposure to a qualifying central counterparty	*9,732*	*9,732*
Corporates	176	176
	13,861	**11,377**

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

6 External credit assessment institutions

(Qualitative disclosure requirements on institutions' use of external credit ratings under the standardised approach for credit risk according to Table 8 EU CRD)

The Group uses credit assessments issued by External Credit Assessment Institutions ("ECAI's") in order to calculate the risk weighted exposure amounts for certain exposure classes, wherever such a credit assessment is available, in accordance with Part Three, Title II, Chapter 2 of the CRR. During the financial period ended 31 December 2020, the Group used the external ratings issued by the following 3 nominated ECAIs: S&P, Fitch and Moody's. The relevant ratings to use were determined in particular by Article 138 of the CRR, and these were mapped to the credit quality steps according to Regulation 2019/2028 which amended Implementing Regulation (EU) 2016/1799 *"as regards the mapping tables specifying the correspondence between the credit risk assessments of external credit assessment institutions and the credit quality steps set out in Regulation (EU) No 575/2013…"*

The following is a table used by the Group to map the relevant ratings bands to the appropriate credit quality steps as per the above mentioned regulation:

Fitch Rating	Credit Quality Step	Moody's Investors Service Rating	Credit Quality Step	S&P Global Ratings Europe Limited Rating	Credit Quality Step
AAA	1	Aaa	1	AAA	1
AA	1	Aa	1	AA	1
A	2	A	2	A	2
BBB	3	Baa	3	BBB	3
BB	4	Ba	4	BB	4
B	5	B	5	B	5
CCC	6	Caa	6	CCC	6
CC	6	Ca	6	CC	6
C	6	C	6	C	6
				D	6

The Group applies the ECAI ratings to the following exposure classes:

- Central governments or central banks;
- Regional governments or local authorities;
- Public sector entities;
- Multilateral development banks;
- International organisations;
- Institutions; and
- Covered bonds.

There were no changes in the nominated ECAIs and exposures to which the ratings are applied from the prior financial year.

The following table shows the exposure values at 31 December 2020 after credit risk mitigation associated with each credit quality step, gross of off-balance sheet exposures and after removing asset items deducted from Own Funds.

	Credit quality step	Exposure value after credit risk Mitigation €000
Central governments or central banks	1	1,555,854
Central governments or central banks	2	189,195
Central governments or central banks	3	19,042
Regional governments or local authorities	1	132,515
Public sector entities	1	102,518
Public sector entities	2	4,035
Multilateral Development Banks	1	40,924
International organisations	1	25,996
Institutions	1	29,205
Institutions	2	104,324
Institutions	3	6,632
Institutions	Unrated	127,747
Corporates	Unrated	1,065,782
Retail	Unrated	135,260
Secured by mortgages on immovable property	Unrated	137,742
Exposures in default	Unrated	170,755
Items associated with particular high risk	Unrated	78,858
Covered bonds	1	474,843
Covered bonds	2	3,531
Other items	Unrated	44,831
Total		**4,449,589**

7 Interest rate risk in non-trading book

7.1 Managing Interest rate risk

A summary of the Group's interest rate gap position on non-trading portfolios is found in the MDB Group Limited Annual Report and financial statements for the financial period ended 31 December 2020, in section 2.4.3 - Interest rate risk.

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 meanwhile 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 rise / falling the yield curves would be as follows:

31 December 2020

- Under parallel shock up by 100 bps the Economic Value decreases by €8.62 million meanwhile under shock down by 100 bps it decreases by €1.63 million.
- Under parallel shock up by 100 bps there is positive impact on Net Interest Income equal to €8.84 million meanwhile under parallel down by 100 bps the impact is negative and equal to €3.21 million.

The following table provides a further analysis of such results by currency.

	Euro		British Pound		Other currencies in Euro	
31 December 2020	**100 bps parallel increase €million**	**100 bps parallel decrease €million**	**100 bps parallel increase €million**	**100 bps parallel decrease €million**	**100 bps parallel increase €million**	**100 bps parallel decrease €million**
Impact on EV	(8.27)	(2.91)	(0.57)	1.35	0.22	(0.07)
Impact on NIM	9.15	(4.20)	(0.53)	1.10	0.17	(0.11)

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;
- In addition to the legal floor on regulated savings accounts of MeDirect Belgium, 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 includes the effect of changes in value of the contractual 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 (available-for-sale financial instruments in the preceding financial year) reported directly in equity.

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 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

The returns relating to the equity tranche of GH1-2019 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.

8 Operational risk

8.1 Capital allocation and capital buffers for operational risk

The Group currently uses the basic indicator approach to assess the operational risk capital requirements and accordingly allocates 15% of average gross income for a three year period in accordance with regulatory requirements. The risk weighted assets in relation to operational risk as at 31 December 2020 amounted to €119.4million.

In the latest iteration of the Group's ICAAP, the Group assigned a scenario for the identified operational risk themes as identified during the RCSAs. Each of these scenarios were assigned a risk add-on which represented the financial costs the Group could expect to incur if the respective scenarios were to materialise in isolation. This approach is used to inform the final internal capital add-on. Internal data is used to complement the scenario analysis along with expert judgment from within the Group's first line of defence. The following formula is used to calculate the aggregate risk add-on, together with a set of correlation assumptions.

$$Aggregate\ capital\ requirement = \sqrt{\sum \sum_{i,j} \rho_{i,j} \times RA_i \times RA_j}$$

$$\rho_{i,j} = linear\ correlation\ coefficient\ between\ scenarios\ i\ and\ j; with\ RA_i\ and\ RA_j = \ Risk\ add - ons.$$

9 Own funds

9.1 Total available capital

The Group adopts the appropriate processes to ensure that the minimum regulatory requirements are met at all times, through the assessment of its capital resources and requirements given current financial projections. The Group has a strong track record of robust capital ratios and is confident that it will be positioned to maintain its overall capital strength. For regulatory purposes, the Group's capital base is divided in two main categories, namely Common Equity Tier 1 ("CET1") capital and Tier 2 capital.

9.1.1 Common Equity Tier 1 capital – composition

Common Equity Tier 1 capital includes:

- ordinary share capital;
- share premium;
- shareholders' contribution;
- retained earnings;
- reserve for general banking risks;
- fair value reserve; and
- other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes including deductions relating to reserve for depositor compensation scheme and the carrying amounts of investments in subsidiaries that are not included in the regulatory consolidation and certain other regulatory items.

9.1.2 Common Equity Tier 1 capital – terms and conditions

i. Ordinary share capital includes equity instruments which fall under the definition of Article 28(1) of the CRR, *Common Equity Tier 1 instruments*. The holders of 'A' ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of MDB Group Limited. 'B' ordinary shareholders are not entitled to vote or to receive any dividends distributed.

ii. Share premium reserve is made up of premium paid by shareholders in excess of the nominal value of the 'A' ordinary shares. This reserve can only be applied in the paying up of unissued shares to be issued to members of MDB Group as fully paid bonus shares.

iii. Shareholders' contributions ("Contributions") are amounts granted by the shareholders to MDB Group whereby MDB Group has no obligation to bear any servicing cost or transfer any economic benefits of any kind to the contributor or any other person in return and has no obligation to repay the Contributions. These terms and conditions of such Contributions render this instrument equity in nature in accordance with the requirements of IAS 32: Financial Instruments – Presentation.

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

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

v. Reserve for general banking risks – in accordance with BR 09, the Group has allocated from its retained earnings, to a non-distributable reserve, an amount equivalent to 2.5% of the regulatory allocation for positions on which a specific impairment provision has been attributed. Refer to Note 16 "Capital and reserves" to the MDB Group Limited Annual Report and financial statements for the financial period ended 31 December 2020..

vi. The fair value reserve includes the cumulative net change in the fair value of fair value through other comprehensive income ("FVOCI") investments, excluding impairment losses, until the investment is derecognised, net of deferred taxation. These relate to the hold to collect and sell ("HTC&S") category of EU-endorsed IFRS 9.

9.1.3 Tier 2 capital

Tier 2 capital consists of subordinated liabilities in issue, which rank after the claims of all depositors (including financial institutions) and all other creditors. As at 31 December 2020, subordinated liabilities included within Tier 2 capital comprised the following debt securities issued which are unsecured and in the event of the winding-up of the issuer, these are subordinated to the claims of depositors and all other creditors of the issuer:

- debt securities, bearing interest payable at 5%, repayable on 13 October 2027, with a 13 October 2022 early redemption option held by the Group.
- debt securities, bearing interest payable at 4%, repayable on 5 November 2029, with a 5 November 2024 early redemption option held by the Group.

In February 2021 MDB Group Limited 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. The proceeds of such Tier 2 Capital issuance were immediately delivered to MeDirect Malta through a qualifying Tier 2 loan instrument to MeDirect Malta for general corporate purposes, including to further reinforce and optimise our regulatory capital and to support the execution of our business strategy.

9.2 Own funds – other disclosures

The Group does not have items included in the 'Total capital' which have values differing from those reported within IFRS compliant Statement of Financial Position, with the exception of Subordinated liabilities included as part of Tier 2 capital, since these are amortised in line with Article 64 of the CRR.

Retained earnings form part of Own funds only if those profits have been verified by persons independent of the Group that are responsible for the auditing of the Group's financial statements and the Group has demonstrated to the satisfaction of the competent authority that any foreseeable charge or dividend has been deducted from the amount of those profits.

9.2.1 Composition of Own Funds

MDB Group Limited is the primary provider of equity capital to its subsidiaries. These investments are substantially funded through the issuance of equity, shareholder's contribution and by profit retention. As part of its capital management process, MDB Group Limited seeks to maintain a balance between the composition of its capital and its investment in subsidiaries.

In line with the requirement of Article 436 of the CRR in accordance with directive 2013/36/EU, there is no current or foreseen impediment to MDB Group Limited's ability to provide funding for such investments. The ability of subsidiaries to pay dividends or advance monies to MDB Group Limited depends on, among other things, their respective local regulatory capital and banking requirements, exchange controls, statutory reserves, and financial and operating performance.

In December 2013 the European Commission published regulation (EU) No 1423/2013 being the 'Implementing Technical Standards with regard to Disclosure for Own Funds Requirements for institutions according to Regulation (EU) 575/2013 (CRR)'. In order to increase transparency regarding the regulatory capital of European institutions the regulation provided a set of templates which will help to facilitate cross-jurisdictional comparisons.

Below is a table showing the composition of the own funds of the Group in accordance with the CRR and the related captions within the Statement of Financial Position included in the Annual Report 2020.

At 31 December 2020	**€000**
Common Equity Tier 1 (CET1) capital	
Common Equity Tier 1 (CET1) capital: instruments and reserves	
Capital instruments and the related share premium accounts	69,494
Retained earnings	45,585
Accumulated other comprehensive income (and other reserves)	135,553
Funds for general banking risk	-
Common Equity Tier 1 (CET1) capital before regulatory adjustments	250,632
Common Equity Tier 1 (CET1) capital: regulatory adjustments	
Additional value adjustments	(690)
Intangible assets (net of related tax liability)	(8,727)
Deferred tax assets that rely on future profitability	(5,316)
Other regulatory adjustments – IFRS 9 transitional arrangement	7,819
Total regulatory adjustments to Common Equity Tier 1 (CET1)	(6,914)
Common Equity Tier 1 (CET1) capital	**243,718**
Tier 1 capital	**243,718**
Tier 2 (T2) capital: instruments and provisions	
Capital instruments and the related share premium accounts (Subordinated loans)	40,905
Tier 2 capital	40,905
Total capital	**284,623**
Total risk weighted assets	***1,642,542***
Capital ratios and buffers	**%**
Common Equity Tier 1 ratio	14.84%
Tier 1 ratio	14.84%
Total capital ratio	17.33%
Institution specific buffer requirement	7.51%
of which: Capital conservation buffer requirement	2.50%
of which: Countercyclical buffer requirement	0.01%
of which: Other Systemically Important Institution (O-SII) buffer	0.50%
Common Equity Tier 1 available to meet buffers in excess of the CRR 4.5% minimum requirement	10.34%
Amounts below the thresholds for deduction (before risk weighting)	**€000**
Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability where the conditions of Article 38(3) are met)	8,675

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

Despite the reported loss coming from the COVID-19 impact, the above table shows that the Group's Tier 1 capital ratio are well above the Total SREP Capital Requirements.

The intangible assets in the above table, were in particular recalculated in terms of the Regulation 2020/2176 of 12 November 2020, whereby a portion of the prudential valued software asset would be risk-weighted at 100% and the remainder is subject to a CET1 deduction. Under the old rules, software assets were deducted in full from common equity tier 1 ('CET1').

Furthermore as shown in the table above, there were no other items requiring deduction that were not deducted from the own funds in accordance with Section 3, Chapter 2, Title I, Part Two of CRR. In particular, in terms of article 48 and 473a (7) of CRR, the Group's deferred tax assets dependent on future profitability and arising from temporary differences did not exceed the 10% threshold and therefore were not required to be deducted from own funds. The Group does not have any systemic risk buffer as at 31 December 2020.

In line with Article 2 in the Commission Implementing Regulation (EU) No 1423/2013 and Part Eight Article 437 (1) of the CRR, the following is a full reconciliation of the Group's Own Funds items to the audited financial statements as at 31 December 2020.

Capital Base	**At 31 December 2020 €000**
Shareholders' equity according to the Group's balance sheet	254,718
Market value of assets pledged in favour of Depositor Compensation Scheme	(4,086)
Deferred tax assets that are dependent on future profitability and do not arise from temporary differences (transitional definition)	(5,316)
Intangible assets	(8,727)
Other adjustments:	
IFRS 9 transitional arrangements	7,819
AVA valuation adjustments	(690)
Common Equity Tier 1 capital / Tier 1 capital	**243,718**
Tier 2 instruments: subordinated loans	54,650
Haircut of tier 2 instruments	(13,745)
Tier 2 capital	**40,905**
Total capital	**284,623**

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

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

		31 December 2020	30 September 2020	30 June 2020	31 March 2020	31 December 2019
	Available capital (amounts in €000)					
1	Common Equity Tier 1 (CET1) capital	243,718	254,745	264,651	296,579	299,575
2	Common Equity Tier 1 (CET1) capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	235,899	244,393	254,297	291,048	296,038
3	Tier 1 capital	243,718	254,745	264,651	296,579	299,575
4	Tier 1 capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	235,899	244,393	254,297	291,048	296,038
5	Total capital	284,623	297,601	310,587	338,566	342,031
6	Total capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	276,804	287,249	300,234	333,036	338,495
	Risk-weighted assets (amounts in €000)					
7	Total risk-weighted assets	1,642,542	1,789,676	1,980,964	1,980,014	1,972,756
8	Total risk weighted assets as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	1,643,917	1,792,056	1,983,291	1,977,785	1,965,029
	Capital ratios					
9	Common Equity Tier 1 (as a percentage of risk exposure amount)	14.84%	14.23%	13.36%	14.98%	15.19%
10	Common Equity Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	14.34%	13.64%	12.82%	14.72%	15.07%
11	Tier 1 (as a percentage of risk exposure amount)	14.84%	14.23%	13.36%	14.98%	15.19%
12	Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	14.35%	13.64%	12.82%	14.72%	15.07%
13	Total capital (as a percentage of risk exposure amount)	17.33%	16.63%	15.68%	17.10%	17.34%
14	Total capital (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	16.84%	16.03%	15.14%	16.84%	17.23%
	Leverage ratio					
15	Leverage ratio total exposure measure (€000)	4,284,891	4,131,201	3,897,639	296,578,6	3,417,687
16	Leverage ratio	5.69%	6.17%	6.79%	8.24%	8.77%
17	Leverage ratio as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	5.52%	5.93%	6.54%	8.10%	8.67%

As laid down in Regulation (EU) 2017/2395 and amended by introduction of a new CRR Article 473a through Regulation (EU) 2020/873, the Group has opted to apply the transitional arrangements laid down in the same regulation to mitigate the impact of the introduction of IFRS 9 on own funds. Thus, during the transitional period ending 31 December 2024, the Group will be adding back a proportion of:

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

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

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

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

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

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

As noted in template IFRS 9-FL above, the impact of the transitional arrangement on the Group's capital ratio as at 31 December 2020 amounted to 49 bps at the reporting period under review. This was a result of an add-back in capital of €7.8 million and a reduction of €1.4 million in risk-weighted assets. Similarly, the Group's leverage ratio is 'overstated' by 155 bps in view of the transitional arrangement applied.

Further to the amending Regulation (EU) 2020/873, and as required to be disclosed by EBA Guidelines (EBA/GL/2020/12), the Group chose not to apply the temporary treatment relating to unrealised gains and losses measured at fair value through other comprehensive income, as per Article 468.

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

Capital instruments' main features

	Instruments	MDB Group Limited Ordinary shares	MDB Group Limited Share premium	MeDirect Bank (Malta) plc 5% Subordinated Unsecured Bonds EUR 2027	MeDirect Bank (Malta) plc 5% Subordinated Unsecured Bonds GBP 2027
1	Issuer	MDB Group Limited	MDB Group Limited	MeDirect Bank (Malta) plc	MeDirect Bank (Malta) plc
2	Unique identifier	N/A	N/A	MT0000551284	MT0000551292
3	Governing law(s) of the instrument	Maltese Law	Maltese Law	Maltese Law	Maltese Law
	Regulatory treatment				
4	Transitional CRR rules	Tier 1	Tier 1	Tier 2	Tier 2
5	Post-transitional CRR rules	Tier 1	Tier 1	Tier 2	Tier 2
6	Eligible at solo/(sub-) consolidated/solo & (sub-) consolidated	Solo & (Sub) Consolidated	Solo & (Sub) Consolidated	Solo & (Sub) Consolidated	Solo & (Sub) Consolidated
7	Instrument type	Tier 1 as published in Regulation (EU) No 575/2013 articles 26 and 28	Tier 1 as published in Regulation (EU) No 575/2013 articles 26 and 28	Tier 2 as published in Regulation (EU) No 575/2013 article 63	Tier 2 as published in Regulation (EU) No 575/2013 article 63
8	Amount recognised in regulatory capital	EUR55.7 million	EUR13.8 million	EU13.9 million	EUR1 million
9	Nominal amount of instrument	EUR55.7 million	EUR13.8 million	EUR18.7 million	EUR1.2 million
9a	Issue price	EUR1 per share	EUR0.335 per share	EUR100 per EUR Bond	GBP100 per GBP Bond
9b	Redemption price	N/A	N/A	EUR100 per EUR Bond	GBP100 per GBP Bond
10	Accounting classification	Share capital	Share premium	Liability - amortised cost	Liability - amortised cost
11	Original date of issuance	10 June 2004	10 June 2004	27 October 2017 (Note 1)	27 October 2017 (Note 1)
12	Perpetual or dated	Perpetual	Perpetual	Dated	Dated
13	Original maturity date	N/A	N/A	13 October 2027	13 October 2027
14	Issuer call subject to prior supervisory approval	No	No	N/A (Note 2)	N/A (Note 2)
15	Optional call date, contingent call dates, and redemption amount	No	No	N/A (Note 2)	N/A (Note 2)
16	Subsequent call dates, if Applicable	No	No	N/A (Note 2)	N/A (Note 2)
	Coupons/dividends				
17	Fixed or floating dividend/coupon	Floating	N/A	Fixed	Fixed
18	Coupon rate and any related Index	N/A	N/A	5% per annum	5% per annum
19	Existence of a dividend stopper	No	No	No	No
20 a	Fully discretionary, partially discretionary or mandatory - in terms of timing	Fully discretionary	N/A	Mandatory	Mandatory
20 b	Fully discretionary, partially discretionary or mandatory - in terms of amount	Fully discretionary	N/A	Mandatory	Mandatory
21	Existence of step up or other incentive to redeem	N/A	N/A	No	No
22	Noncumulative or cumulative	Non-cumulative	Non-cumulative	Cumulative	Cumulative
23	Convertible or non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible
30	Write-down features	No	No	No	No
35	Position in subordination hierarchy in liquidation	Subordinated to MeDirect Bank Malta plc subordinated bonds	Subordinated to MeDirect Bank Malta plc subordinated bonds	Subordinated to senior creditors and depositors	Subordinated to senior creditors and depositors
	Non-compliant transitioned features	No	No	No	No

Note (1): The subordinated loan capital in Tier 2 capital represents the subordinated unsecured bonds of MDB Group Limited. They are included as part of Tier II Capital as they fully qualify for the provisions listed under CRR (575/2013) Part Two, Title 1, Chapter 4, Article 63. Specifically they rank after the claim of all other creditors and are not to be repaid until all other debts outstanding at the time have been settled. As at 31 December 2020 the subordinated bonds listed above had a remaining maturity of more than 5 years and had all been fully paid up. These securities are included in the Group's Own Funds figure following a haircut in accordance with article 87 under CRR (575/2013) equivalent to €5 million.

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

Capital instruments' main features

	Instruments	MeDirect Bank (Malta) plc 4% Subordinated Unsecured Bonds EUR 2029	MeDirect Bank (Malta) plc 4% Subordinated Unsecured Bonds GBP 2029
1	Issuer	MeDirect Bank (Malta) plc	MeDirect Bank (Malta) plc
2	Unique identifier	MT0000551300	MT0000551318
3	Governing law(s) of the instrument	Maltese Law	Maltese Law
	Regulatory treatment		
4	Transitional CRR rules	Tier 2	Tier 2
5	Post-transitional CRR rules	Tier 2	Tier 2
6	Eligible at solo/(sub-)consolidated/solo & (sub-)consolidated	Solo & (Sub) Consolidated	Solo & (Sub) Consolidated
7	Instrument type	Tier 2 as published in Regulation (EU) No 575/2013 article 63	Tier 2 as published in Regulation (EU) No 575/2013 article 63
8	Amount recognised in regulatory capital	EUR24 million	EUR2 million
9	Nominal amount of instrument	EUR32.2 million	EUR2.8 million
9a	Issue price	EUR1,000 per EUR Bond	GBP1,000 per GBP Bond
9b	Redemption price	EUR1,000 per EUR Bond	GBP1,000 per GBP Bond
10	Accounting classification	Liability - amortised cost	Liability - amortised cost
11	Original date of issuance	5 November 2019 (Note 1)	5 November 2019 (Note 1)
12	Perpetual or dated	Dated	Dated
13	Original maturity date	5 November 2029	5 November 2029
14	Issuer call subject to prior supervisory approval	N/A (Note 2)	N/A (Note 2)
15	Optional call date, contingent call dates, and redemption Amount	N/A (Note 2)	N/A (Note 2)
16	Subsequent call dates, if applicable	N/A (Note 2)	N/A (Note 2)
	Coupons / dividends		
17	Fixed or floating dividend/coupon	Fixed	Fixed
18	Coupon rate and any related index	4% per annum	4% per annum
19	Existence of a dividend stopper	No	No
20a	Fully discretionary, partially discretionary or mandatory - in terms of timing	Mandatory	Mandatory
20b	Fully discretionary, partially discretionary or mandatory - in terms of amount	Mandatory	Mandatory
21	Existence of step up or other incentive to redeem	No	No
22	Noncumulative or cumulative	Cumulative	Cumulative
23	Convertible or non-convertible	Non-convertible	Non-convertible
30	Write-down features	No	No
35	Position in subordination hierarchy in liquidation	Subordinated to senior creditors and depositors	Subordinated to senior creditors and depositors
	Non-compliant transitioned features	No	No

Note (1): The subordinated loan capital in Tier 2 capital represents the subordinated unsecured bonds of MDB Group Limited. They are included as part of Tier II Capital as they fully qualify for the provisions listed under CRR (575/2013) Part Two, Title 1, Chapter 4, Article 63. Specifically they rank after the claim of all other creditors and are not to be repaid until all other debts outstanding at the time have been settled. As at 31 December 2020 the subordinated bonds listed above had a remaining maturity of more than 5 years and had all been fully paid up. These securities are included in the Group's Own Funds figure following a haircut in accordance with article 87 under CRR (575/2013) equivalent to €8.7 million.

Note (2): Redemption of the subordinated loan capital shall take place on 5 November 2029, provided that in the event that a Regulatory Change Event occurs, the Group shall at its sole discretion but subject to the prior approval of the JST, have the option to redeem the subordinated loan capital in full prior to the scheduled redemption date.

10 Capital requirements

Capital requirements represent the amount of capital resources that a bank must hold as required by the regulator. In line with CRR, the Group is placing much of its emphasis and monitoring on Common Equity Tier 1 capital.

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

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

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

- Counterparty credit risk – The Group adopted the mark-to-market method in order to determine the potential future credit exposure, in line with Article 274 of the CRR, primarily on its derivative exposures. The group also applies Article 310 of the CRR in terms of its various exposures to a qualifying central counterparty.

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

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

The following table provides an overview of the total RWA and the capital requirement for credit risk split by the different exposure classes as well as capital for operational risk, foreign exchange risk and credit valuation adjustment risk. No capital is allocated for market risk as the Group does not operate a trading book. Moreover, the capital allocated to settlement risk and commodities risk is nought. The exposure value is equal to the total on-balance sheet and off-balance sheet net of value adjustments and provisions and post CCF. The most significant changes between the two periods were due to a decrease in RWA in the international lending portfolio.

EU OV1: Overview of RWAs **Exposure Class**	**31 December 2020 Risk weighted assets €000**	**30 September 2020 Risk weighted assets €000**	**31 December 2020 Minimum Capital Requirements €000**
1 Credit risk (excluding CCR)	**1,449,662**	**1,573,543**	**115,973**
2 of which the standardised approach	**1,449,662**	**1,573,543**	**115,973**
Central governments or central banks	21,689	37,403	1,735
Public sector entities	4,035	4,030	323
Institutions	41,267	30,199	3,301
Corporates	892,323	1,046,691	71,386
Retail	67,660	51,609	5,413
Secured by mortgages on immovable property	55,937	52,089	4,475
Exposures in default	215,384	213,070	17,231
Items associated with particular high risk	65,513	55,805	5,241
Covered bonds	48,190	51,521	3,855
Other items	37,664	31,126	3,013
6 CCR	**12,188**	**22,845**	**975**
7 of which mark to market	11,377	20,800	910
12 of which CVA	811	2,045	65
14 Securitisation exposures in the banking book (after the cap)	**61,250**	**61,250**	**4,900**
18 of which standardised approach	61,250	61,250	4,900
23 Operational risk	**119,442**	**132,038**	**9,555**
24 of which the basic indicator approach	119,442	132,038	9,555
27 Amounts below the thresholds for Deduction (subject to 250% risk weight)	35,921	37,403	2,874
29 Total	**1,642,542**	**1,789,676**	**131,403**

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

Own funds	**€000**
Common Equity Tier 1 capital	243,718
Tier 2 capital	40,905
Total own funds	**284,623**
Total capital ratio	**17.33%**

In respect of the Group, BR 15: *"Capital Buffers of Credit Institutions authorised under the Maltese Banking Act (Cap. 371)"*, requires additional buffers, namely the 'capital conservation buffer', the 'countercyclical buffer', 'other systemically important institutions (O-SII) buffer' and the 'systemic risk buffer'. Automatic restrictions on capital distributions apply if the Group's CET1 capital falls below the level of its CRD IV combined buffer.

The Group is required to maintain a capital conservation buffer of 2.5%, made up of CET1 capital, on its risk weighted exposures.

CRD IV also contemplates a countercyclical buffer in line with Basel III, in the form of an institution-specific countercyclical buffer and the application of increased requirements to address macro-prudential or systemic risk. This is expected to be set in the range of 0 - 2.5% of relevant credit exposure RWAs, whereby the rate shall consist of the weighted average of the 'countercyclical buffer' rates that apply in the jurisdiction where the relevant exposures are located. The following table represents the Group's geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer at 31 December 2020.

Table 1: Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer

	General credit exposures	Securitisation exposures	Own funds requirement			Own funds requirement weights	Counter-cyclical capital buffer rate
Country	*Exposure value for SA* **€000**	*Exposure value for SA* **€000**	*of which: General credit exposures* **€000**	*of which: securitisation exposures* **€000**	*Total* **€000**	**%**	**%**
Austria	77,916	1,655	623	20	643	0.56%	0.00%
Australia	13,846	1,060	1,108	13	1,120	0.98%	0.00%
Belgium	12,423	3,705	994	58	1,052	0.92%	0.00%
Bulgaria	-	95	-	8	8	0.01%	0.50%
Canada	-	1,279	-	15	15	0.01%	0.00%
Czech Republic	-	666	-	8	8	0.01%	0.50%
Denmark	51,981	4,845	1,294	70	1,364	1.19%	0.00%
Finland	15,803	2,185	126	26	153	0.13%	0.00%
France	255,204	59,711	16,144	1,015	17,159	14.95%	0.00%
Germany	187,789	33,808	10,142	491	10,633	9.26%	0.00%
Ireland	1	3,707	-	52	52	0.05%	0.00%
Israel	12,668	351	1,013	4	1,018	0.89%	0.00%
Italy	152,470	10,803	11,605	195	11,799	10.28%	0.00%
Japan	-	226	-	3	3	0.00%	0.00%
Lithuania	-	71	-	4	4	0.00%	0.00%
Luxembourg	26,171	15,331	1,181	218	1,399	1.22%	0.25%
Malta	129,504	1,686	11,165	26	11,191	9.75%	0.00%
Netherlands	1,270,422	32,293	12,843	462	13,304	11.59%	0.00%
Norway	26,550	3,701	212	56	269	0.23%	1.00%
Poland	8,252	-	66	-	66	0.06%	0.00%
Portugal	-	721	-	22	22	0.02%	0.00%
Russian Federation	45	-	1	-	1	0.00%	0.00%
Singapore	-	618	-	7	7	0.01%	0.00%
Slovenia	-	157	-	2	2	0.00%	0.00%
Spain	41,221	17,554	2,244	289	2,522	2.21%	0.00%
Sweden	84,567	8,850	3,806	173	3,979	3.47%	0.00%
Switzerland	-	3,395	-	43	43	0.04%	0.00%
United Kingdom	258,761	42,726	18,377	729	19,106	16.64%	0.00%
United States	205,870	42,587	16,953	891	17,843	15.54%	0.00%
Total	**2,831,464**	**293,786**	**109,897**	**4,900**	**114,797**		

In view of the above exposure values, the following table identifies the Group's countercyclical capital buffer requirement.

Table 2: Amount of institution-specific countercyclical capital buffer

	As at 31 December 2020
Total risk exposure amount (€000)	1,642,542
Institution specific countercyclical buffer rate (%)	0.01%
Institution specific countercyclical buffer requirement (€000)	90

Given the Group's position and its systemic relevance to the financial system in Malta, the Group is also required to maintain an Other Systemically Important Institution ("O-SII") buffer also made up of CET1 capital. This buffer is also institution specific and may be set at a maximum of 2% of a systemically important institution's total risk exposure amount.

The Group's O-SII buffer has been set at 0.5%. In addition to the measures above, CRD IV sets out a 'systemic risk buffer' for the financial sector as a whole, or one or more sub-sectors, to be deployed as necessary by each EU member state with a view to mitigate structural macro-prudential risk. The 'systemic risk buffer' may range between 0% and 5%. As per Decision letter communicated during February 2021, the Group will be subject to a buffer rate of 1% which will be phased in over the four-year period between 2022 and 2025 .

Moreover, in light of the fact that the Group is supervised by the ECB as part of the Single Supervisory Mechanism, MDB Group is subject to the Supervisory Review and Evaluation Process ("SREP"), which determines the capital requirement by the ECB.

MDB Group is required to meet a total SREP capital requirement ("TSCR") of 11% on a consolidated level. The TSCR of 11% is composed of a minimum own funds requirement of 8% to be maintained at all times in accordance with Article 92(1) of the CRR, and an own funds requirement of 3% required to be held in excess of the minimum own funds requirement and to be maintained at all times. In view of the current COVID-19 pandemic, on the 12 March, the ECB announced that as part of the extraordinary measures banks are allowed to partially use capital instruments that do not qualify as CET1, to meet the P2R. This brings forward a measure which was initially scheduled to come into effect in January 2021 as part of the revision of the Capital Requirements Directive, implying that institutions shall meet the additional own funds requirements imposed by the ECB with own funds that satisfy the following conditions: i) at least 75% shall be met with Tier 1 capital; and ii) at least 56.25% with CET1 capital. The Group is also subject to the Overall Capital Requirement (OCR), in addition to TSCR, which includes the Combined Buffer Requirement..

The 2020 SREP decision also included a Pillar II Guidance (P2G) in addition to the OCR. The ECB has stated that it expects banks to meet the Pillar 2 guidance although it is not legally binding, and failure to meet the Pillar 2 guidance does not lead to automatic restrictions of capital distributions.

Moreover, the Group is required to hold a countercyclical buffer of 0.01% as at 31 December 2020. In light of the COVID-19 developments during 2020, most of the countries, including United Kingdom, France, Norway and Sweden have announced the full release of the countercyclical capital buffers in a bid to encourage lending throughout the coronavirus crisis. As at 31 December 2020, Norway had set a countercyclical buffer rate of 1%, Luxembourg had set a rate of 0.25%, while both Bulgaria and Czech Republic had a rate of 0.50%. The rest of the countries had set the rates at 0%.

11 Securitisation

The CRR defines a securitisation as a transaction or scheme where the credit risk of an exposure or pool of exposures is tranched, where the payments arising from the transaction or scheme are dependent upon the performance of the underlying exposure(s) and where the subordination of tranches determines the distribution of losses during the ongoing life of the transaction or scheme.

In view of the Group's projected exposure to the total variability of the returns of its structured entity (Grand Harbour CLO 2019-1 Designated Activity Company ("GH1 2019")), taking into account its maximum exposure as a collateral manager (i.e. incorporating all cash flows, including management and incentive fees) and its exposure to variability of returns from the 5% vertical slice of the structured notes, a significant share of the exposure to variable returns was transferred to other tranche holders and therefore the Group does not consolidate the structured entity. The Group also invests in in CLO transactions managed by third-party entities which together with the structured notes referred to above constitute the Group's Securitisation Investments portfolio.

From a regulatory point of view the investment in securitisations is risk weighted by looking through to the underlying assets of the securitisation structure. As per standardised approach the Bank uses ratings from three External Credit Assessment Institutions, Moody's, Standard & Poor's and Fitch.

The Securitisation Standardised Approach (SEC-SA) is used to calculate all of the risk-weighted exposure amounts and none of the securitisation positions of the Group are deducted from Own Funds or risk weighted at 1250%.

Monitoring of securitisation exposures

Monitoring of investment in tranches within a Collateralised Loan Obligation Structured Entity ("CLO SE") originated and managed by the Group

An oversight forum has been constituted that consist of the Group CRO, the Head of Corporate Credit, the Head of Treasury and the Senior Credit Risk Managers to monitor the investment in tranches of Grand Harbour CLO 2019-1 . This oversight forum meets every month to review the latest monthly reports issued by the Grand Harbour CLO 2019-1 administration managers. The Oversight Forum members assess and discuss the key collateral ratios, noting which test have 'passed' or 'failed' the required thresholds. The ratios will also be assessed against general CLO quality benchmarks. The members of this forum also review and discuss the monthly asset purchases and sales, and review the proportion and composition of credits that fall in the CCC/Caa or below bucket. They would then determine if there are any follow-up questions that need to be raised with the collateral manager.

Monitoring of 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

AAA CLO risks are monitored on an ongoing basis and in a timely manner, including performance information, exposures type, the percentage of loans at each rating level in particular proportion of CCC assets, default rates, prepayment rates, collateral quality tests (such as WARF and Diversity Score), portfolio profile tests and coverage tests.

On a monthly basis the Group monitors market prices provided by the arranger banks. Also on a quarterly basis as part of risk weight calculation the Treasury team obtains from the Moody's structured finance portal the default percentage as well as the attachment and detachment points. Furthermore, bi-annually as part of the credit review, the AAA CLO portfolio is reviewed. In order to further strengthen risk monitoring as from May 2021 monthly risk threshold metrics will be distributed by the Treasury team to the Risk team and also distributed in the monthly risk report to senior management.

Finally for all securitisation exposures, the CLO manager of each securitisation position would appoint a third party trustee that would provide a compliance report on a monthly basis. This would consist of a very comprehensive report on the underlying portfolio of the securitisation including compliance tests (e.g. par value tests, interest coverage tests and collateral quality tests) , portfolio profile, list of all invested names, list of all trades and concentrations (e.g. by credit ratings. by industry and by distribution of countries).

Accounting Treatment and Policies:

The Group determines classification and measurement of financial assets based on the an assessment of both the business model within the which the financial assets are held as well as through a review of the contractual terms of each financial asset to determine if cash flows are solely payments of principal and interest (SPPI) as per IFRS 9. 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. 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 types of investments are classified under the Securitisation Investment portfolio.

On disposal of any investments under the Securitisation Investment portfolio, the difference between the net disposal proceeds and the carrying amount is charged or credited to profit or loss.

As at 31 December 2020, the Group's Securitisation Investment portfolio comprises the investment in GH1-2019 structured note tranches, amounting to €19.9 million, as well as CLO transactions managed by third-party entities, amounting to €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 nine different CLOs, 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 €19 thousand for the Group.

The Group's investment in the equity tranche of GH1-2019, amounting to €1.4 million as at 31 December 2020, is measured at FVTPL and accordingly is not subject to impairment in accordance with IFRS 9.

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 Corporate Credit and Treasury portfolio, 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 an SICR assessment for such tranches unless their Implied Rating falls to sub-investment grade.

The Group does not provide support, directly or indirectly, with a view to reducing potential or actual losses to the investors of GH1-2019 securitisation, beyond its contractual obligations.

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 Portfolio criteria, investment grade rating is an example of a financial instrument that may be considered as having low credit risk; therefore the Group only needs to measure 12-month ECL for publicly rated investment grade tranches of CLOs.

The Group conducts a semi-annual portfolio review for all third party CLO bonds. The Group only invests in AAA CLO rated bonds and thus High quality assets (HQA) with pricing monitored monthly together with ratings. The group uses the Moody's Structured Finance portal to extract all the relevant monitoring data, such as underlying loans as well as information on defaults, in order to work out the risk weighting and consequently closely monitor for any changes. As part of the ICAAP process, the portfolio is stress tested with price haircuts and risk weights increasing as stress scenario would assume increased defaults in the underlying loan book. Risk appetite for investment in the senior tranches of CLOs managed by 3rd parties is expressed through a number of limits and indicators.

During the year under review the Group disposed of one CLO transaction with an outstanding amount of €10million managed by a third-party entity, realising a loss on disposal of €1.096million. None were sold during the previous period ending December 2019.

The following table shows the losses recognised and whether any of the securitisations owned by the Group are credit impaired:

Table 1: Losses and credit impairment recognised on securitisations:

As at 31 December 2020	**IFRS 9 Stage**	**Exposure Value €000**	**IFRS 9 ECL €000**
Bank acts as originator	Stage 1	15,301	-
Bank acts as originator	Stage 1	3,809	3
Bank acts as originator	Stage 2	391	121
Bank acts as investor	Stage 1	274,285	27
Total		293,786	151

None of the above exposures are past due.

The following tables provide an analysis of the securitisation exposures by looking through to the underlying exposures.

SEC 1: Securitisation exposures in the banking book

	As at 31 December 2020	**Bank acts as investor Traditional €000**	**Bank acts as originator Traditional €000**
6	Wholesale (total) – of which	**274,285**	**19,501**
7	Loans to corporates	**-**	**-**
	- of which:		
	securitisations under the new framework	***274,285***	***19,501***
	securitisations under the pre-existing framework	***-***	***-***

SEC 3: Securitisation exposures in the banking book and associated capital requirements
Bank acting as originator

		Exposure values (by RW bands)				Exposure values	RWA	Capital charge
		≤20% RW	>20% to 50% RW	>50% to 100% RW	>100% to <250% RW	Standardised approach	Standardised approach	Standardised approach
	As at 31 December 2020	€000	€000	€000	€000	€000	€000	€000
1	**Total exposures**	**-**	**-**	**-**	**19,501**	**19,501**	**20,108**	**1,609**
2	Traditional securitisation	-	-	-	19,501	19,501	20,108	1,609
3	Of which securitisation	-	-	-	19,501	19,501	20,108	1,609
5	Of which wholesale	-	-	-	19,501	19,501	20,108	1,609

SEC 4: Securitisation exposures in the banking book and associated capital requirements
Bank acting as an investor

		Exposure values (by RW bands)				Exposure values	RWA	Capital charge
		≤20% RW	>20% to 50% RW	>50% to 100% RW	>100% to <250% RW	Standardised approach	Standardised approach	Standardised approach
	As at 31 December 2020	€000	€000	€000	€000	€000	€000	€000
1	**Total exposures**	**274,285**	**-**	**-**	**-**	**274,285**	**41,143**	**3,291**
2	Traditional securitisation	274,285	-	-	-	274,285	41,143	3,291
3	Of which securitisation	274,285	-	-	-	274,285	41,143	3,291
5	Of which wholesale	274,285	-	-	-	274,285	41,143	3,291

SEC 5: Exposures securitised by the institution - Exposures in default and specific credit risk adjustments

		Exposures securitised by the institution - Institution acts as originator		
		Total outstanding nominal amount	Of which Defaulted	Total amount of specific credit risk adjustments made during the period
		€000	€000	€000
1	**Total exposures**	**19,501**	**-**	**124**
7	Wholesale (total) – of which	19,501	-	124
8	*Loans to corporates*	*19,501*	-	*124*

12 Leverage

The CRR requires financial institutions to calculate a non-risk based leverage ratio, to supplement risk-based capital requirements. The leverage ratio measures the relationship between the capital resources of the organisation and its total assets. The leverage ratio is a regulatory supervisory tool for the Regulator, to constrain the build-up of excessive leverage – one of the drivers of the banking crisis – previously not captured within Basel II. As at 31 December 2020, the leverage ratio was a non-binding requirement (Pillar 1) measure.

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

The CRD V package will introduce a binding 3% leverage ratio. CRR 2 broadly reflects the Basel leverage ratio. It sets the Tier 1 capital-based leverage ratio requirement at 3% for all EU banks as per the EBA's recommendation. The final framework confirms that firms are allowed to use any Common Equity Tier 1 (CET1) capital that they use to meet their leverage ratio requirements to also meet their Pillar 1 and Pillar 2 capital requirements.

The following table provides a summary of the Group's leverage ratio calculation as at 31 December 2020, determined in accordance with the requirements stipulated by Implementing Regulation (EU) 2016/200.

Compared to the ratio as the end of the prior financial year, the leverage ratio has decreased by 3.08% during the financial year ended 31 December 2020. This decrease is partly attributed to a lower capital base as compared to the prior year, and partly due to a higher asset base as a result of continued investment in the Dutch Mortgage portfolio and increased balances with Central Banks as well higher amounts due from other financial institutions. The total increase in the asset base was partly set off by a large reduction in investment in international lending, thus the main drivers for the overall change was the diversification and re-balancing of the credit portfolio which had an indirect impact on the leverage ratio, together with the decreased capital base which was a result of recognition of higher COVID-related impairment at the end of the financial year.

LRCom: Leverage ratio common disclosure

		€000
	On-balance sheet exposures (excluding derivatives and SFTs)	
1	On-balance sheet items (excluding derivatives and SFTs)	3,998,623
2	Asset amounts deducted in determining Tier 1 capital	(6,914)
3	**Total on-balance sheet exposures (excluding derivatives and SFTs)**	**3,991,710**
	Derivative exposures	
4	Replacement cost associated with all derivatives transactions	1,666
5	Add-on amounts for PFE associated with all derivatives transactions	2,463
11	**Total derivative exposures**	**4,129**
	SFT exposures	
14	Counterparty credit risk exposure for SFT assets	28,281
16	**Total SFT exposures**	28,281
	Other off-balance sheet exposures	
17	Off-balance sheet exposures at gross notional amount	748,692
18	Adjustments for conversion to credit equivalent amounts	(493,616)
19	**Other off-balance sheet exposures**	**255,077**
	Capital and total exposure measure	
20	**Tier 1 capital**	**243,718**
21	**Leverage ratio total exposure measure (sum of lines 3,11 and 19)**	4,279,196
	Leverage ratio	
22	**Leverage ratio**	**5.7%**

EU23 - Choice on transitional arrangements for the definition of the capital measure

In line with Article 499 (2) of the CRR and Article 1, EU 2016/200. the disclosed leverage ratio was calculated using the transitional definition (i.e. including IFRS 9 adjustments to Tier 1 capital and risk-weighted assets) and represents the end-of-quarter leverage ratio.

The disclosed leverage ratio was calculated using the transitional definition and represents the end-of-quarter leverage ratio.

The following table provides a reconciliation of accounting assets and leverage ratio exposures.

Also, in terms of Regulation (EU) 2020/873, the Group has opted not to apply the transitional arrangements introduced to mitigate the impact COVID-19 pandemic, by allowing the exclusion of certain exposures to central banks from the total exposure measure.

LRSum: Summary reconciliation of accounting assets and leverage ratio exposures

	As at 31 December 2020	**€000**
1	Total assets as per published financial statements	4,041,550
4	Adjustments for derivative instruments	30,744
6	Adjustment for off-balance sheet items	255,077
7	Other adjustments:	
	Deduction on deferred tax assets	-
	Deductions from Tier 1 Capital	*(6,914)*
	Other adjustments	*(41,261)*
8	**Leverage ratio exposure**	**4,279,196**

The following table provides a split of the on-balance sheet exposures as at 31 December 2020 in relation to the calculation of the leverage ratio.

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

		€000
EU-1	**Total on-balance sheet exposures (excluding derivatives, SFTs and exempted exposures)**	**3,998,623**
EU-2	Trading book exposures	-
EU-3	Banking book exposures, of which:	3,998,623
EU-4	*Covered bonds*	*478,374*
EU-5	*Exposures treated as sovereign*	*522,144*
EU-6	*Exposures to regional government, MDB, international organisations and PSE not treated as sovereigns*	*305,988*
EU-7	*Institutions*	*320,890*
EU-8	*Secured by mortgages of immovable properties*	*973,754*
EU-9	*Retail exposures*	*120,587*
EU-10	*Corporate*	*726,876*
EU-11	*Exposures in default*	*159,862*
EU-12	*Other exposures*	*390,148*

LRQua: Leverage ratio disclosure of qualitative items

The leverage ratio as at 31 December 2020 is 47 bps lower when compared to the ratio as at the end of September 2020. This decrease is partly attributed to a lower capital base, and partly due to a higher asset base as a result of continued investment in the Dutch Mortgage portfolio and higher amounts due from other financial institutions. The total increase in the asset base was partly set off by lower investments international lending. The main drivers for the overall change were therefore the diversification and re-balancing of the credit portfolio which had an indirect impact on the leverage ratio, and a reduced capital base due to higher COVID-related impairment charges recognised at the end of the financial year.

The Group's leverage is managed as part of its risk appetite framework and monitored using a leverage ratio metric within the risk appetite statement set by the Group. The risk appetite statement stipulates the level and types of risk that the Group is willing to accept in its business activities, whereby the risk appetite metrics are set at twice the regulatory minimums to avoid excessive leverage. The leverage ratio is reported to the Group's Board and ExCo on a regular basis.

13 Asset encumbrance

The disclosure on asset encumbrance is a requirement introduced in BR 07 transposing the provisions of the EBA *'Guidelines on disclosure of encumbered and unencumbered assets'* (EBA/GL/2014/03).

The objective of this disclosure is to facilitate an understanding of available and unrestricted assets that could be used to support potential future funding and collateral needs. An asset is defined as encumbered if it has been pledged as collateral against an existing liability, and as a result is no longer available to the group to secure funding, satisfy collateral needs or be sold to reduce the funding requirement.

The disclosure is not designed to identify assets which would be available to meet the claims of creditors or to predict assets that would be available to creditors in the event of a resolution or bankruptcy.

As stated in paragraph 24 of the EBA *'Guidelines on materiality, proprietary and confidentiality and on disclosure frequency under Articles 432(1), 432(2) and 433 of Regulation (EU) No 575/2013'*, "institutions should provide additional interim information to those listed in paragraph 23 when the result of their assessment for the need to provide disclosures in Part Eight of Regulation (EU) No 575/2013 more frequently than annually shows that this additional information is necessary to convey their comprehensive risk profile to market participants".

In this respect, the Group believes that an analysis of asset encumbrance is critical to assess the ability of the Group to handle funding stress, and its ability to switch from unsecured to secured funding under stressed conditions. Thus, the following disclosures on asset encumbrance below have been prepared as part of this Pillar 3 disclosures report.

Template A: Encumbered and Unencumbered Assets

		Carrying amount of encumbered assets 2020 €000	of which notionally eligible EQLA & HQLA 2020 €000	Fair value of encumbered assets 2020 €000	of which notionally eligible EQLA & HQLA 2020 €000
010	Assets of the reporting institution[14]	**1,251,421**	**610,793**		
030	Equity instruments	-	-	-	-
040	Debt securities	725,960	610,793	745,280	649,552
050	*of which: covered bonds*	*399,624*	*399,624*	*396,882*	*396,882*
060	*of which: asset backed securities*	*109,408*	-	*108,782*	-
070	*of which: issued by general governments*	*132,444*	*132,444*	*131,648*	*131,648*
080	*of which: issued by financial corporations*	*587,756*	*470,445*	*582,043*	*467,534*
090	*of which: issued by non-financial corporations*	-	-	-	-
120	Other assets	525,461	-		
121	*of which: Loans on demand*	*59,022*	-		
121	*of which: Loans and advances other than loans on demand*	*443,659*	-		

		Carrying amount of unencumbered assets 2020 €000	of which EQLA & HQLA 2020 €000	Fair value of encumbered assets 2020 €000	of which EQLA & HQLA 2020 €000
010	Assets of the reporting institution[15]	**2,654,649**	**445,591**		
030	Equity instruments	2,361	-	-	-
040	Debt securities	445,591	445,591	422,833	240,863
050	*of which: covered bonds*	*102,677*	*102,677*	*101,578*	*101,578*
060	*of which: asset backed securities*	*184,629*	-	*157,675*	-
070	*of which: issued by general governments*	*107,101*	*107,101*	*106,495*	*106,495*
080	*of which: issued by financial corporations*	*345,075*	*160,446*	*343,083*	*159,215*
090	*of which: issued by non-financial corporations*	*12,650*	-	*6,257*	*1*
120	Other assets	2,216,612	-		
121	*of which: Loans on demand*	*454,245*	-		
121	*of which: Loans and advances other than loans on demand*	*1,576,620*	-		

[14] The terminology “reporting institution” is referring to MDB Group Limited.
[15] The terminology “reporting institution” is referring to MDB Group Limited.

The amounts disclosed in the above table represent the median values, being the rolling quarterly medians over the previous twelve months, determined by interpolation, in accordance with the Commission Delegated Regulation (EU) 2017/2295, issued on 4 September 2017, supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards for disclosure of encumbered and unencumbered assets.

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

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

The Group continues to recognise encumbered assets since all the risks and rewards of the assets will be substantially retained in a manner that does not result in the encumbered assets being derecognised for accounting purposes. There are no differences between pledged and transferred assets in accordance with the applicable accounting frameworks and the encumbered assets presented in these disclosures.

Further details on encumbered assets, including information regarding the evolution of encumbrance throughout the financial period are available in note 2.3.5 to the MDB Group Limited Annual Report and financial statements for the financial period ended 31 December 2020.

The Group does not encumber any of its own debt securities issued, however may as necessary encumbered collateral received.

Template B – Collateral Received

		Fair value of encumbered collateral received or own debt securities issued		**Unencumbered**	
			of which notionally eligible EHQLA and HQLA	**Fair value of collateral received or own debt securities issued available for encumbrance**	***of which EHQLA and HQLA***
		€000	***€000***	**€000**	***€000***
130	**Collateral received by the reporting institution**	-	-	23,282	23,282
150	Equity instruments	-	-	-	-
160	Debt securities	-	-	23,282	23,282
190	*of which: issued by general governments*	-	-	23,282	23,282
200	*of which: issued by financial corporations*	-	-	-	-
230	Other collateral received	-	-	-	-
231	*of which: Immovable Property*	-	-	-	-
250	TOTAL ASSETS, COLLATERAL RECEIVED AND OWN DEBT SECURITIES ISSUED	1,251,421	-	-	-

Template C: Sources of Encumbrance

		Matching liabilities, contingent liabilities or securities lent 2020 €000	**Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered 2020 €000**
010	Carrying amount of selected financial liabilities	724,058	933,644
011	*of which:*		
020	*Derivatives*	9,289	55,165
040	*Repurchase agreements*	314,809	435,754
160	*Other Sources of encumbrance*	325,889	325,889
170	*Total sources of encumbrance*	1,041,834	1,251,421

14 Remuneration policy and practices

Information on remuneration policy and practices is disclosed in the Remuneration Report within the Annual Report.

The Group's remuneration policy was developed in conjunction with the Group's principal shareholder and the Nomination and Remuneration Committee of the Group. The Board of directors, management functions and the Nomination and Remuneration Committee of the Group worked closely to ensure that the remuneration policy is consistent with and promotes sound and effective risk management.

15 Recruitment and diversity policy statement

The Group recognises that a robust and professional approach to recruitment and selection helps it to attract and appoint individuals with the necessary skills and attributes to support its business goals. All prospective staff members are subject to a rigorous selection process, taking into account the key activities, tasks and skills required for the position. Multiple interviews are conducted, and the candidate's knowledge, experience, skills, temperament and competency are evaluated against other candidates.

The Group's aim is to develop an effective and efficient recruitment process that recruits the best talent, helps employees identify their potential, promotes a transparent, merit-based selection process and develops a cost effective recruitment process. The Group endeavours to ensure that all appointments (at any level) are made based on the actual knowledge, skills, expertise and merit of the individual involved, in compliance with local legislation and in adherence to the Group diversity policy.

The Group's diversity policy states that its objectives are to ensure that the Group:

- has a workforce profile that delivers competitive advantage through the ability to garner a deep understanding of customer needs;
- has an inclusive workplace where every individual can succeed regardless of gender, cultural identity, age, physical ability, religious beliefs, family status and sexual orientation; and
- leverages the value of diversity for all the Group's stakeholders to deliver the best customer experience, improved financial performance and a stronger corporate reputation.

To achieve these objectives the Group sets objectives for achieving diversity. The Board will:

- assess annually both the objectives and progress in achieving them;
- assess pay equity on an annual basis;
- encourage and support the application of diversity into practice across the business; and
- endeavour to provide employment opportunities for people with disabilities.

The Group's workforce includes nationals of 25 foreign countries (in relation to the location in which they are employed), and 40.3% of the Group's workforce is female.

With those goals in mind, the Group aims to promote equal opportunities for all employees and to ensure that they are treated fairly and consistently. All candidates are assessed against various selection criteria designed to match the requirements of the position to the skills and experience of an applicant, including professional qualifications and expertise, any past work experience in relation to the requirements of the job, key capabilities, adaptability and flexibility, cultural fit, open mindedness, level of self-motivation and proactivity. The Group is committed to attracting, developing and retaining diverse leaders. Diversity of thought provides tangible business benefits, including innovation, risk mitigation, better problem solving and improved customer service. To ensure that the Group can foster these talents in an inclusive culture, it continues to recruit and develop the best person for the job, regardless of gender, age, race, family or caring responsibilities, disability and sexual orientation, identity or preference.

The Group recognises and embraces the benefits of building a diverse and inclusive Board and sees diversity as an essential component in maintaining competitive advantage. A diverse Board will include and make good use of differences in the skills, industry experience, background, and other distinctions between Directors. The differences will be considered in determining the optimum composition of the Board and when possible should be balanced appropriately.

All Board appointments shall be made based on merit, in the context of the skills, experience, independence and knowledge which the Board as a whole requires to be effective.

The following were the changes in directorships during the financial year and after the end of the reporting period:

MDB Group Limited and MeDirect Bank (Malta) plc
During the financial year Mrs. Maria De Wachter was appointed as a director on 24 March 2020 and she resigned on 23 September 2020 as she was appointed as Chair of the Board of directors of MeDirect Belgium.

MeDirect Bank SA
As mentioned above as regards MeDirect Belgium, during the financial year Marcia de Wachter was appointed as Chair of the Board replacing Yves Dermaux who resigned on the 25th August 2020. The mandate of Henry Schmeltzer also came to an end during the financial year.

Timothy Rooney was appointed as CEO and executive director on the 14th July 2020. Franca Vossen joined the MeDirect Belgium board as an independent non-executive director, effective on 14th July 2020. A new Head of Operational & IT Risk joined MeDirect Belgium in September 2020, and oversees Group and Belgium related operational and IT risk deliverables and responsibilities. In January 2021 Bart Bronselaer also joined the MeDirect Belgium board as an independent non-executive director whereas Hasan Dajani resigned from the Board in March 2021.

For an overview of the directors and other key officers of the Group and MeDirect Belgium, their expertise, actual knowledge and skills, kindly refer to the following links:

https://www.MeDirect Malta.com.mt/about-us/our-team

https://www.medirect.be/about-medirect/our-team

16 Other directorships

The number of other directorships held by members of MeDirect Malta's Board as at 31 December 2020 (excluding the functions exercised in group companies, in personal patrimony/management companies, and in non-profit associations) are listed in the table below:

Director		Number of other directorships held
Michael Bussey	Independent Non-Executive Chairman	1 NED [16]
John Zarb	Independent Non-Executive Director	3 NED
Dominic Wallace	Non-Executive Director	-
Benjamin Hollowood	Non-Executive Director	2 NED[17]
Arnaud Denis	Executive Director	-
Radoslaw Ksiezopolski	Executive Director	-
Alex Konewko	Executive Director	-

[16] Directorship approved by the UK Prudential Regulation Authority and the Financial Conduct Authority.

[17] One of the directorships approved by the Polish Financial Supervision Authority

17 CRR References

CRR references	High-level summary	Compliance reference
Scope of disclosure requirements		
431 (1)	Requirement to publish Pillar 3 disclosures	MDB Group Limited "the Group" publishes Pillar 3 disclosures
431 (2)	Firms with permission to use specific operational risk methodologies must disclose operational risk information.	No specific permissions in respect of the calculation of specific operational risk granted to the Group.
431 (3)	Institution must have a policy covering frequency of disclosures, their verification, comprehensiveness and overall appropriateness.	The Group compiles the Additional Regulatory Disclosures in accordance with the requirements emanating from the CRR, BR07 and relevant EBA guidelines. Refer to Section 1.1 – Pillar 3 Disclosure Policy
431 (4)	Explanation of ratings decision upon request	N/A
Non-material, proprietary or confidential information		
432 (1)	Institutions may omit information that is not material if certain conditions are respected.	Certain immaterial information falling outside scope of the articles 437 and 450 has not been disclosed separately
432 (2)	Institutions may omit information that is proprietary or confidential if certain conditions are respected.	
432 (3)	Where 432 (1) and (2) apply this must be stated in the disclosures, and more general information must be disclosed.	No item required to be disclosed was purposely fully omitted.
432 (4)	Use of 432 (1) or (2) is without prejudice to scope of liability for failure to disclose material information	
Frequency of disclosure		
433	Disclosures must be published once a year at a minimum, and more frequently if necessary.	Compliance with this provision is covered by the Group's policy. Refer to Section 1 Introduction.
Means of disclosures		
434 (1)	To include of disclosures in one appropriate medium, or provide clear cross-references.	Most disclosures are contained within this document. Signposting directs the reader to the annual report where appropriate.
434 (2)	Disclosures made under other requirements (e.g. accounting) can be used to satisfy Pillar 3 if appropriate.	Any cross-references to accounting or other disclosures are clearly signposted in this document.

Risk management objectives and policies		
435 (1) (a); 435 (1) (b); 435 (1) (c) & 435 (1) (d)	Disclose information on strategies and processes; organisational structure, reporting systems and risk mitigation/hedging.	General information on risk management, objectives and policies: 2 Risk Management, objectives and policies
		Market Risk: 2 Risk Management, objectives and policies
		Reputational Risk: 2 Risk Management, objectives and policies
		Credit Risk: 4 Credit risk and credit risk mitigation ("CRM")
		Credit Valuation Adjustment ("CVA"): 4 Credit risk and credit risk mitigation ("CRM")
		Counterparty credit risk : 5 Counterparty credit risk
		Operational Risk : 8 Operational Risk
		Recruitment policy and Diversity policy: 15 Recruitment and Diversity Policy Statement
435 (1) (e)	Inclusion of a declaration approved by the Board on adequacy of risk management arrangements.	Refer to 2.3 Risk statement
435 (1) (f)	Concise risk statement approved by the management body succinctly describing the institution's overall risk profile associated with the business strategy	Refer to 2.1.2 Overview of the management of key risks and 2.1.3 Risk appetite. This statement covers the principal risks.
435 (2)	Information on governance arrangements:	See Section 2.1.9 Risk governance structure and 15 Recruitment and diversity policy Statement in this report for a description of the Risk Policies and Governance. See also Statement of Compliance with the principles of good corporate governance of the Annual Report which contains information on Board composition, experience and recruitment. See Section 16 for number of directorships held by the directors.
435 (2) (a)	Number of directorships	
435 (2) (b)	Recruitment policy	
435 (2) (c)	Policy on diversity with regard to selection of the management body, objectives and targets.	
435 (2) (d)	Disclosure of whether a dedicated risk committee is in place, and number of meetings in the year.	Please see 2.1.5 Risk Monitoring and 2.1.9 Reporting on Risk Governance and the Statement of Compliance with the principles of good corporate governance of the Annual Report
435 (2) (e)	Description of information flow on risk to Board.	Please see 2.1.5 Risk Monitoring and Reporting on Reporting to the Board and Board Risk Committee.
Scope of application		
436 (a)	Name of institution	Refer to Section 1 Introduction
436 (b)	Difference in basis of consolidation for accounting and prudential purposes, naming entities that are:	
436 (b) (i)	Fully consolidated;	
436 (b) (ii)	Proportionally consolidated;	
436 (b) (iii)	Deducted from own funds;	See 9.2 Own funds – other disclosures
436 (b) (iv)	Neither consolidated nor deducted.	N/A
436 (c)	Impediments to transfer of funds between parent and subsidiaries	See 9.2 Own funds – other disclosures
436 (d)	Capital shortfalls in any subsidiaries outside of scope of consolidation	No regulated entities fall outside the scope of consolidation of MDB Group Limited "Group"
436 (e)	if applicable, the circumstance of making use of the provisions laid down in Articles 7 and 9 on derogations from a) prudential requirements or b) liquidity requirements for individual subsidiaries/entities	Not applicable

Own funds		
437 (1)	Requirements regarding capital resources table :	
437 (1) (a)	Full reconciliation	See 9.2 Own funds – other disclosures
437 (1) (b)	Description of capital resources	See 9.1 Total available capital and 9.2 Own funds – other disclosures
437 (1) (c)	Full terms and conditions of all Common Equity Tier 1, Additional Tier 1 and Tier 2 instruments	
437(1) (d) (i)	disclosure of the nature and amounts for each prudential filter	
437(1)(d) (ii)	disclosure of the nature and amounts for each deduction made	See 9.2 Own funds – other disclosures
437(1)(d) (iii)	disclosure of the nature and amounts for items not deducted	See 9.2 Own funds – other disclosures
437 (1) (e)	description of all restrictions applied to the calculation of own funds	See 9.2 Own funds – other disclosures
437 (1) (f)	basis on which capital ratios are calculated	Regulation applied - Refer to sections 9.1 Total available capital
437 (2)	EBA to publish implementation standards for points above.	The Group follows the implementation standards.
Capital requirements		
438 (a)	Summary of institution's approach to assessing adequacy of capital levels.	Disclosure of approach on assessing adequacy capital requirements are contained in section 10 Capital requirements
438 (b)	Result of ICAAP on demand from authorities.	Refer to section 10 Capital requirements
438 (c)	Capital requirement amounts for credit risk for each Standardised Approach exposure class.	The Group uses the Standardised Approach - Refer to section 10 Capital requirements
438 (d)	Capital requirements amounts for credit risk for each Internal Ratings Based Approach exposure class.	N/A - IRB is not applied.
438 (d) (i)		
438 (d) (ii)		
438 (d) (iii)		
438 (d) (iv)		
438 (e)	Capital requirements amounts for market risk or settlement risk, or large exposures where they exceed limits.	N/A
438 (f)	Capital requirement amounts for operational risk, separately for the basic indicator approach, the standardised approach, and the advanced measurement approaches as applicable.	The Group uses the Standardised Approach - Refer to section 10 Capital requirements
Exposure to counterparty credit risk (CCR)		
439 (a)	Description of process to assign internal capital and credit limits to CCR exposures.	The Group manages its CCP mainly through margins. Refer to section 5 Counterparty credit risk (analysis of CCP Credit risk exposure)
439 (b)	Discussion of process to secure collateral and establishing reserves.	
439 (c)	Discussion of management of wrong-way exposures.	
439 (d)	Disclosure of collateral to be provided (outflows) in the event of a ratings downgrade.	
439 (e)	Derivation of net derivative credit exposure.	Refer to section 4.8 Credit risk mitigation
439 (f)	Exposure values for mark-to-market, original exposure, standardised and internal model methods.	The Group applies a Standardised method refer to section 5.1 Analysis of counterparty credit risk exposure
439 (g)	Notional value of credit derivative hedges and current credit exposure by type of exposure.	N/A – No credit derivative hedges in place throughout the period
439 (h)	Notional amounts of credit derivative transactions for own credit, intermediation, bought and sold, by product type.	
439 (i)	Estimate of alpha, if applicable.	
Capital buffers		
440 (1) (a)	Geographical distribution of relevant credit exposures.	Refer to section 10 Capital requirements on the Group's relevant CCyB by geographical distribution of credit exposures.
440 (1) (b)	Amount of the institution specific countercyclical capital buffer.	
440 (2)	EBA will issue technical implementation standards related to 440 (1)	The Group follows the implementation standards.
Indicators of global systemic importance		
441	Disclosure of the indicators of global systemic importance	N/A to the Group

Credit risk adjustments		
442 (a)	Disclosure of bank's definitions of past due and impaired.	Section 4.6 Impairment loss measurement guidelines provide a complete description of the Impairment loss measurement guidelines, definitions and approaches adopted.
442 (b)	Approaches for calculating credit risk adjustments.	
442 (c)	Disclosure of pre-CRM EAD by exposure class.	Refer to 4.1 – Credit risk exposure – analysis by exposure class
442 (d)	Disclosures of pre-CRM EAD by geography and exposure class.	Refer to 4.2 Credit risk exposure – analysis by geographical distribution
442 (e)	Disclosures of pre-CRM EAD by industry and exposure	Refer to 4.3 Credit risk exposure – analysis by industry distribution
442 (f)	Disclosures of pre-CRM EAD by residual maturity and	Refer to 4.4 Credit risk exposure – analysis by residual maturity
442 (g)	Breakdown by significant industry or CCP amount of:	Refer to section 4.6 Impairment loss measurement guidelines for an analysis of impaired and past due exposures and allowance for impairment by exposure type
442 (g) (i)	Impairment and past due exposures	
442 (g) (ii)	specific and general credit risk adjustments	
442 (g) (iii)	and impairment charges for the period, by exposure class or counterparty type.	
442 (h)	Impaired, past due exposures, by geographical area, and amounts of specific and general impairment for each geography.	Refer to Section 4.6 Impairment loss measurement guidelines
442 (i)	Reconciliation of changes in specific and general credit risk adjustments compromising of:	Refer to Section 4.6 Impairment loss measurement guidelines for an analysis of the Group's specific credit risk adjustments and to note 2.2.5 "Impaired financial assets and impairment allowance" to the Financial statements i.e. specific and collective impairment allowances.
442 (i) (i)	description of the type of specific and general credit risk adjustments	
442 (i) (ii)	the opening balances	
442 (i) (iii)	amounts taken against the credit risk adjustments during the reporting period	
442 (i) (iv)	any other adjustments including those determined by exchange rate differences, business combinations, acquisitions and disposals of subsidiaries, and transfers between credit risk adjustments	
442 (i) (v)	the closing balance	
442 endnote	Specific credit risk adjustments recorded to income statement are disclosed separately.	

Unencumbered assets		
443	Disclosures on unencumbered assets	Refer to Section 13 Asset encumbrance
Use of ECAIs		
444 (a)	Names of the ECAIs used in the calculation of Standardised Approach RWAs, and reasons for any changes	Refer to Section 6 External credit assessment institutions
444 (b)	Exposure classes associated with each ECAI	
444 (c)	Explanation of the process for translating external ratings into credit quality steps	
444 (d)	Mapping of external rating to credit quality steps	The Group compiles mapping of each nominated ECAI with the credit quality steps according to the standard association published by EBA.
444 (e)	Exposure value pre- and post-credit risk mitigation, by credit quality step.	Refer to Section 6 External credit assessment institutions
Exposure to market risk		
445	Disclosure of position risk, large exposures exceeding limits, FX, settlement and commodities risk.	N/A as the Group does not operate a trading book.
Operational risk		
446	Disclosure of the scope of approaches used to calculate operational risk, discussion of advanced methodology and external factors considered.	Refer to Section 8 Operational risk
Exposure in equities not included in the trading book		
447 (a)	Differentiation of exposures based on objectives	Refer to Section 4.11 Exposures in equities
447 (b)	Recorded and fair value, and actual prices of exchange investments traded equity where it differs from fair value.	
447 (c)	Types, nature and amounts of the relevant classes of equity exposures.	
447 (d)	Realised cumulative gains and losses on sales over the period.	
447 (e)	Total unrealised gains/losses, latent revaluation gains/losses, and amounts included within Tier 1 capital.	Refer to Section 4.11 Exposures in equities
Exposure to interest rate risk on positions not included in the trading book		
448 (a)	Nature of risk and key assumptions in measurement models.	See Section 7 Interest Rate Risk in Non-Trading Book for key assumptions and interest rate risk Reporting and Analysis
448 (b)	Variation in earnings or economic value, or other measures used by the bank from upward and downward shocks to interest rates, by currency.	
Exposure to securitisation positions		
449	Description of the institution's objectives in relation to securitisation activity	See Section 11 on securitisation exposures

Remuneration disclosures		
450 (1) (a)	information concerning the decision-making process used for determining the remuneration policy	Refer to "Remuneration policy statement" section in remuneration report.
450 (1) (b)	Information on link between pay and performance	
450 (1) (c)	Information on the criteria used for performance measurement	
450 (1) (d)	The ratios between fixed and variable remuneration	Refer to "Personnel expenses" note in financial statements
450 (1) (e)	Information on the performance criteria on which the entitlement to variable remuneration is based.	Refer to "Remuneration policy statement" section in remuneration report.
450 (1) (f)	The main parameters and rationale for any variable component scheme and any other non-cash benefits	
450 (1) (g)	Aggregate quantitative information on remuneration, broken down by business area	Refer to "Material Risk Takers" section in remuneration report.
450 (1) (h)	Aggregate quantitative information on remuneration, broke down by senior management and members of staff whose actions have a material impact	
450 (1) (i)	The number of individuals being remunerated EUR 1 million	Refer to "Remuneration policy statement" section in remuneration report.
450 (1) (j)	Upon demand from the Member State or competent authority, the total remuneration for each member of the management body or senior management	Not applicable
450 (2)	Quantitative information at the level of members of the management body of the institution.	Refer to "Remuneration – Directors" section in remuneration report.
Leverage		
451 (1) (a)	The Leverage ratio and its application	Refer to Section 12 Leverage
451 (1) (b)	Leverage ratio breakdown of total exposure measure, including reconciliation to financial statements	
451 (1) (c)	Where applicable derecognised fiduciary items amount	
451 (1) (d)	Description of the risk management approach to mitigate excessive leverage, and factors that impacted the leverage ratio during the year.	Refer to Section 12 Leverage
451 (1) (e)	Description of factors that impacted the leverage ratio	
Use of the IRB approach to credit risk		
452	Disclosure for calculating the risk-weighted exposure amounts under IRB Approach	N/A to the Group
Use of credit risk mitigation techniques		
453 (a)	Use of on- and off-balance sheet netting	Refer to Collateral Valuation - Section 2.2.1 Credit risk and Section 4.8 Credit risk mitigation (4.8.2 On- and off-balance sheet netting and set-off and 4.8.3 Collateral and other credit enhancements)
453 (b)	How collateral valuation is managed	
453 (c)	Description of types of collateral used	Refer to Section 4.8 Credit risk mitigation (4.8.3 Collateral and other credit enhancements) for the types of eligible collateral held for each exposure class.
453 (d)	Types of guarantor and credit derivative counterparty, and their creditworthiness	The Group did not enter into any credit derivative hedges and did not receive any guarantees to cover part of its exposures.
453 (e)	Disclosure of market or credit risk concentrations within risk mitigation exposures	Refer to Section 4.8 Credit risk mitigation
453 (f)	For exposures under either the Standardised or Foundation IRB approach, disclose the exposure value covered by eligible collateral	The Group applies Standardised approach, refer to Section 4.8 Credit risk mitigation
453 (g)	Exposures covered by guarantees or credit derivatives	The Group did not enter into any credit derivative hedges and did not receive any guarantees to cover part of its exposures.
Use of the Advanced Measurement Approaches to operational risk		
454	Disclosure of Advanced Measurement Approaches to operational risk	N/A to the Group
Use of internal market risk models		
455	Disclosure of internal market risk models	N/A to the Group

Revised Pillar 3 disclosure requirements – BCBS 309

According to this standard, the following considerations should apply to comply with disclosure requirements in respect of Securitisation positions.

<table>
<tr><th>Guidelines references</th><th>High-level summary</th><th>Compliance reference</th></tr>
<tr><td colspan="3">Part 6 – Securitisation</td></tr>
<tr><td colspan="2">Disclosure requirements on securitisation in Article 449 of the CRR including:
- Table SEC A, for information on risk management due to securitisation positions;
- Templates SEC 1 or and SEC 2, for the outstanding securitisation exposures (retained originated and sponsored exposures, and purchased exposures);
- Templates SEC 3 and SEC 4, for the risk-weighting of exposures and the associated RWAs and capital requirements.</td><td>Section 11 - Securitisation</td></tr>
</table>