medirect
Think ahead. Bank ahead.

2021

MDB Group Limited

Annual Report & Financial Statements 2021

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Chairman's and Chief Executive Officer's review

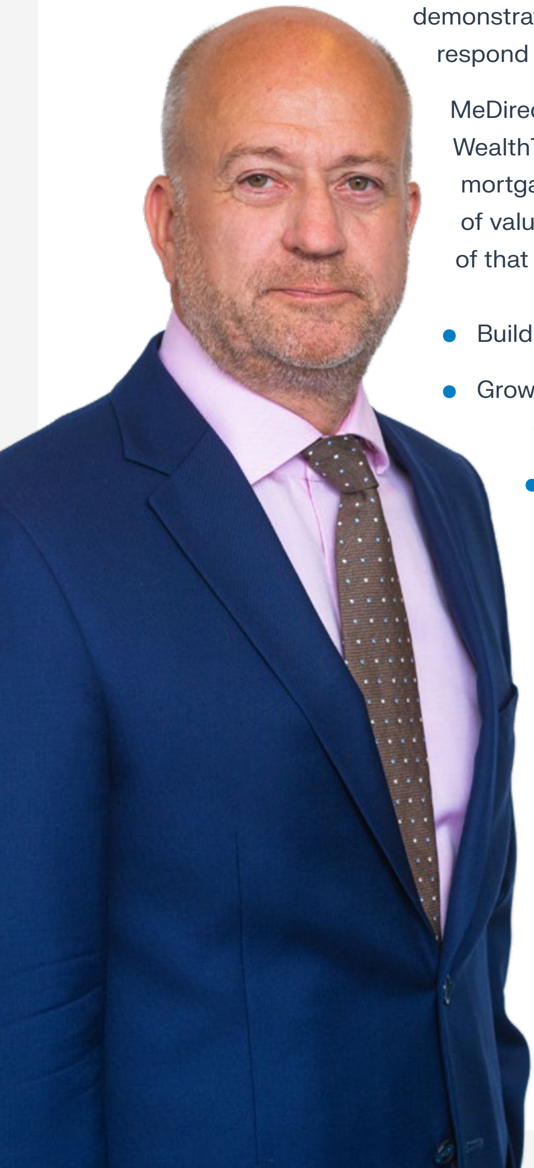
The year 2021 was a year of recovery, consolidation and growth. Following the extreme disruptions of the COVID-19 pandemic, the effects continued into 2021, with economic and geo-political dislocations including higher inflation, supply chain disruptions and increased international tensions. MeDirect continued to transform its balance sheet, developed its WealthTech platform by launching its new Wealth SuperApp in both Malta and Belgium, launched a number of new asset classes such as Belgian and Maltese mortgages and built its capital buffers to historically high levels. MeDirect demonstrated its continued resilience and its ability to respond to a rapidly evolving market environment.

Arnaud Denis
Group CEO

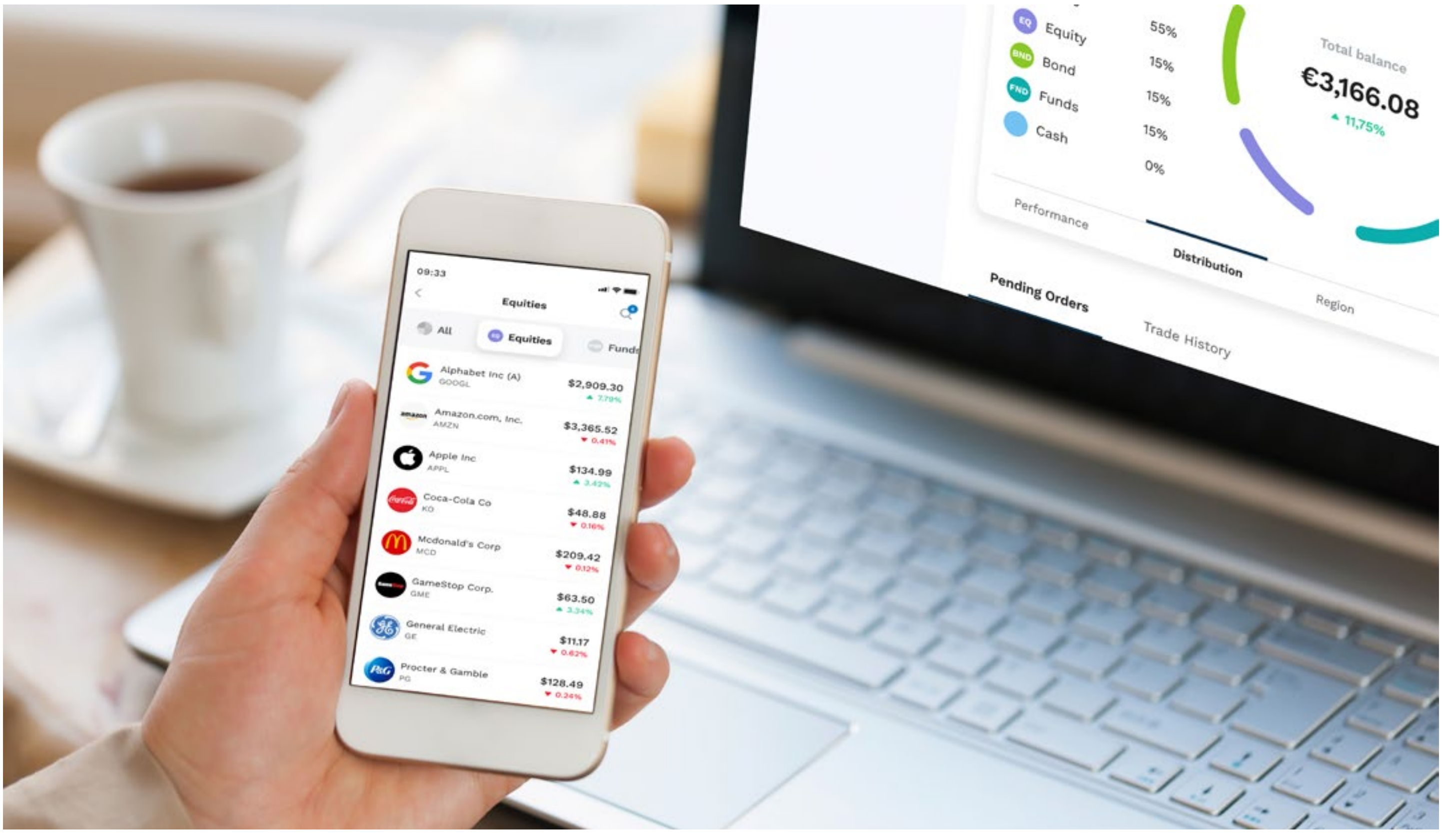
MeDirect's strategic goal is to create a pan-European WealthTech leader and grow a complementary specialised mortgage platform as the two main sources of value creation. The successful delivery of that strategy rests on four pillars:

- Building its WealthTech platform;
- Growing its retail franchise focused on affluent customers;
- De-risking and diversifying its balance sheet; and
- Strengthening its operating model.

During 2021, MeDirect moved forward dynamically in the implementation of its strategic roadmap.



Michael Bussey
Chairman



Building the WealthTech platform

MeDirect's Wealth SuperApp is designed to meet the needs of the underserved affluent market segment for wealth services. Its aim is to offer, on a single platform with open architecture, a broad range of online investment solutions, superior user experience and attractive pricing, combined with high quality transactional banking capabilities. The starting point is to ensure fast and seamless client onboarding. Recently released upgrades to the platform enable potential customers to onboard in five minutes, while complying with all relevant KYC and other regulatory requirements.

Once onboarded, wealth customers can access a range of products unparalleled in MeDirect's target markets. Customers can choose from amongst more than 1,500 mutual funds, as well as 500 ETFs, 3,000 equities and 300 bonds, trading on 17 stock exchanges around the world. In the coming months, MeDirect will expand its client offering with disruptive products building on this brokerage platform, including online advisory services.

This package of investment services is complemented by seamless and easy-to-use mobile banking with multi-currency capabilities. Later in 2022, MeDirect intends to launch its virtual and physical card product. All in all, within one attractive and easy-to-use platform, MeDirect provides its clients with the choice of how they want to invest and grow their money, while giving them the possibility to use the app seamlessly for everyday banking needs.

Growing the retail platform

The attractiveness of MeDirect's value proposition is evidenced by the rapid growth in its customer base, both in Belgium and Malta, as well as high levels of customer satisfaction. MeDirect's customer base grew to 102,000 in 2021, up 37% from year-end 2020. The Group's customers accounted for €4.5 billion of client financial assets, of which €1.5 billion were investments held in custody with MeDirect.

In Belgium, MeDirect was again rated in the top five banks for digital investing and savings by Spaargids.be. In Malta, MeDirect's digital onboarding solution was the winner of Tech.MT's award for Best Use of Technology in Business Transformation. MeDirect will continue to develop and deploy new products and improved user experience by leveraging its advanced tech platform.

De-risking and diversifying the balance sheet

MeDirect continued the de-risking and diversification of its balance sheet that started in 2019. MeDirect's International Corporate Lending ("ICL") portfolio has been reduced to €0.6 billion at year-end 2021, down from a peak of €1.8 billion in March 2019.

The capital released has been used to strengthen MeDirect's capital ratios and to reinvest in mortgage products in the Netherlands and more recently in Malta and Belgium. MeDirect's low-risk Dutch government guaranteed mortgage portfolio reached €1.6 billion by year-end 2021. During 2021, MeDirect also launched its platform for the origination of Belgian mortgages in partnership with Allianz Benelux S.A./N.V. MeDirect's Maltese home loans business, launched in the first quarter of 2021, has applied innovative technology to set new standards in the local mortgage market in relation to time-to-quote and time-to-approval, through a smooth and client-oriented process.

The strengthening of MeDirect's capital base has enabled it to increase its total capital ratio to 19.2%

MeDirect's total capital ratio has increased to 19.2%, the highest since it began to be regulated by the European Central Bank as part of the Single Supervisory Mechanism in 2016. MeDirect also maintains ample liquidity, with a Liquidity Coverage Ratio of 363% as of year-end 2021. Such ratios are in excess of all regulatory requirements, recommendations and management buffers. During 2022, MeDirect will continue to explore ways to reinforce its capital base, with the aim of further supporting the growth of its core business lines: wealth and mortgages.

Overall, borrowers in our corporate credit portfolio have evidenced an improved operating performance during 2021 following the economic recovery during the year. Considering the prudent level of provisioning already applied in 2020 due to the pandemic, impairment losses have been significantly reduced from €65 million in 2020 to €2 million in 2021. This reduction in impairments and cost discipline contributed to a significantly improved financial performance, from a loss before tax of €75 million in 2020 to a loss before tax of €14 million in 2021, notwithstanding significant new investment in its platform.

Strengthening the operating model

Operating as a tech company: As one of its competitive advantages, MeDirect owns the intellectual property of critical elements of its value proposition, including seamless service aggregation capabilities. To date, over 20 million lines of code have been deployed in a Continuous Integration/ Continuous Deployment ("CI/CD") enabled stack. With a cloud-agnostic and scalable architecture, developed by a tech team consisting of top talent, MeDirect has positioned itself as a software house with substantial headroom for growth.

To date, over 20 million lines of code have been deployed in a CI/CD enabled stack

Improving efficiency: Notwithstanding significant continuing investment in its technology platform and the growth of its operations, MeDirect has managed to maintain its fixed cost base almost flat from the previous year. As a percentage of total assets, fixed costs were reduced from 1.50% in 2020 to 1.24% in 2021. The Group has continued to source talent from an international pool to support the continued growth of its businesses and the development of its tech platform.

ESG and Social responsibility

MeDirect has intensified its focus on environmental, social and governance ("ESG") initiatives, hiring a Group Head - Sustainability and setting up an ESG Committee. MeDirect continues to integrate ESG principles into the Group's business and to raise ESG awareness within the organisation. In the context of workplace diversity, MeDirect employs the nationals of over 22 countries and has a workforce that is 41% female, including a number of senior executives. MeDirect continues to accommodate the needs of its employees and allows its staff to work from home or at the office to ensure they feel comfortable in their working environment. MeDirect contributes to the local communities in which it operates by supporting charitable organisations as well as talented individuals in areas such as sports and culture through sponsorships, donations and the voluntary actions of its employees.

Conclusion

The year 2021 witnessed MeDirect's recovery from the extraordinary challenges of 2020. In spite of a volatile macroeconomic environment, MeDirect continued to show highly disciplined execution of its strategic transformation roadmap. During 2022, management expects to be faced with multiple challenges such as the war between Russia and Ukraine, higher inflation and supply chain disruption. Notwithstanding, management is confident that it can create a sustainable business model by executing its business plan and deploying its leading WealthTech platform at a pan-European level.

Who we are

Vision, Mission and Core Values

Our vision is very simple: Enable people to take care of their own money, with confidence.

To support this, we aim to democratise investing by creating a Wealth SuperApp built around the logic of vertical integration in the retail digital investment space. Our vision statement embodies our core strategy and the market "sweet spot" we target – the underserved affluent customer segment.

Our vision is very simple:

Enable people to take care of their own money, with confidence

Those segments cover a large client universe from first time to active investors looking for a wide choice of investment products and a highly convenient platform. It includes:

- customers who are unsatisfied with the offline journey with their traditional investment advisor;
- customers who do not have the time or the willingness to manage their money and look to either delegate or to be guided;
- digital savvy clients who want to be guided in their investment process;
- tech savvy customers who manage their money by themselves and just need the right platform to do it; and
- customers who are not accepted by Private Banking, which typically caters for customers with very significant investible wealth.

On the basis of this vision, MeDirect aims to grow as a pan-European platform starting from our two core markets in Belgium and Malta, and possibly expand into new geographies.

Our mission is:

"Be a one-stop shop for people's investments and savings: a place where they can manage their money, their way. This means providing our customers with an app they can understand, navigate and trust. This also means making our customers feel included. Listening to them, speaking their language and guiding them forward — so they can make the choices that suit their values and needs."

To achieve this we will offer, on a single platform with open architecture, a broad range of online investment solutions combined with superior UX and attractive pricing. Targeted at the underserved affluent segment, our App intends to address wide investor needs covering trading, advisory and discretionary management services, coupled with daily banking.

Technology is the backbone of our success. We developed internally critical components of the value chain which form part of our cognitive ecosystem, allowing us to deploy seamless service aggregation capabilities. Our Tech architecture is state-of-the-art, with scalability and modularity at its core, built by a talented team recruited from cutting-edge technology sectors including iGaming and Telecom.

Our strategic priorities are heavily influenced by our **core values**:

Autonomy:

We empower our customers to navigate the financial world and give them the choice how to manage their money. We encourage our employees to take ownership of their work and grow their skills.

Transparency:

The financial world isn't simple, but the MeDirect app is. We get straight to the point when we communicate, with our clients and among us.

Innovation:

We do not rest on our laurels. We are results driven and constantly review how we go about delivering on our vision and improve our value proposition.

Responsibility:

We advocate for equality, diversity and inclusion and we care for our environment in all that we do.

How our purpose ties into our core strategy

Our core strategy is centred around four main pillars:

1. Offering disruptive digital investing solutions for affluent clients

MeDirect focuses on the affluent customer segment (typically with €30k-€300k in wealth) that value convenience, transparency and a large selection of investment products.

MeDirect aims to provide a full range of investment services from brokerage to investment advice to discretionary management of investment portfolios, combined with a high-quality daily banking function.

Over €30 million invested since 2018 in our technology platform

Our platform combines both aggregated services and internally built innovative products.

2. Low risk and capital efficient B2B2C mortgage lending platform

With mortgages offerings currently in the Netherlands, Belgium and Malta, we have developed a lending platform that is scalable and competitive.

MeDirect operates a B2B2C approach, by partnering with top notch servicing and origination partners, focusing on niche segments in this market, while still maintaining an appropriate risk-reward balance. The mortgage lending platform leverages on our Technology, Product and User Experience capabilities to build a best-in-class platform.

Most importantly, this business line is complementary to MeDirect's disruptive wealth offering – MeDirect strives extract the full potential of synergies between the two business lines, including cross-sell mortgages to wealth or vice-versa.

The mortgage lending platform leverages on top notch partners and in-house Technology and Product capabilities to build a best-in-class platform

3. Advanced tech allowing for scalability and fast time-to-market

Over the recent years, MeDirect has built the technological foundations to maintain a competitive advantage over our competitors.

Our tech platform has built a strong in-house software development team with experience in developing award winning solutions in international iGaming companies. Through its cloud-agnostic tech architecture, MeDirect has the ability to aggregate services by seamlessly integrating with strategically selected third-party providers that support its digital offering. This modular ecosystem of partners is containerised[1] and built to support flexibility in the platform.

An important element of our tech strategy is the ability to containerise the platform, by transitioning away from a monolith setup

An important element of our tech strategy is the ability to containerise the platform, by transitioning away from a monolith setup. This allows us to scale-up for higher volumes but maintain lower costs. Operating with a modular microservices architecture, MeDirect continues to innovate and meet business needs, with all customer touchpoints offered through an omni-channel delivery.

Our transformation has also allowed us the ability to monitor real-time and provide a unified, end-to-end view of technical environment, with automatic mapping of business transactions at code level of the underlying software applications.

4. Efficient operational model

MeDirect operates a high-quality service centre in Malta consisting of technology, digital channels, operations and other support teams. These teams are the engine that drives MeDirect to make our Group simpler, better and faster for our customers and workforce. The role of these teams include:

- the development of software and applications to improve MeDirect's customer experience;
- the management of the IT systems and infrastructure and support;
- the management of customer operations and change across MeDirect; and
- the provision of professional services in various areas such as finance, risk and treasury amongst others.

Dedicated marketing and product teams, as well as control functions, are located in each country. This international set-up enables MeDirect to scale up efficiently while remaining flexible and close to local market requirements, in particular from a customer and regulatory standpoint.

[1] To package software code (and its dependencies) to run uniformly and consistently on any infrastructure, with the ability to scale up based on demand

MeDirect at a glance

MeDirect continued to grow rapidly during 2021, with our goal of 100k customers reached in early December 2021.

102k
Customers
37% increase from 2020
(Belgium 75k & Malta 27k)

+165%
Customer inflow
(30k new customers in 2021)

30%
Increase in assets held under nominee basis
(Belgium 41% & Malta 18%)

An increasing number of customers are exploring our investment universe, while also trading with higher amounts on average.

€4.5bn
Group client financial assets

8%
Increase in Deposits

Delivering value with our credit business lines and de-risking according to plan.

49%
Growth
in Dutch mortgages, from €1.1bn in Dec'20 to €1.6bn in Dec'21

-65%
in ICL book
since March 2019, down by (€1.2bn)

Increased efforts on monitoring customer experience through establishment of Voice of Customer team.

40
average net promoter score across our geographies
(as at Dec'21)

85%
2021 average customer satisfaction rating across all our markets in internal monthly surveys

#1
Tech.MT recognised our digital onboarding with Best Use of Technology in Business Transformation Award

★★★★★
average mobile app rating across all markets

Top 5
Ranked by clients in Belgium in categories Digital, Investing and Savings (spaargids.be survey, Dec'21)

Safe solvency and liquidity ratios

19.2%
Total Capital Ratio

Liquidity well above minimum legal requirements:

363%
Liquidity Coverage Ratio

134%
Net Stable Funding Ratio

The above figures relate to MDB Group Limited.

History

2009 -2014

- Acquired by AnaCap Financial Partners II L.P.
- Launch of online deposits and wealth in Malta
- Established Syndicated ICL portfolio

2015 -2018

- Belgian branch obtains banking licence, becomes subsidiary of Maltese bank
- MDB Group joins European Central Bank supervision
- Group Client Financial Assets above €3.0bn as at Dec-18

2019

- Appointment of new management team in September, with new WealthTech driven strategy and transformation programme
- Launch of Dutch NHG mortgages in the Netherlands
- Collateralised Loan Obligations executed to de-risk ICL portfolio

2020

- Launch of transformation programme
- Launch of retail mobile app
- Ranked top 5 for mobile app, investment products and savings by spaargids.be
- NHG mortgages book exceeds €1 billion
- Successful first RMBS* issuance

2021

- Milestone of 100,000 clients with affluent profile surpassed
- Launch of new online brokerage platform
- Again ranked top 5 for mobile app, investment products and savings by spaargids.be
- Operating as a software house with 20 million lines of code deployed
- Awarded "Best Use of Technology in Business Transformation" by Tech.MT for MeDirect's digital onboarding platform
- NHG mortgages book exceeds €1.6 billion
- Launch of mortgage products in Malta and Belgium
- Issuance of €11 million Tier 2 capital in international markets
- Second RMBS issued

* Residential Mortgage Backed Security

Directors' Report

Directors' Report

We hereby present the annual report of MDB Group Limited (the "Company") and of the Company and its subsidiaries ("MeDirect" or "the Group") for the year ended 31 December 2021.[2] These results reflect the consolidated position of the Company and its principal subsidiaries.[3]

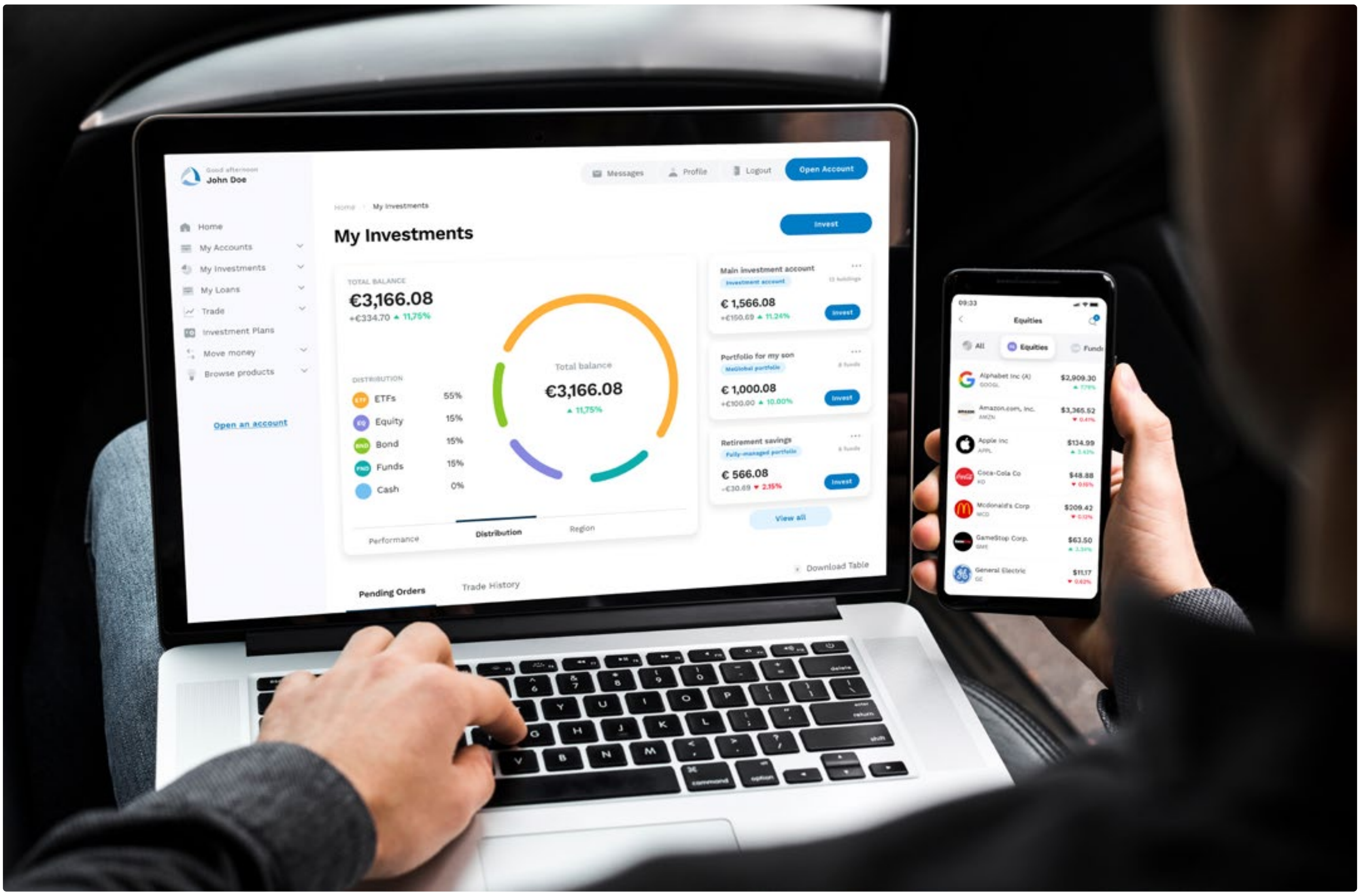
Implementing a game-changing WealthTech value proposition

MeDirect's quest to "democratise investing" reached a critical milestone in December 2021, when MeDirect launched its revamped brokerage trading platform in Malta and shortly thereafter (early 2022) in Belgium. This new platform offers users a more intuitive design and easy access to 5,300 financial instruments.

MeDirect's open architecture platform offers customers the opportunity to choose their preferred investment from a broad range of financial instruments. MeDirect offers over 1,500 mutual funds managed by international leading fund houses, more than 500 ETFs, as well as over 3,000 equities listed on 17 stock exchanges throughout the world, and finally a selection of local and international bonds. The upgrade to the brokerage platform features the introduction of real-time pricing on equities and ETFs. This ensures that customers using MeDirect for their trading can benefit from the latest information and prices, making it easier to take advantage of investment opportunities. In addition, the new user interface features improved search facilities, including guided searches, as well as different options for presentation of information on personalised dashboards and other screens. MeDirect's development teams work continuously to improve the platform with the aim of building a superior user experience.

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

[3] Consisting of MeDirect Bank (Malta) plc ("MeDirect Malta") and MeDirect Bank SA ("MeDirect Belgium"), Medifin Leasing Limited, MeHomeLoans B.V. and all entities where MeDirect Malta and MeDirect Belgium retained all the underlying risks and rewards consisting of Grand Harbour I B.V., Bastion 2020-1 NHG B.V. and Bastion 2021-1 NHG B.V., controlled special purpose entities established in the Netherlands that were set up as part of the Group's funding strategy, and Medifin Estates, a property leasing partnership.



Early in 2022, MeDirect launched its trading platform on a mobile app in Malta, giving customers the ability to invest real-time from anywhere.

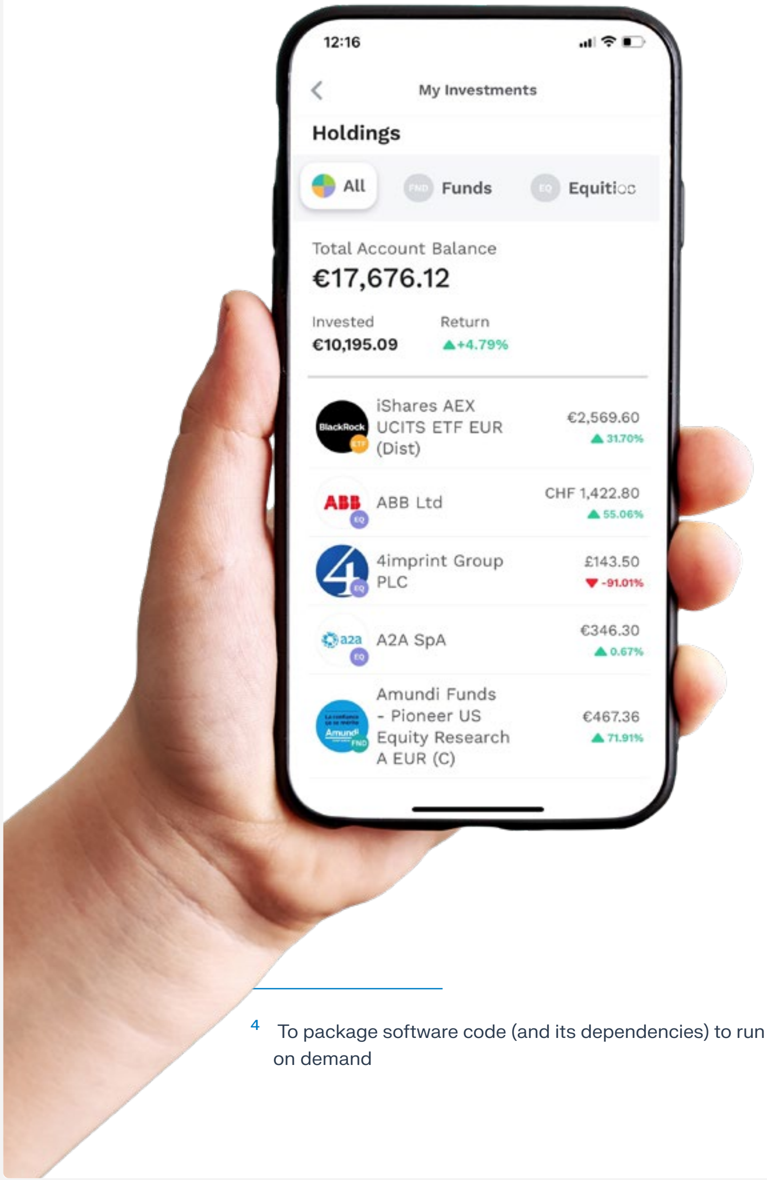
The MeDirect mobile app enables clients to have an all-in-one banking and wealth solution with full control of their finances (savings, wealth and investment) from a single platform. The full platform was launched in Belgium in mid-February 2022.

Continued investment in MeDirect's WealthTech platform has generated a 30% increase in customer assets versus 2020. That figure is only expected to grow with successful implementation of MeDirect's WealthTech transformation journey.

MeDirect's achievements in the past year are just the start in delivering a Wealth SuperApp. MeDirect will continue to deliver exciting and disruptive investment solutions that will continue to empower customers to navigate the complexity of the financial world, in particular to meet the needs of the underserved affluent customer segment.

In-house technology team transforming our digital ambition into reality

Technology is at the core of MeDirect's competitive advantage, acting as an enabler to build our value proposition. Over a two-year period, MeDirect has built a software development team which spans over three geographies and is rated on par with the world's leading fintechs. This has enabled MeDirect to revitalise the digital touchpoints by enabling an omni-channel journey on both web and mobile within the investment space and enriching the daily banking possibilities. The ecosystem is built in-house which provides MeDirect the flexibility to keep the platform as intuitive as possible, while adding more client driven features to enrich this platform which is formed from 20 million lines of code within MeDirect's source repositories. This architecture allows for scalability and agility in releases, which enables us to provide our customers with a best-in-class investment experience.



In the future, we will continue to develop and deploy initiatives that meet the needs of our target market. Through our cloud-agnostic tech architecture, MeDirect has the ability to aggregate services by partnering through seamless integration with strategically selected third-party providers that support our digital offering. This modular ecosystem of partners is containerised[4] and built to support flexibility.

The tireless efforts of MeDirect's Tech, Channels and User Experience teams are enhancing the customer journey throughout the platform, and the Group has committed and continues to commit significant investments in order to ensure that the MeDirect customer experience is best-in-class. One example of the work of the development teams is the Group's digital onboarding platform, through which clients can become customers of MeDirect within minutes. The result is a conversion rate of 80% for potential customers who start the onboarding process. The MeDirect digital onboarding process was recognised as the Best Use of Technology in Business Transformation at the 2021 eBusiness Awards organised by Tech.MT, a local public-private partnership promoting Malta as a tech centre.

[4] To package software code (and its dependencies) to run uniformly and consistently on any infrastructure, with the ability to scale up based on demand

In 2021, the Group's client acquisition numbers increased 165% versus 2020, reaching the milestone of 100,000 customers. This was achieved through a set of important improvements in product scope, such as launching the new mortgage product and a full revamp of the investment platform, together with strong marketing initiatives including the successful launch of an internally developed Member-Get-Member platform. Through this platform, a reward system was introduced for our existing clients who recommend MeDirect to their friends and family. Further enhancements to this programme are on course to be deployed during 2022.

Sound diversification through various asset classes

MeDirect also continued to diversify its credit portfolio. The Group continued to build its mortgage portfolio which now represents ca. 70% of its total credit portfolio[5] as at 31 December 2021 (as compared with 53% as at 31 December 2020).

MeDirect Belgium's Dutch government guaranteed ("NHG") mortgage book grew by approximately 50% in 2021. MeDirect Belgium closed its second securitisation of Dutch NHG mortgage loans, providing it with highly efficient long-term funding for the portfolio. MeDirect Belgium's May 2020 Dutch NHG mortgage securitisation was awarded the 2020 Dutch Securitisation Award organised by the Institute for International Research and the Dutch Securitisation Association.

In December 2021, MeDirect Belgium launched a Belgian mortgage loan product in partnership with Allianz Benelux S.A/N.V. The offering is underpinned by a robust credit risk framework and will continue to diversify the Group's asset base into the mortgage sector. Back office operational support of the Group's Belgian mortgage portfolio is provided by Stater Belgium S.A./N.V., one of the top servicers in Belgium, ensuring efficient and timely processing of mortgage loans.

During 2021, MeDirect Malta successfully launched its new Maltese Home Loans offering, which applies innovative technology to create a smooth, client-oriented process. The programme has set new standards in the Maltese mortgage market for time-to-quote and time-to-approval. By the end of the 2021 financial year, MeDirect Malta had originated €19 million of Maltese mortgages, with a significant pipeline already in place for 2022. MeDirect Malta will continue to enhance its offering by launching new types of mortgage products in the second quarter of 2022. These include home equity loans, a 10-year fixed rate mortgage product - unprecedented in the Maltese market - and a green home loan product which reinforces MeDirect's commitment to improving Malta's environment.

MeDirect has also continued the process of de-risking its International Corporate Lending ("ICL") portfolio, with the aim of building a lower risk and well-diversified asset base across multiple sectors and geographies. By 31 December 2021, the ICL portfolio had been reduced to €0.6 billion, a reduction of 30% from the end of 2020.

The Maltese Corporate Banking business continued on its strong path, with lending income up by 20% versus 2020. This business provides a one-stop shop for Maltese SMEs and international companies operating in Malta, with the aim of supporting such businesses through financing and general banking services. Although this business line makes up 4.5% of the Group's credit portfolio, MeDirect will continue to steadily grow this franchise and maintain its positive contribution to bottom line.

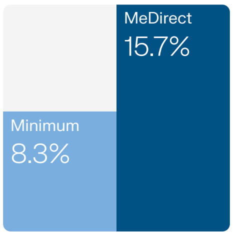
[5] Total credit portfolio includes International Corporate Lending, mortgage lending and Maltese corporate lending

As part of 2021 World Cleanup Day, MeDirect joined 'Saving Our Blue' for their third edition of Beach Cleanup Campaign at Golden Bay

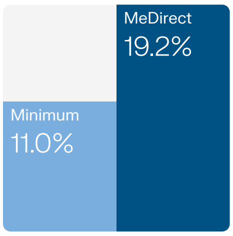
As part of 2021 International Volunteer Day, MeDirect employees supported two animal sanctuaries: Association for Abandoned Animals and Animal Guardians

Intensified focus on ESG initiatives and Climate Change risks

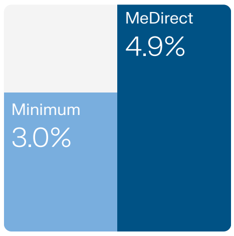
MeDirect continues to embed environmental, social and governance ("ESG") principles, including specific focus on Climate and Environment Related risks ("CER") in the day-to-day running of the Group. The Group reinforced its organisational framework through appointment of a Group Head - Sustainability and establishment of an ESG committee to monitor the Group's progress in developing its ESG programme. The Group's aim is to ensure that it is an attractive and employee-friendly workplace as well as a diversified workforce across nationality, capability and gender. More details on the Group's ESG initiatives can be found in the Non-Financial Information Report starting on page 47.



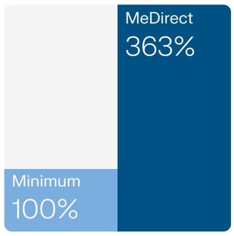
Tier 1 Capital Ratio



Total Capital Ratio



Leverage Ratio



Liquidity Coverage Ratio

* The above charts relate to MDB Group Limited.

Key financial performance highlights

Balance sheet strength is critical to MeDirect's ability to serve its customers and to achieve its financial ambitions. The quality of the Group's balance sheet positions it well to continue to support its customers and deliver value to its shareholders.

The size of the balance sheet remained stable, with ongoing diversification and de-risking being implemented. The Group continued to reduce the ICL book and to increase the low-risk Dutch NHG mortgages portfolio. The growth of the NHG portfolio was facilitated through a second securitisation completed in January 2021.

MeDirect's capital, liquidity and funding metrics remained strong during the year, well above regulatory minimum requirements.

- MeDirect has a strong capital position with total capital ratio of 19.2% as at 31 December 2021, well above the TSCR[6] benchmark of 11%. During the year, the Group's capital base was supplemented by the issue of €11 million of fixed rate reset callable subordinated notes due in 2031. The proceeds of that Tier 2 capital issuance were used to increase further MeDirect's regulatory capital base and to support the execution of its business strategy.
- The Group's liquidity reserves remained strong at €786 million as at 31 December 2021, with Liquidity Coverage Ratio ("LCR") at 363% (minimum requirement of 100%).
- The Group's Net Stable Funding Ratio ("NSFR") as at 31 December 2021 was 133.5% (minimum requirement of 100%).
- The Group's leverage ratio stood at 4.9% as at 31 December 2021 (minimum requirement of 3%).

[6] TSCR refers to the minimum Total Supervisory Review and Evaluation Process ("SREP") Capital Requirements: 8% (of which 6% must be Tier 1 capital) plus P2R of 3%.

MeDirect's robust balance sheet and capital strength gives it the flexibility to continue to implement its business transformation and to build on the achievements of 2021.

MeDirect's Non-Performing Loans ("NPL") ratio decreased from 9.5% as at 31 December 2020 to 6.7% as at 31 December 2021. The Group worked to reduce its NPL ratio via individual borrower strategies aimed at maximising recoveries as well as through debt sales and write-off strategies following effective debt restructuring.

The Group's financial results for the financial year ended 31 December 2021 improved significantly compared to the prior year, from a loss before tax of €75 million in 2020 to a loss before tax of €14 million in 2021, as a result of improved economic conditions resulting in a reduced net loan impairment expense, which decreased from €65 million in 2020 to €2 million in 2021.

In 2020 the Group deployed a comprehensive, conservative and forward-looking expected credit loss approach in response to the impact of COVID-19.

Events have demonstrated that MeDirect's prudent approach to provisioning was appropriate to cover expected future losses. The full impact of the pandemic is now clearer, and markets reflect the positive impact of vaccination programmes and the lifting of pandemic-related restrictions. The Group's lower cost of risk of €2 million for the financial year, was driven primarily by the release of IFRS 9 Stage 1 and 2 provisions as a result of reductions in the international corporate lending portfolio and an improved macroeconomic outlook.

MeDirect's robust balance sheet and capital strength gives it the flexibility to continue to implement its business transformation and to build on the achievements of 2021.

Dividends and reserves

The retained earnings of the Group amounted to €28.0 million (2020: €45.6 million) and of the Company amounted to €59.9 million (2020: €59.9 million). After consideration of the financial results of the Group as well as an uncertain macroeconomic environment, the directors of the Bank do not recommend the payment of a final dividend, despite the strong capital and liquidity ratios of the Group.

The Board has determined that the Group should conserve its capital to maximise its ability to support its customers, to continue to invest in its Wealth platform and to continue to build and diversify its balance sheet.

Focus on financial key performance indicators

Through the use of financial key performance indicators ("KPIs"), senior management regularly track, monitor and analyse the Group's financial performance. KPIs are the tools by which MeDirect's businesses and operations are managed, monitored and directed and indicate when the Group needs to undertake corrective measures. KPIs (and associated risk appetite and risk tolerance metrics) ensure that key risk metrics are constantly monitored. KPIs also play an essential role in MeDirect's performance management process.

MeDirect focuses particularly on quantitative KPIs that are actively monitored on a regular basis through dashboards monthly management reports. In addition, The Group's management and Board evaluate non-financial metrics such as customer satisfaction, employee engagement and sustainability. During 2021, MeDirect developed a more granular framework for the regular evaluation and monitoring of non-financial metrics.

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

Key performance indicators	**2021**	2020
Business performance management		
Annualised return on equity	**(6.0%)**	(26.9%)
Overall net interest margin	**1.1%**	1.4%
Capital management		
Common equity tier 1 ("CET 1") ratio	**15.7%**	14.8%
Leverage ratio	**4.9%**	5.7%
Solvency management		
Liquidity coverage ratio ("LCR")	**363.4%**	562.9%
Net stable funding ratio ("NSFR")	**133.5%**	120.8%
Credit management		
Non-performing loans ratio	**6.7%**	9.5%

Confirmation of MeDirect's going concern assessment

MeDirect remains well positioned to achieve strong business growth whilst remaining strongly capitalised, with the total capital ratio, as at 31 December 2021, being 820 bps above the total SREP[7] capital requirement (the highest capital ratio level since the Group started being supervised by the ECB in 2016) and soundly funded with access to the required levels of liquidity with the liquidity coverage ratio being almost four times the minimum requirement.

After due consideration of MeDirect's business, profitability projections, funding and capital plans and taking into account the broader macro-economic outlook, the directors declare that MeDirect is in a position to continue operating as a going concern for the foreseeable future. [8] The Board believes that MeDirect will have sufficient capital to meet not only its regulatory capital and liquidity requirements but also any internal risk buffers and any buffers recommended by its regulators.

Related parties

During the year ended 31 December 2021, other than the transactions described under note 34 to the financial statements and the transactions listed below, there were no material changes in related party transactions as compared with those detailed in the financial statements for the period ended 31 December 2020. In addition, no related party transactions materially affected the financial position or liquidity of MeDirect.

- Issue of subordinated notes: Purchase of €1 million fixed rate reset callable subordinated notes by AnaCap Financial Partners II L.P., the Group's controlling shareholder.
- Acquisition of Medifin Leasing: Acquisition of Medifin Leasing Limited by the Company from the Company's indirect parent company, Medifin Investments Limited for a consideration of €0.5 million.

MeDirect confirms that there were no material contracts to which it or any of its subsidiaries was a party or in which any of its directors was directly or indirectly interested.[9]

Events after the reporting date

Subsequent to the reporting date, an armed conflict between Russia and Ukraine commenced as a result of which economic sanctions were imposed by the EU, the US and other countries on Russia and Belarus as well as a number of Russian and Belarussian individuals. The war and related sanctions are expected to contribute to global economic dislocation, including potentially, disruption of energy supplies, higher inflation and additional credit and market risk.

The Group performed an initial assessment of the effects the current situation may have on its business. This considered impacts on the valuation of its investments that were deemed immaterial, as well as the effect on the Group's processes and on its borrowers' business environment and supply chains. The Group has virtually no direct exposure to assets in Russia, Belarus or Ukraine and concluded that there should not be material effects on the Group or its businesses. The Group will ensure compliance with any applicable sanctions and will continue to follow closely the developing situation and any potential effects on its business, customers and operations. There were no other events after the reporting date that would have a material effect on the financial statements of the Company or the Group.

[7] Supervisory Review and Evaluation Process

[8] Statement pursuant to MFSA Listing Rule 5.62.

[9] Statement pursuant to Listing Rule 5.70.1.

Pillar 3 disclosures

MeDirect is required to publish Pillar 3 quantitative and qualitative disclosure requirements.[10] The Group publishes its full Pillar 3 disclosures on an annual basis as a separate document that is available on MeDirect's website.

Board of Directors

The Company's Articles of Association do not require any director to retire.

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

Mr. Michael Bussey – Chairman	appointed on 20 February 2017
Mr. Arnaud Denis – Chief Executive Officer	appointed on 15 October 2019
Mr. Benjamin Hollowood	appointed on 30 May 2013 and resigned on 28 April 2021
Mr. Jamal Ismayilov	appointed on 14 December 2021
Mr. Alex Konewko	appointed on 16 October 2019 and resigned on 15 December 2021
Mr. Radoslaw Ksiezopolski	appointed on 10 October 2019
Mr. Dominic Wallace	appointed on 6 June 2016
Mr. John Zarb	appointed on 12 July 2017

Enhancing risk governance

MeDirect understands the importance of adopting sound risk management principles. MeDirect's core objective in the management of risk is to protect its customers and counterparties and to ensure its ability to grow sustainably.

Managing risk effectively, efficiently and sustainably is an integral part of the Group's business strategy.[11] MeDirect's risk management approach focuses on ensuring continued financial soundness and safeguarding the interests of its stakeholders while retaining the ability to seize value-creating business opportunities in a fast-changing environment.

MeDirect is committed to upholding high standards of corporate governance and sound risk management principles.

[10] As governed by BR 07: Publication of Annual Report and Audited Financial Statements of Credit Institutions authorised under the Maltese Banking Act (Cap. 371), issued by the MFSA, which follows the disclosure requirements of EU Regulation No 575/2013 (CRR) of the European Parliament and of the Council of 26 June 2013 and the Commission Implementing Regulation (EU) 2021/637 of 15 March 2021.

[11] A detailed review of MeDirect's use of financial instruments, and its exposure to liquidity risk, credit and market risk, non-financial risk and the related risk management framework and policies are included in Note 2 to the financial statements.

The Group has established a comprehensive risk management framework that is robust and fit-for-purpose. The framework sets forth the steps necessary to identify, manage, monitor and report both present and future risks, and continually seeks to improve and evolve its risk management practices. MeDirect continuously enhances its risk management framework to ensure it is embedded in all strategic planning decisions whilst supporting and enabling its transformation strategy. This risk management framework ensures that new products and services, areas of growth, changes in technology and management decisions are well governed and sustainable.

MeDirect is committed to upholding high standards of corporate governance and sound risk management principles

MeDirect has dedicated specialist risk teams to manage proactively both financial and non-financial risks. Risks are monitored through regular and timely risk reporting of key risk indicators, enabling the proactive identification and management of risks with the aim of reducing or avoiding undue exposure to various specific risk types. Risk appetite limits established by the Board set forth the amount and types of risk that MeDirect is prepared to accept or tolerate when delivering its strategy. These risk appetite limits are embedded in the Group's policies and day-to-day operations whereby they set the parameters for risk taking in the context of strategy and business model. Frequent and close monitoring of all risk appetite limits, combined with comprehensive reporting to management and the Board of Directors ensures that risk is maintained within acceptable levels in accordance with the Group's risk appetite.

MeDirect has dedicated specialist risk teams to manage proactively both financial and non-financial risks

In addition, the Group carries out stress testing across a range of idiosyncratic and market-wide scenarios with different levels of severity to ensure that it remains financially healthy during and after severe risk events. Stress testing and its outputs are embedded in the Group's risk management framework, in its day-to-day operations and key-decision making activities. Stress testing is also used when the Group pursues any material new business strategy to identify potential downsides and unanticipated risks. Stress testing outcomes allow senior management to assess the impact of a given scenario on the Group and to identify the Group's vulnerabilities to changes in the macroeconomic environment. Stress testing enables MeDirect to assess its capital and liquidity adequacy as it ensures the Group is able to bear its risks, absorb losses can follow a sustainable strategy, even during a prolonged period of adverse developments. This enables the Group to identify and develop the appropriate risk mitigants, controls, and contingency plans and assess their feasibility and impact in order to be able to address a potential adverse event.

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

Licence holders are required to include in the Directors' Report breaches of standard licence conditions under the Investment Services Act (Cap. 370). Accordingly, the directors confirm that no breaches of standard licence conditions and no other breach of regulatory requirements under the Investment Services Act (Cap. 370) that were subject to administrative penalty or regulatory sanction were reported during the financial year.[12]

[12] Statement in accordance with SLC 7.60 of the Investment Services Rules for Investment Services providers regulated by the MFSA

Statement of directors' responsibilities for the financial statements

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

In preparing the financial statements, MeDirect is responsible for:

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

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

The financial statements of the Company for the year ended 31 December 2021 are included in the Annual Report 2021, which is published in hard-copy printed form and will be made available on the Group's website. MeDirect is responsible for the maintenance and integrity of the Annual Report on the website in view of its responsibility for the controls over and the security of its website. Access to information published on the Group's website is available in other countries and jurisdictions where legislation governing the preparation and dissemination of financial statements may differ from requirements or practice in Malta.

Statement by the directors pursuant to Listing Rule 5.68

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

Signed by Michael Bussey (Chairman) and Arnaud Denis (Chief Executive Officer) on 7 April 2022.

Our Group Board

Michael A. Bussey
Independent Chairman and Non-Executive Director

- Joined MeDirect's Board on 20 February 2017
- 35+ years of experience in banking, specialising in Private banking and Wealth management
- Former key positions held:
  - Joined HSBC in 1980 and held various senior positions in his more than 20 years with the company, most recently as CEO of HSBC Private Banking EMEA
  - CEO at Schroder & Co Ltd
  - CEO of Private Banking and Trust at NM Rothschild & Sons Ltd
  - CEO of Arbuthnot Latham & Co.
  - Non-Executive Chairman, Credit Suisse (U.K.) Limited (2012-2020)
- External appointments:
  - Non-Executive Chairman at DB UK Bank Limited

John Zarb
Independent Non-Executive Director

- Joined MeDirect's Board on 12 July 2017 and is the Chairman of the Audit Committee
- 40 years of experience with PwC in Malta, retiring from his role as Partner in 2014
- Formerly President of Malta Institute of Accountants and served as Malta's representative on the EU Accounting Regulatory Committee and on the Accountancy Board for several years.
- External appointments:
  - Chairman of PG plc
  - Board member and Chairman of the Audit committee of Tumas Investments plc
  - Director of Foster Clark Products Ltd

Dominic Wallace
Independent Non-Executive Director

- Joined MeDirect's Board on 6 June 2016 and is the Chairman of the Risk Committee
- 30+ years of experience in the financial sector, with extensive experience in risk management (including market, credit, liquidity and pricing risk) and structured transactions
- Former key positions held:
  - Group CRO at MeDirect Bank
  - Managing Director, Risk Management at Citigroup

Jamal Ismayilov
Non-Executive Director

- Joined MeDirect's Board on 14 December 2021
- 18+ years of experience in financial services, specialising in strategic and operational transformation
- Currently Managing Director within Private Equity at AnaCap Financial Partners
- Former key positions held:
  - Partner in the Financial Services practice at Oliver Wyman
  - Head of Financial Strategy at Nomura International
- External appointments:
  - Vice-Chairman of the Supervisory Board at Nest Bank S.A.

Arnaud Denis
Group Chief Executive Officer

- Joined MeDirect as Group CEO in September 2019 and formally on MeDirect's Board on 15 October 2019
- 25+ years of experience in banking, with track record of retail business transformation in the field of digital
- Former key positions held:
  - First Deputy CEO of ROSBANK Group, Société Générale's Russian retail platform
  - CEO of Eurobank SA, Polish subsidiary of Société Générale
  - MD in Société Générale's Fixed Income division based in NY
  - Held various non-executive directorships in banking

Radoslaw Ksiezopolski
Group Chief Financial Officer

- Joined MeDirect as Group CFO in August 2019 and formally on MeDirect's Board on 10 October 2019
- 20+ years of experience in banking, specialising in business transformation
- Former key positions held:
  - CFO of Eurobank Polish subsidiary of Société Générale
  - CFO of Credit Agricole Bank Poland
  - Consultant at McKinsey & Co.
  - Worked on the transformation of Polish subsidiary of UniCredit

Group Leadership Team

Arnaud Denis
Group Chief Executive Officer

Radoslaw Ksiezopolski
Group Chief Financial Officer

Marija Fenech
Malta Chief Risk Officer

Chris Portelli
Group Chief Technology Officer

Pawel Malukiewicz
Group Head – Channels and Customer Experience

Ramin Fleury
Group Chief Growth Officer

Tim Rooney
Belgium Chief Executive Officer

Marcel Berkhout
Belgium Chief Financial Officer

Francois Ducuroir
Belgium Chief Risk Officer

Statement of compliance with the principles of good corporate governance

Statement of compliance with the principles of good corporate governance

Introduction

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

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

The directors report that since MeDirect Malta is a company that only issues debt securities and has not issued equity securities which are traded in a multilateral trading facility, it is exempt from disclosing the information prescribed in Listing Rules 5.97.1, 5.97.2, 5.97.3, 5.97.6 and 5.97.8 in this corporate governance statement. It is in the light of these factors that the directors are herein reporting on the corporate governance of MeDirect Malta.

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

Compliance with the Code

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

MeDirect Malta's Board of Directors (the "Board") is composed of persons with a diverse range of skills and experience acquired in senior roles with international banks and financial organisations, professional firms and governmental entities. At 31 December 2021, the MeDirect Malta Board consisted of four non-executive members and two executive members, satisfying the rule that one third of the Directors should be Non-Executive Directors. Taking into account certain factors such as the size of MeDirect Malta, the size of the Board and the balance of skills and experience represented by its members, the MeDirect Malta directors are considered to be appropriate for the requirements of MeDirect Malta's business.

In line with MeDirect Malta's Articles of Association, all directors remain in office. All directors are deemed to be fit and proper to direct the business of MeDirect Malta.

Principle 2: Chairman and Chief Executive Officer

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

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

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

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

Functioning of the Board

The MeDirect Malta Board delegates the management and day-to-day running of the Group to the Group Chief Executive Officer ("CEO") in accordance with such policies and directions as the Board may from time to time determine with the exception of the following matters which require the approval of the Board:

- Overall business strategy;
- Key policies that may leave a material impact on the Group;
- Overall risk strategy, including the risk appetite and risk management framework;
- Corporate governance structure ensuring the proper functioning of the Board committees;
- An internal controls framework covering the whole Group, including the responsibilities and tasks of the Board, and the activities of all business lines and internal units, including internal control functions, outsourced activities and distribution channels;
- Amounts, types and distribution of both internal capital and regulatory capital to adequately cover the risks of the Group;
- Targets for liquidity management of the Group;
- Dividend policy including recommendation for the dividend pay-out;
- Individual large exposures that are 20% or more of own funds;
- Remuneration practices that should be documented in a Remuneration policy, including remuneration of the members of the Board and senior management;
- Arrangements aimed at ensuring that the individual and collective suitability assessments of the Board are carried out effectively, that the composition and succession planning of the Board are appropriate, and that the Board performs its functions effectively, including the effectiveness of the Board Committees. The Suitability assessment policy should also cover the evaluation process for key function holders;
- Arrangements at ensuring the integrity of the accounting and financial reporting systems, including financial and operational controls and compliance with the law and relevant standards; and
- A conflicts of interest policy covering conflicts on an institutional level and for staff.

The Board is also responsible for setting a framework of values and code of conduct within which the desired corporate and risk culture can evolve and thrive. Each member of the Board should reinforce these values through their own behaviour and decisions. The Board has oversight of the following:

- The process of public disclosures and communications with external stakeholders and competent authorities; and
- The overall activity, financial and risk situation of the Group, taking into account the economic environment, and the implementation of strategic decisions that have a major impact on the business.

The Board monitors, periodically reviews and addresses any weaknesses identified regarding the implementation of processes, strategies, and policies related to any of their approval and oversight responsibilities.

The Board may decide to delegate some of its responsibilities, in particular its review and monitoring responsibilities, to Board Committees, however it still retains oversight over these activities and remains responsible for the ultimate decision-making.

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

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

Board of Directors

Total board meetings that were held during the financial year was twenty three. The percentage of meetings attended by the following during their directorship being:

		Meetings attended %
Michael Bussey	Independent Chairman and Non-Executive Director	100
John Zarb	Independent Non-Executive Director	91
Dominic Wallace	Independent Non-Executive Director	100
Benjamin Hollowood *	Non-Executive Director	35
Jamal Ismayilov *	Non-Executive Director	52
Arnaud Denis	Executive Director - Chief Executive Officer	91
Radoslaw Ksiezopolski	Executive Director - Chief Finance Officer	100
Alex Konewko **	Executive Director - Chief Risk Officer	86

* As from 28 April 2021, Mr Benjamin Hollowood no longer served in a non-executive capacity with MeDirect Malta. As a replacement Mr Jamal Ismayilov was appointed as a non-executive director on 14 December 2021.

** As from 15 December 2021, Mr Alexander Konewko no longer served in an executive capacity with MeDirect Malta.

Committees of the Board

Certain responsibilities of the Board are delegated to Board committees. The Board committees play an essential role in supporting the Board in fulfilling its responsibilities and ensuring that the highest standards of corporate governance are maintained. Updates from the Chair of the Board Committees are included as a standing agenda item in all routine Board meetings.

Board Committees

A. Audit Committee

The purpose of the Audit Committee is to oversee the quality and integrity of the Group's financial reports, particularly the key financial judgments made within them and reviews the accounting policies, primarily the Group Audit Committee is responsible for the following:

- review accounting policies;
- monitor the Group's financial and other disclosures, ensuring compliance with legal and regulatory requirements;
- review the qualifications, performance, and independence of the external auditor;
- review and approve Internal Audit's plan and oversee the progress of the execution of the plan; and
- assess the effectiveness of Internal Audit, including the adequacy and competence of its staff.

The members of the Audit Committee are:

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

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

During the year ended 31 December 2021, eleven meetings of the Group Audit Committee were held. The Group Chief Internal Auditor attends the meetings as a standing invitee, unless there are exceptional circumstances. Other Chiefs or employees may be asked to join the meeting as required.

B. Nomination and Remuneration Committee

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

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

C. Board Risk Committee

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

The current members of the Risk Committee are:

Dominic Wallace	Committee Chairman and Independent Non-Executive Director
John Zarb	Member and Independent Non-Executive Director
Jamal Ismayilov *	Member and Non-Executive Director

* Mr Jamal Ismayilov was appointed as a non-executive director on 14 December 2021 and is currently a member of the Risk Committee.

The Group Chief Executive Officer, the MeDirect Malta Chief Risk Officer and the Group Heads of Regulatory Compliance and Financial Crime Compliance and the Money Laundering Reporting Officer may attend the Board Risk Committee meetings by invitation. The Group's Chairman of the Board attends the Board Risk Committee meetings as an observer.

Amongst the primary responsibilities of the Board Risk Committee are:

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

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

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

Principal Management Committees

A. Group Steering Committee ("Group Steerco")

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

B. Malta Executive Committee ("Malta EXCO")

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

The ExCo is chaired by the Group Chief Executive Officer and includes the Group Chief Financial Officer, MeDirect Malta Chief Risk Officer, Group Chief Technology Officer, Group Head of Channels and Customer Experience, Group Chief Growth Officer, Chief Administration Officer, Chief People Officer, Group Head – International Corporate Credit, Head of Malta Corporate Banking and Malta Mortgages, Group Head of Commercial

Strategy and Legal, Head of Operations and Retail Networks, Head of Financial Crime Compliance, Head of Regulatory Compliance, Head of Regulatory Affairs and Corporate Governance. The Chief Internal Audit Officer is a standing invitee of the Malta ExCo and attends as an observer.

C. Management Credit Committee (“MCC”)

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

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

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

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

D. Management Risk Committee (“MRC”)

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

The main responsibilities of the MRC are to:

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

- Oversee risk related action plans, regulatory and audit findings; and
- Promote risk awareness and a strong risk culture within the organisation.

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

A standing invitation is extended for attendance as required to the Group Chief Financial Officer, Head – Financial Crime Compliance, Head – Regulatory Compliance, Head – Corporate Credit, Group Head – Channels & Customer Relationship Management, Group Chief Technology Officer, Head – Operations and Retail Network and Senior Manager – Funding and Capital Management. Other staff members may be invited to attend the Committee as appropriate.

E. Asset and Liability Committee ("ALCO")

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

The members of ALCO include MeDirect Malta's Senior Manager – Funding and Capital Management (Committee Chairman), Group Chief Executive Officer, Group Chief Financial Officer, MeDirect Malta Chief Risk Officer, the MeDirect Bank SA – Chief Financial Officer and MeDirect Bank SA –Chief Risk Officer. ALCO convenes meetings monthly but also holds additional ad hoc meetings.

F. Operations Committee

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

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

- Feasibility of the business and regulatory change requests;
- Operational feasibility of the new products and services;
- Governance of the key third party vendors on-boarding and monitoring;

- Governance of the arrangements related to budget spending on change initiatives, business continuity and disaster recovery and data retention and archiving; and
- Awareness and oversight of the arrangements related to ICT strategy and its implementation, operational risk and cyber security and organisational design of the Group from the point of view of efficiency and change sustainability.

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

G. Compliance and client acceptance committee (“CCAC”)

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

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

Code Provision 4.2.7 - Succession planning

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

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

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

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

Principle 6: Information and professional development

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

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

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

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

Principle 7: Evaluation of the Board's performance

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

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

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

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

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

Principle 11: Conflicts of interest

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

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

Principle 12: Corporate social responsibility

During the financial year ended 31 December 2021, MeDirect Malta continued to support local talent in sports, culture, and charitable institutions, causes and events. MeDirect Malta's commitment to these initiatives is established through the various sponsorships and donation agreements that support a wide variety of community organisations.

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

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

MeDirect Malta's patronage of the sporting community was strengthened this year. MeDirect is an active supporter of the Otters Water Polo Club/Aquatic club which celebrated its 50-year anniversary this year. The club was founded back in 1971 and is to date the only surviving water polo club in Gozo.

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

MeDirect Malta also kept its yearly appointment and presented a donation to the President's Community Chest Fund Campaign - L-istrina on Boxing Day during a nation-wide charity campaign. This was further supplemented by a donation done by our staff members.

Amongst other organisations, that MeDirect Malta helped during its financial year, there is The National Blood Transfusion Unit to whom MeDirect donated freebees, mainly pens to be handed out to blood donors and the Ronald McDonald House Charities Foundation Malta. This year MeDirect also supported Children's Dreams, which is a project with the sole mission of making the Christmas wishes come true for children coming from families facing social and financial difficulty. MeDirect Malta fulfilled five of these wishes.

MeDirect Malta actively supports charity initiatives, focussing on organisations serving the Maltese community. Employees are also actively engaged in such charitable activities via donations deducted from their payroll, fund-raising efforts and voluntary work, such as beach clean-ups and work at animal shelters. Some of the organisations that benefitted from these activities during 2021 were Hospice Malta, RMJ Horse Rescue, YMCA, Dar Merhba Bik, Association for Abandoned Animals and Animal Guardians. Other proceeds went to support one of the Bank's employees who did the Camino de Santiago walk covering 115 kilometers with the aim of raising funds to construct a kindergarten school in Bongo, Ethiopia.

Other disclosures

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

Management's internal controls over financial reporting

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

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

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

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

Signed by Michael Bussey (Chairman) and Arnaud Denis (Chief Executive Officer) on 7 April 2022.

Remuneration report

Remuneration report

Remuneration governance

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

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

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

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

Membership and meetings

The members of the Group's NRC are:

Michael Bussey	Committee Chairman/ Independent Non-Executive Board Chairman
John Zarb	Independent Non-Executive Director
Jamal Ismayilov *	Non-Executive Director and Shareholder representative

* Mr Jamal Ismayilov was appointed as a non-executive director on 14 December 2021 and is currently a member of the Nomination and Remuneration Committee.

The Group's Head of Administration and Human Resources was invited as an attendee and to minute the meetings throughout the year as was the Chief Executive Officer.

During the year ended 31 December 2021, the Group's NRC met on eight occasions. These meetings were attended by all members of the Group's NRC.

Remuneration policy statement

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

The purpose of the Remuneration Policy is to set out the overall principles that the Banks, whether direct or indirect, must follow when determining the remuneration and compensation of its management and staff members. This policy establishes an effective framework for determining role descriptions, performance measurement, risk adjustment of compensation and the linkages to reward. The Group's Board and the MeDirect Belgium Board are responsible to ensure that the remuneration practices are based on sound governance processes that take the Group's risk strategy and profile into account.

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

Material Risk Takers, that consist of members of staff whose actions have a material impact on the risk profile of the Group, are identified on the basis of the qualitative and quantitative criteria set out in the Commission Delegated Regulation (EU) 2021/923. Material Risk Takers are also identified on the basis of additional criteria developed internally. This category would include a member of the board of director, a member of senior management and the Heads and key personnel active in the independent control functions such as the internal audit, compliance and risk management functions of the Group and subsidiaries.
Material Risk Takers would also include:

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

The list of Material Risk Takers is reviewed and reconsidered by the Group's NRC on at least an annual basis.

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

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

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

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

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

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

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

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

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

In 2021 the Group revised the remuneration policy in line with updates emanating from CRD V and engaged an independent firm to carry out a review in order to assess and report on the adequacy and effective implementation of the Group Remuneration Policy across the group entities. This review focused on the following key areas: policy documentation, mapping of the Group Remuneration Policy to relevant directives, regulations and guidelines, assessing the governance setup around remuneration processes, performing a walkthrough of the year end process, review of documentation pertaining to the process in determining the Material Risk Takers and sample testing of payroll records.

The Group's reward strategy

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

Fixed remuneration

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

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

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

Staff savings account

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

Home loan subsidy

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

Variable remuneration

Variable remuneration may consist of performance bonuses and other variable bonuses awarded in cash or share linked instruments and guaranteed sign on payments and severance payments awarded in cash. In accordance with Article 92(1)(q) of directive 2013/36/EU (“CRD”), variable remuneration is not paid through vehicles or methods that facilitate the non-compliance with this Directive or Regulation (EU) No 575/2013. In Belgium a number of employees opted to be paid the performance bonus in warrants or options rather than in cash.

Performance bonuses represents additional remuneration payable to employees as a reward for achieving specific goals or hitting predetermined targets, but such variable remuneration is discretionary as the Group does not set an expectation to its employees that a bonus will be paid if certain goals are met and the amount of the bonus are not determined in advance.

Retention bonus is variable remuneration awarded on the condition that staff stays at the Group or subsidiary company of the Group for a predefined period of time. Retention bonuses have been awarded by the Group in the financial year ended 31 December 2021. This is targeted to ensure best performance, by securing the retention of critical employees who are key to success of the realisation of the strategic plan of the Group.

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

(a) Determination of the performance bonus variable remuneration pools

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

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

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

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

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

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

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

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

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

- Objective setting at the beginning of the year

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

- End of year appraisal

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

(c) Individual allocation of the variable remuneration

All staff (including material risk takers)

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

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

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

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

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

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

Internal control functions

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

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

Other matters on variable remuneration

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

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

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

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

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

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

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

Signed by Michael Bussey (Chairman) and Arnaud Denis (Chief Executive Officer) on 7 April 2022.

Non-financial information

Non-financial information

MeDirect has embarked on a journey to become a more sustainable Group with the aim to continue embedding environmental, social and governance ("ESG") principles in the day-to-day running of the Group and increase awareness on ESG across the Group.

This non-financial disclosure includes a description of the main policies and rules that are followed within MeDirect as well as the non-financial data and strategic ESG initiatives to reinforce communication with all stakeholders and to ensure transparency.

ESG in the organisational stricture

To properly manage ESG topics, the Group decided to recruit a Group Head–Sustainability and set up an ESG Committee. The main purpose of this Committee is to provide advice and support to the Boards and the Executive Management of the Group, with regards to ESG topics including the implementation of ESG-related initiatives, corporate social responsibility engagement and monitoring of ESG-related risks and opportunities. The Committee includes the key managers of the Group representing the main areas critical to properly manage the ESG topics and climate-related and environmental ("CER") risks. The Chairman of the Committee is the Group Chief Financial Officer and the Co-Chairman of the Committee is MeDirect Belgium Chief Risk Officer.

A. *Employees*

Human resource management

The Group's employees are its greatest assets and helping them to develop is crucial to the achievement of the Group's organisational goals. Senior management focus not only on the effective management of people but also on ensuring attractive working conditions to increase employee satisfaction and recruit the best talent from the market. Constant employee development and improvement of skills is a part of human resources management which reinforces competences in the organisation and raises future leaders.

As at the end of 2021 MeDirect employed a total of 329 employees across all locations. With approximately 41% of these employees being women.

To create an open environment, the Group conducts an annual employee engagement survey, whereby results are discussed during Townhalls and shared with all employees, to provide a transparent approach to actions and feedback provided. The Human Resources team also conduct regular employee catch ups during the year with new joiners and at least one annual meeting with every employee. These meetings are used to gather feedback on how employees are doing, suggestions on changes to be implemented and any other ad hoc topics.

Gender, equality and diversity

The Diversity policy was introduced by the Nominations and Remuneration Committee whereby objectives are set for achieving diversity. These in turn are reviewed and assessed by the Board of Directors on an annual basis. An assessment is conducted annually by the Human Resources team to assess pay equity at all levels.

The Board oversees the implementation of the Group's diversity strategy, which is included primarily through:

- Reviewing the diversity strategy from time to time;
- Considering best practice in diversity;
- Overseeing the implementation of the diversity strategy across the Group;
- Discussing and addressing with management any emerging diversity related organisational issues;
- Considering reports provided by management as to the progress of the implementation of the diversity strategy;
- Inclusion against key objectives;
- Communicating the diversity strategy and the progress of its implementation, both internally and externally (as appropriate);
- Supporting diversity initiatives across the Group; and
- Suggesting to management initiatives that would enhance the implementation of the diversity strategy.

The Group ensures that it has an inclusive workplace where every individual can succeed regardless of differentiated characteristics and ensures the Group's employees have equal opportunities to manage their careers and achieve success. In 2021 the Group had over 22 nationalities, with 59% of the workforce being male and 41% of the workforce being female. MeDirect Malta was awarded the Equality Mark in December 2020 for a period of 2 years with certification expiring in 2022 with renewal currently underway.

% employees in individual age categories by gender	Female	Male
under 30	53%	47%
between 30–50	38%	62%
over 50	24%	76%

% employees broke down by employment structure by gender	Female	Male
Non-Executive Directors	33%	67%
Executive Directors and EXCO	25%	75%
Heads	21%	79%
Senior Managers	17%	83%
Managers	41%	59%
Senior Officers	43%	57%
Officers	55%	45%

The Diversity policy, in accordance with the internal process in force at the Group, was adopted by the Nominations and Remuneration Committee and approved by the Board.

Training and professional development

The Group's employees are its greatest assets and helping them to develop is crucial to the achievement of the Group's organisational goals. The Group is therefore committed to continuous training and development of its employees. The Group creates educational opportunities and provides access to various forms of training, these include virtual training, classroom training, on the job training, face to face training, coaching and e-learning modules. The development and growth of employees is one of the main objectives that management puts forth on an annual basis.

The policy which governs this area is the Professional Development policy which provides employees with an overview of:

- Regulatory and mandatory training;
- Sponsorship to further education studies;
- How to apply for training;
- Post-training evaluation; and
- Professional memberships and warrants.

One of the initiatives in 2021 was the implementation of a training needs analysis whereby together with the managers, the Human Resources team assessed the gaps of employees and what training can be delivered to tackle such technical and soft skill gaps. One of the main objectives to further strengthen the Group's emphasis on the development of employees is to focus on a structured career path for its key employees and how to reduce key person risk by having internal backups for all key functions. The goal is to recruit employees at junior levels and promote employees internally to more senior roles. Hence, always working on the retention and internal growth of employees.

During 2021 most of the training revolved at developing employees' soft skills with specific focus on:

- Mentoring and coaching;
- Senior Officer, Manager and Senior Manager leadership and development programme;
- Time management; and
- Train the trainer.

In 2021 MeDirect also focused on providing training to employees to better handle the new way of working and any changes the pandemic may bring:

- Developing your adaptability quotient and mental resilience; and
- Motivational talk: focusing on the new way of working and the constant uncertainty in what the pandemic may bring.

By gender	Average of training Hours per year
Female	13
Male	7
Overall average	**10**

By seniority	Average of training hours per year
Exec Directors – EXCO	18
Heads	10
Senior Managers	10
Managers	14
Senior Officers	10
Officers	6
Overall average	**10**

By age group	Average of training Hours per year
between 30–50	11
over 50	5
under 30	8
Overall average	**10**

Implementation of mandatory training programmes

In line with internal and external regulations the below training was assigned to all employees, all recommendations done by the Risk and Compliance teams:

Regulatory policies	Mandatory policies
• Anti-bribery and corruption policy and procedure • Anti-money laundering and sanctions policy and procedure • Conflict of interest policy • Market abuse policy • Code of conduct and ethics • Personal account dealing • Whistleblowing policy	• Anti-fraud policy • Crypto currency policy • Customer acceptance policy • Information security policy • Information classification policy and guidelines • ICT risk management framework • Relationship at work policy • Risk management framework • Incident management procedure • Jurisdiction risk procedure • Data protection policy • Group target market policy • Reputational risk framework
E-Learning modules – Compliance	**E-Learning modules–Risk related**
• Whistleblowing refresher tutorial • Economic sanctions refresher • Anti-bribery and corruption • Anti-money laundering • Market abuse regulation • Conflict of interest refresher tutorial	• Fraud prevention • IT security • General Data Protection Regulation (“GDPR”)

Recruitment

MeDirect aims at onboarding the best talent while also promoting internal employees. During the recruitment process the Group aims to recruit top talent by undergoing rigorous checks both from a technical, soft skills and culture fit perspective. Management aims to always meet external candidates twice to get to know them better and how they would integrate in the culture of the organisation. During the recruitment process an unbiased approach is applied to determine what the person can bring to the table, how they can help MeDirect achieve its goals and what contribution they can have to the overall success of the Group.

To aide in this unbiased approach during the interview process a candidate would potentially meet with a minimum of four different individuals from both the team that issued the vacancy as well as the Human Resource team.

A referral scheme is also in place whereby employees who refer potential candidates for any of the opportunities the Group has on offer and will be awarded one thousand euro.

	Malta	Belgium	United Kingdom
Average time to recruit	**88 days**	**97 days**	**20 days**
Average time to hire	**113 days**	**142 days**	**37 days**

Graduate programme

In 2021 an initiative was launched whereby focus was placed on providing students the opportunity to gain on the job experience in various departments. This was conducted by attending the virtual Careers Week at University and also participating in the apprenticeship scheme through MCAST. In total six interns had the opportunity to work in departments such as Technology, Retail and Corporate. Two of the interns were offered full-time employment post-graduation.

Succession

The objective of succession planning is to take a proactive approach to ensure that leadership and key employee changes do not interrupt major business initiatives, transitions are smooth, and skills gaps addressed.

Other benefits of the planning process include:

- Motivating employees by creating growth opportunities;
- Identifying skill gaps and talent development needs;
- Adapting the organisation to demographic and talent changes;
- Placing people with highly specialised skills into appropriate roles;
- Preserving institutional knowledge; and
- Striving to ensure that the work force is diverse and that the Group provides equal opportunities when vacancies arise.

Therefore, establishing a succession plan and having periodic reviews is imperative:

- To identify and nominate suitable candidates to fill the vacancies which arise in the Board from time to time;
- To identify the key positions in senior management and to recommend successors either by internal or external candidates;
- To identify the competency requirements for critical and key positions, assess potential candidates when vacancies arise and develop required competencies through planned development and learning initiatives; and
- To ensure the systematic and long-term development of individuals for roles in senior management positions and replace when the need arises.

The succession plan considers the following timelines:

- Contingency planning – for sudden and unforeseen departures;

- Medium-term planning – the orderly replacement of current Board members and senior executives (e.g. as a result of retirement); and
- Long-term planning – the relationship between the delivery of the Group strategy and objectives to the skills needed on the Board and in senior management now and in the future.

Code of conduct and ethics

The Code of conduct and ethics policy lays down the code aimed at providing guidance to Group employees on the expectations of the Group, as well as of key stakeholders such as regulators, customers, and the general public. All Group employees are individually responsible to always act with honesty and integrity. All employees including members of the management body are required to follow the spirit of this code as well as the applicable policies and procedures in order to safeguard the reputation of the Group.

The policy is reviewed annually and updated, as and when required, to reflect the introduction of any new rules and regulations. The Policy is circulated to all employees annually as mandatory reading, thus confirming that they have familiarised themselves with the Code and have committed themselves to abide by it. The policy is also available through the Group's policy depository at all times. Conduct matters are also included in the induction training which is attended by all employees upon joining the Group.

The core pillars underpinning the code are:

Products and services:

- The Group employees are required to:
    - produce and market simple products which are easy to understand and with a simple transparent charging structure;
    - to provide all information to allow clients to understand the products and services; and
    - to protect the confidentiality of customer information collected by the Group, and make sure it is only used for the purpose for which it was collected.

Treating customers fairly

- Group employees are required to:
    - ensure that customers are never put at a disadvantage;
    - always act fairly, honestly, and transparently towards customers; and
    - avoid providing customers with undue preferential treatment.

Acting with respect and loyalty

- Group employees are required to*:*
    - display a respectful conduct at work, as well as in their private lives;
    - express loyalty through confidentiality and an open teamworking approach; and
    - respect their role as fit and proper persons (in case of senior management).

Acting with Integrity

- Employees are required to:
    - act ethically as it is not only the right thing to do, but also the right way to do business;
    - conduct themselves with honesty and integrity in their day-to-day duties; and
    - be aware that failure to maintain this standard of integrity, may lead to sanctions for the relevant employee.

Employees are responsible to act with honesty and integrity and apply the Group's key core corporate values in their duties, to reinforce its corporate objectives:

- *Autonomy* – the Group encourages employees to take ownership of their work and grow their skills.
- *Innovation* – the Group encourages employees not to rest on their laurels, but to be results driven and constantly review how they go about delivering the Group's vision.
- *Transparency* – the Group encourages employees to be straight to the point when communicating with clients and with their colleagues.
- *Responsibility* – the Group advocates equality, diversity and inclusion and care for the environment in all that it does.

The code also addresses employees in managerial positions and states they are expected to be exemplary and to demonstrate the standards set out in this code. Managers should strive to create an inclusive and diverse work environment that attracts and retains the best staff members and allows the team to be innovative and excellent. Managers must place themselves in the eyes of their team as approachable and ready to listen and subsequently to support team members while ensuring to supervise the activities and conduct of staff members within the team and to have an appropriate control environment for the business being conducted while adhering to all applicable regulatory requirements.

The Group fosters an environment where staff members should feel free to speak up be it to raise a concern or to escalate potential misconduct or unethical behaviour knowing that they will be heard and acknowledged. The Code of conduct and ethics policy includes means available to employees for the escalation of issues which are/may be complex, challenging, or suspicious activities within the Group.

Supported by the Group's Conflicts of interest policy, the Code also lays down the Group's expectations and processes in order to safeguard the interest of the Group and its stakeholders and/or customers.

Discrimination and harassment

The Group believes that any form of discrimination and harassment is an intolerable violation of the dignity of workers and may have a negative impact on the general well-being of staff members, as well as on the work environment. All staff members are duty bound to safeguard and maintain the guidelines articulated in the policy, which ensures that all staff members are treated with respect and dignity. The Group strives to promote a dignified working environment and believes that preventing discrimination and harassment is part of good management. The victim of sexual harassment may experience emotional and/or physical stress, and/or a negative change in job performance.

The Group also believes that all employees and clients are entitled to be treated with respect and dignity. The dignity of all employees shall be respected, and management and staff of the Group shall abstain from offensive or harmful behaviour, with the aim of ensuring a healthy and pleasant work environment.

The Group strives to offer an environment which is free from the demoralising effects of harassment or unwelcome, offensive or improper conduct. Harassment and bullying of any kind, that is based on the characteristics mentioned above, or other legally protected personal characteristic, are entirely inconsistent with the Group's drive towards providing a respectful, professional and dignified workplace and will not be tolerated, whether committed by or against an employee, client, supplier or visitor. Furthermore, any form of discrimination and harassment will not only be prohibited, but actively tracked and eliminated. The highest attention and confidentiality will be given to deal with discrimination and harassment issues so as to obtain the best possible prevention.

Remuneration

The remuneration report provides an overview of the remuneration governance, the Remuneration policy and the Group's reward strategy.

Performance Management

The performance management cycle is a continuous process which involves the setting of objectives, monitoring of progress, performance and employee development:

A. Objective setting – beginning of the financial year

Goals are set that revolve around the development of the employee. Objectives may be technical or behavioural, however management aims to have SMART objectives. Apart from being assigned individual objectives, employees are also assigned Group wide objectives, which for 2021 were set as follows:

- Embedding a strong risk and compliance culture. Leading by example.
- Meeting and exceeding the expectations of your customer, whether these be external or internal.
- Striving to realise business goals and objectives.

B. Mid-year appraisal

During this process the employee and manager have a discussion around progress and actions for development, rating the progress achieved by the employee to date.

C. End of year appraisal

This is the final step held in December whereby the employee and manager discuss the overall performance and rating of the employee for the financial year. The Group uses a 5-point rating scale (1 being top performers and 5 being the lowest performers).

Further to the end of year review, Heads submit recommendations for salary revisions, promotions and performance bonuses. These are presented to the Nominations and Remunerations Committee for approval.

As part of performance monitoring process for new joiners, rigorous checks are done in order to support new joiners settle into the role having the necessary tools to succeed.

Benefits

In all jurisdiction in which MeDirect operates the benefits offered to employees are in line with market best practice. All employees in our locations have employment contracts which fall under the legislation of that country, however in Belgium there is also a work regulation which supports the employment contract and is a legally required document in Belgium which contains the guidelines and regulations on how work has to be conducted including but not limited to working hours, overtime, leave practice, illness practice, gross misconduct, possible sanctions, harassment and privacy. Benefits in each location are aligned with market best practice.

Insurance and Medical Care

The Group is covered by an appropriate insurance plan that insures the health and safety of its employees, clients and visitors including but not limited to employer's liability insurance and public liability insurance.
All Group Employees are entitled to:

- A life insurance scheme, which incorporates a lump sum benefit equal to four times the employee's annual basic salary subject to the employee passing a health check.
- A premier health insurance cover for the provision of healthcare services in Malta, Belgium and the UK for employees and their immediate family (spouse and children up to the age of 18 years).
- One eye test visit on a yearly basis which will be fully refunded through the health insurance cover. Furthermore, employees are also entitled to an ophthalmological examination if the results of the eye test so warrant.

In cooperation with a medical care company, the Group organises additional initiatives to improve the health of its employees. Throughout 2021, and as done in previous years, all Group employees were entitled to special discounts throughout the month of October and November in view of raising awareness on cancer prevention, detection, and treatment. Employees were also entitled to a part-refund for any tests booked during these months.

Employee medical conditions are treated with utmost importance and maintains details of the medical conditions (in line with GDPR guidelines) affecting the employees whilst identifying suitable interventions and assistance as first aid to help the Employees in cases of emergency. Employee allergies, food intolerance, and dietary requirements are also recorded with the aim of reducing the risk related to the use of any type of allergens which could lead to an allergic reaction; ensuring that the food provided within the workplace, or during company events, is prepared and served making sure it is safe for all consumers, including those who may have food allergies and/or intolerances; and to ensure that the food provided within the workplace, or during company's events, will satisfy any specific dietary requirements employees may have.

Occupational Health and Safety

The Group is aware of the responsibilty for the safety and health protection of all its stakeholders and is primarily obliged to:

- provide, as far as reasonably practicable, a safe and healthy working environment, and safe premises and facilities for employees, clients and visitors;
- create, as far as is reasonably practicable, a working environment for employees where potential work-related stressors are avoided, minimised or mitigated through good management practices, effective human resources policies and staff development;
- ensure that all employees are aware of their health and safety responsibilities and know what is expected of them;
- ensure that employees have access to appropriate training and development to enable them to completely fulfil their responsibilities;
- maintain an effective system for communicating and consulting on health and safety matters, and securing the co-operation of employees in adhering to the Occupational Health and Safety Policy;
- have arrangements to plan, implement, monitor and review measures to address health and safety risks inherently arising from the Group's activities; and
- strive to improve the Group's health and safety performance continuously, measuring its progress against agreed performance standards.

The Group's Occupational health and safety policy sets out the basic regulations on the safety and health of employees, clients and vistiors, in line with applicable environmental, health and safety laws and regulations.

The Board of Directors and senior management seek and expect the full co-operation and support of the whole Group community to ensure that the policy is adhered to at all times.

Health and safety measures

Environmental health is a major factor which is given utmost importance by the Group. The Group stives to maintain a healthy office environment by ensuring best practices and promoting a productive and safety conscious work environment, which includes but is not limited to the attention to chemical hazards, equipment and workstation design, physical environment (ergonomics, temperature, A/C filter cleaning, chairs, footrests etc.), ambient noise, as well as other environmental exposures.

The Group strives to assure that the physical security of the premises is always upheld and that all security measures meet security policies and standards; suitable emergency preparedness is in place; adequate climate control is always maintained; reliable power supplies and electrical safety is in place; and that alarm systems and closed-circuit televisions are properly functioning, The Group also provides the use of access cards to all authorised personnel to access the Group's premises.

The Group is committed to ensuring the emotional and mental wellbeing of our employees. Maximising and sustaining employee health and wellbeing, and recognising, assessing, and managing potential risks to emotional and mental wellbeing is of utmost importance for the Group. Since 2019, the Group engaged in a staff and organisation support programme which is offered through the Richmond Foundation. The Foundation promotes employee mental and emotional well-being and support through personal one-to-one and ad hoc counselling sessions which are offered anonymously and at the Group's expense. The Group also organises various training sessions and workshops throughout the year and is in constant communication with its employees by the means of mailshots related to raising mental health awareness.

The Group is also aware that working through break times in the workplace can cause stress, fatigue and other issues that can affect mental health. For this reason, the Group stives to promote a culture where all employees take their rest breaks. For employees working from the office, the Group has invested in appropriate furniture for relaxing and eating including a TV and a game console. Whilst for employees working from home, a one hour recurring calendar reminder has been set in all Employee calendars to serve as a reminder to take a rest break.

An external health and safety risk assessment is conducted regularly in order to assess the above-mentioned working conditions, assess and opine on measures taken to prevent accidents at work and occupational diseases and draw conclusions and courses of action to be taken to reduce the related occupational risks.

To improve the process of adhering to the above tasks, the Group organises and provides relevant training to identified employees, to carry out the duties of site safety representatives, fire wardens and first aiders. The identified representatives are responsible for ensuring that all safety procedures are adhered to and will report areas of non-compliance to the Administration team.

Group suitability evaluation

The suitability assessment of the members of the Board is done with reference to the Joint ESMA and EBA Guidelines EBA/GL/2017/12 under Directive 2013/36/EU and Directive 2014/65/EU.

The suitability assessment covers the evaluation process prior to the on-boarding of members of the Board and key function holders and the process as part of the internal and external evaluation assessment. When nominating and selecting new Board members and key function holders various criteria are taken into consideration:

- Time commitment;
- Adequate skills, knowledge, and experience;
- Reputation, honesty and integrity;
- Independence of mind, independent members;
- Diversity; and
- Conflict of interest.

The Board should be made up of a diverse pool of members with the ultimate aim to achieve a variety of views and experience to facilitate independent opinions and sound decision-making within the Board. Consideration is given to: i) education and professional background ii) gender and age and iii) geographical provenance.

The Group's internal collective suitability and board effectiveness exercise was carried out during Q1 of 2022 and took sustainability and ESG into consideration. The outcome of this exercise will help to address any training needs that the members of the Board may need in sustainability and ESG.

B. Corporate social responsibility

Sponsorship and charity activity

For many years, the Group has been initiating and implementing a number of sponsorship and charity activities combining business objectives with initiatives for all stakeholder groups. In accordance with its mission, the Group conducts activities whose aim is to have a positive impact and support local talent in sports, culture, and charitable institutions, causes and events. MeDirect's commitment to these initiatives is established through the various sponsorships and donation agreements that support a wide variety of community organisations.

The sponsorship activities of the MeDirect Malta as disclosed in Principle 12 of the Statement of compliance with the Principles of good corporate governance are aimed at promoting the MeDirect's image as a reliable leader of the Maltese banking sector, a trustworthy financial institution, socially involved, innovative and open to its customers' needs.

Malta:	
Culture	Donation of €22,500.
Manoel Theatre	Donation in support of the annual performance season of concerts, recitals, opera, drama, musicals, dance and educational programmes.
Malta Philharmonic Orchestra	Donation in support of bringing together the best of Maltese talent and musicians from Europe and beyond.
Sport	Donation of €20,000.
Otters Aquatic Sports Club	MeDirect Malta hosted the annual registration process at the MeDirect investment centre in Gozo together with a donation.
L-Istrina	Donation in aid of the Malta Community Chest Fund Foundation.
Society	Donation of €1,200.
Blood Bank Malta	Several pens were donated as a token of appreciation to those who voluntarily donated blood.
Ronald McDonald House Charities	Donation in aid of keeping families with sick children close to each other and to the care and resources they need.
Children's dreams	Fulfilled 5 dreams by donating vouchers to every child.

Belgium:	
Red Cross	Donated of €10,000 in aid of the damages caused by floods in Belgium. Moreover, employees donated an additional €150 which was matched by the MeDirect Belgium, donating a total of €10,300 for this cause.
Pink ribbon challenge	MeDirect Belgium participated in an event to raise awareness for breast cancer.

In accordance with the Group's Anti-bribery and corruption policy and procedure in force, the Group, ensures that payments for sponsorships and donations are not used to engage in an incident of bribery. Due diligence must be performed on sponsorship and donation recipients, with consideration given to potential affiliation with public officials. The purpose and selection criteria of a sponsorship or donation recipient must be documented and approved before any payment is made. Appropriate verification must take place to ensure that the authorised recipient is the entity being paid and that there is no pending business decision with the recipient of the sponsorship or donation payment. Multi-year sponsorship agreements must be monitored on an ongoing basis.

The Group restricts or prohibits any form of contribution, donation or event with:

- sponsorship agreements, or charitable contributions with organisations, foundations or entities that do not meet the relevant criteria;
- charities, charitable organisations, non-government organisations, non-profitable organisations that are unregulated or operating in jurisdictions that have significant exposure to terrorist financing; and
- entities that are linked or operate in a prohibited industry as defined by the Group's Client acceptance policy.

The Group verifies every partner and beneficiary of the support provided. No negative impact on the Group's image was identified in 2021 in these areas.

Volunteering

Volunteering is an integral part of the Group's corporate social responsibility activities. The Group tries to engage its employees in the volunteering actions. Last year MeDirect Malta participated in 3 actions supporting environment and local community.

	Beach clean up	President's fun run	Animal volunteer
Date	18 September 2021	21 November 2021	4 December 2021
Hours	5 hours	1.5 hours	2 hours
Number of people	12 people	10 people	15 people

Market recognition

MeDirect Malta has won the "Best use of Technology in Business Transformation" category at the 2021 eBusiness Awards organised by Tech.MT aimed at celebrating the successes in technology and promote the most innovative initiatives in the eBusiness community in Malta. These accolades are an endorsement of Maltese success in delivering projects, initiatives, solutions or other achievements in the digital field. The "Best use of Technology in Business Transformation" category rewards innovation, originality, scope, outcome and external impact. The award also recognises any positive contribution the innovation brings towards environmental sustainability. MeDirect's top priority is to provide their customers with the best experience through digital innovation and is therefore continuously adapting to respond to customers' changing banking needs. The suite of savings and wealth products are available to customers digitally through a best-in-class mobile app and online banking platform.

In December 2020, the MeDirect Malta was awarded the Equality Mark certification. Diversity and equality are very important principles across all levels of management including the Board, with more than 40% of all Group employees being female and employees from more than 20 different countries.

Relations with customers

The Group is committed to provide our customers with a positive experience and the best quality of service. The Group had dedicated procedures to properly manage customer service including customer complaint.

Service quality

The Group has established internal procedures and policies to ensure high level of service. It has developed a Best execution and best selection policy for executing or transmitting transactions in financial instruments. This policy has been established, implemented and will be maintained pursuant to, and in compliance with the EU Directive 2014/65/EU on Markets in Financial instruments and its implementing rules and regulations ("MiFID II rules"), the MFSA Conduct of business rulebook, as well as with the MeDirect policies and internal rules. When executing orders, the Group will take all sufficient steps to obtain the best possible result for the customer. For this purpose, the Group determines the relative importance of the execution factors by using its commercial judgment and experience in the light of market information available and taking into consideration criteria like: the characteristics of the customer order; the characteristics of the financial instruments that are subject to that order; the characteristics of the execution venues to which the order can be directed and the prevailing level of liquidity at the time of execution.

Complaint handling

The Group has established internal procedures and policies regarding complaints in line with relevant regulations such as the Malta Financial Services Authority Banking rule 22. The main purpose of these policies is to inform the customers in a transparent way about procedures for filing complaints as well as terms and conditions and time limits applicable to complaint handling. The procedures describe how the complaints are recorded, acknowledged and resolved. MeDirect accepts verbal and written complaints. Each complaint is treated in a confidential manner and in line with the GDPR.

The Group is committed to investigate and communicate the outcome of the investigation to the customers in writing within fifteen working days from the receipt of the complaint. In the eventuality that the Group is unable to complete the investigation within the stipulated timeframe, the Group notifies the customer accordingly. If the customer is not satisfied with the progress of the investigation, the Group's resolution, or if no agreement was reached between the customer and the Group, the customer may refer the matter to the relevant authority in that jurisdiction.

The Group carefully analyses each complaint and takes appropriate remedial actions in line with its internal rules and procedures. Systematic analysis of complaints allow MeDirect to take appropriate measures to improve the processes and procedures applied and improve quality of our service.

Relations with Investors

The ultimate controlling shareholder of MeDirect is AnaCap Financial Partners II LP ("AnaCap Fund II"). An employee of a company affiliated with AnaCap Fund II serves as a non-executive director of MDB Group and MeDirect Malta, ensuring open lines of communication between MeDirect and its controlling shareholder.

In line with the Listing Rules of the Malta Stock Exchange ("MSE"), on which MeDirect has listed subordinated debt securities, MeDirect regularly publishes company announcements on the websites of MeDirect and the MSE in order to keep all stakeholders informed of material developments relating to MeDirect.

C. Governance

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

Conflicts of Interest

The Group has established and implemented Conflict of interest policy stemming from the EBA guidelines (2013/36/EU) and MiFID (2014/65/EU) which defines the Group's arrangements for management of conflict of interest. The policy applies to the Group, all employees and any other affiliated person or company.

The primary aim is to set out the Group's arrangements in connection with the identification, prevention, documentation, escalation, management and eventual communication to the customers (where necessary) of conflicts of interest to ensure that these do not adversely impact the interest of customers, the Group, any group company, its shareholders or other stakeholders (vendors, outsourcers etc). Appropriate to the size and organisation of the Group, as well as the nature, scale and complexity of its business activities, this policy aims at protecting the interest of each entity of the Group, customers, shareholders, staff and other stakeholders by ensuring that decisions are not made for improper reasons.

Whilst some conflicts of interest are not permitted as a matter of law or regulation, others are permitted as long as the Group has appropriate means by which such conflicts of interest can be managed. The Group may put in place arrangements (which may be used individually or in combination) to prevent the conflicts of interest and to manage the ones that could not be prevented:

- Organisational arrangements;
- Policies, procedures and controls;

- Disclosures to affected parties (MiFID specific); and
- Halt the service, activity or matter giving rise to conflict of interest where it cannot be prevented of managed using the above means.

The Group ensures that it includes conflicts of interest matters in its training and awareness programme through a mandatory annual online training module with assessment, mandatory annual reading of the policy, distribution of knowledge bites which serve as reminders to all members of staff of their obligations.

The Group also gathers conflicts of interest declarations from its members of staff during the different stages of the employment as follows:

- All new joiners are requested to submit a conflict of Interest declaration upon joining the Group;
- An annual attestation exercise requesting all staff to submit a conflict of interest declaration;
- A conflict of interest statement is present at the beginning of all committee meetings which requires committee members to declare conflicts of interest they may have; and
- Any procurement must consider conflicts of interest.

The Group keeps an inventory of potential conflicts of interest scenarios and a register of all conflicts identified and/or reported together with any measures put in place to mitigate such conflict of interest.

On an annual basis a written report will be provided to Executive Committee and Board of Directors of the Group entities for oversight.

Preventing corruption and bribery

The Group has zero tolerance for Bribery and Corruption. The Group sets out within its policies and procedures that all employees are responsible for the prevention and mitigation of bribery and corruption within their own role and responsibilities.

The objective of the Group Anti-bribery and corruption ("ABC") policy and procedures is to set out the principles for the management of bribery and corruption risk across MeDirect. These are designed to adhere to applicable laws and regulations in relation to ABC for the jurisdictions in which the Group operates, including the Maltese Criminal code, Belgian Criminal code, UK Bribery act, Belgium Anti-bribery and corruption policy, Client acceptance policy, Belgian Clients and funds acceptance policy, Belgian Anti-money laundering policy and Whistleblowing policy, Conflict of interest policy and Inducement policy.

Minimum standards

The ABC policy and procedures define the minimum standards which all group entities must comply with. This includes the ABC key principles, which requires that all activity:

- must be conducted without intent to bribe or corrupt;
- must be reasonable and transparent;
- must not be considered lavish or disproportionate to the professional relationship;
- must be appropriately documented with business rationale; and
- must be authorised at an appropriate level of seniority.

The ABC policy and procedures facilitate these key principles, by further setting minimum standards under four ABC pillars:

Employees

All Employees (Employees means permanent and fixed term employees, contractors and consultants, including those on assignment or secondment) must ensure their interactions or relationships do not induce, or can be seen to induce, improper action in order to obtain or retain a business advantage. This covers the giving and receiving of additional benefits, which refers to:

- gifts and entertainment;
- charitable donations and giving;
- sponsorships;
- training; and
- hiring.

The ABC policy and procedures set out clear recording, approval and escalation requirements for additional benefits, together with any prohibited activity.

Associated persons

The ABC policy and procedures require that all associated persons must be identified, recorded and have appropriate due diligence completed.

Customers

Customers must not use the Group's products and services to facilitate the payment or receipt of bribes or funds from corrupt activity. In order to comply with the letter and spirit of applicable ABC laws and regulation, the ABC policy and procedures require risk-based controls are in place to prevent products and services being used for bribery or corruption. This includes customer due diligence, transaction monitoring and customer exit requirements.

Strategic

All strategic activity is required to identify and mitigate any bribery or corruption risk. The ABC Policy and Procedures set these minimum standards, which includes due diligence and integration of ABC controls, for:

- strategic and proprietary investments and disposals;
- new products and services design; and
- corporate real estate transactions.

Oversight

The ABC policy is overseen by the Board. The Group requires all staff, Board of Directors and associated persons to comply with the principles in the ABC policy and annual mandatory ABC training is provided to all staff, with additional targeted training, tailored to the roles of individuals.

The Group carries out regular monitoring and testing of its ABC standards, with any applicable findings included within the ABC policy and procedures. The Group also maintains clear whistleblowing policies and processes, to ensure that individuals can confidentially report concerns.

Whistleblowing

The Group has a Whistleblowing policy in place to promote a corporate culture supporting ethical behaviour, in accordance with the provisions of law. The policy addresses the requirements stemming from the Maltese Protection of the Whistleblower Act 2013 and Belgian Law on The Reporting of a Suspected Violation of Integrity in a Federal Administrative Authority by a Staff Member 2013.

The primary aim of the Whistleblowing policy is to ensure that any concerns the employees might have about any wrongdoing can be properly and safely raised, disclosed, and addressed within the organisation and externally, without fear of any repercussions for the whistleblower.

The Group recognises that the workforce in many instances is much closer to the operations of the organisation and therefore is in a better position to detect malpractice and wrongdoing more effectively and efficiently, even if it is subsequently deemed not to be a wrongdoing. Consequently, any information from the workforce enables the organisation to deal with any such malpractice or wrongdoing internally and promptly and in so doing minimises the consequences of such malpractice and wrongdoing. Employees are encouraged to disclose any acts or omissions which they believe constitute improper practices. Such disclosure may be made either in writing or verbally to the Whistleblowing reporting officer.

The Board has overall responsibility for this policy, and for reviewing the effectiveness of actions taken in response to concerns raised under this policy. The Whistleblowing reporting officer has day-to-day operational responsibility for this policy and must ensure that all managers and other staff who may deal with concerns or investigations under this policy receive regular and appropriate training.

Policy for counteracting money laundering and financing of terrorism

Money laundering, terrorist financing and sanctions have been identified as major threats to the international financial services community. The European Union through the enactment of the various anti-money laundering directives has sought to prevent money laundering and to combat funding of terrorism. Such legislation, together with regulations, rules and industry guidance, form the foundation of AntiMoney Laundering ("AML"), Combatting Terrorism Financing ("CTF") obligations and outline the offences and penalties for failing to comply.

MeDirect is committed to the highest standards of compliance to prevent the use of its products and services to be abused for illicit purposes.

The Group is committed to implementing minimum control standards across all jurisdictions for which it operates and has established a Customer acceptance policy and an AML/CFT Policy as well as Procedures for this purpose.

The objective of these policies and procedures is to identify and appropriately manage money laundering and sanctions risks identified by the Group. This is achieved by establishing and implementing appropriate processes, systems and controls to protect the Group, its customers, shareholders, employees, and the communities it serves from money laundering, terrorism financing and sanctions. They set out the minimum control standards to all group entities and employees, requiring them to conduct business in accordance with applicable AML and Sanctions laws, rules, and regulations.

The Policies include:

- The appointment of a Country Money Laundering Reporting Officer;
- Minimum customer acceptance and Customer Due Diligence requirements; incorporating Customer Identification and Verification and Know Your Customer principles;
- Conducting Enhanced Due Diligence ("EDD") on customers assessed as higher risk; such as Politically Exposed Persons in senior positions, their relatives and close associates;
- Establishing processes and systems designed to monitor customer transactions for the purpose of identifying suspicious and sanctioned activity;
- The investigation and subsequent reporting of suspicious activity to the appropriate regulatory and/or law enforcement bodies;
- Mandated regular training of employees;

- The prohibition of certain products, services and customer types including anonymous accounts or numbered accounts or customers seeking to maintain an account in an obviously fictitious name;
- Mandated regular independent testing by second line assurance function and third line audit function; and
- Any relevant additional local requirements.

These policies apply to all employees (including temporary employees) in all functions, all units in the Group and all subsidiaries. Adherence to the policy and procedures is the responsibility of both management and employees.

Data Management and Protection

The Group established a Data protection policy and complies with generally applicable laws and principles specified in Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC–General Data Protection Regulation.

The Group Data Protection Officer (DPO) holds the responsibility of the Data protection function of the Group and is responsible for the Data protection policy, the Data retention and archiving policy and the Voice and teams recording policy. The DPO provides oversight over the Group and all its employees about their obligations to comply with GDPR, raise awareness and training for staff, and conduct internal controls. The tasks also include adherence to data subject requests and reporting to the appropriate regulatory authorities as and when required, such as the Information and Data Protection Commissioner (IDPC) in Malta.

MeDirect Malta collects and manages personal information of its employees, third party contractors and clients. MeDirect Malta has assigned the IDPC in Malta as its Supervisory Authority.

To comply with data protection legislation, information must be collected and used fairly, stored safely and not disclosed to unauthorised parties. Third parties working with the Group having access to personal data must also comply with this policy. Group employees dealing with third parties shall be responsible to ensure that third parties are made aware and comply with the requirements set forth in this policy.

The Data retention and archiving policy governs all data held by MeDirect. The Group mandates that all system and software providers introduce and follow appropriate data retention practices that align with this policy.

The main purpose of this policy is for the Group:

- To retain important records and documents for future use or reference;
- To dispose of records or documents that are no longer needed;
- To organise records so they can be searched and accessed at a later date; and
- Establish clear roles and responsibilities to execute and maintain such policy.

The 'Group has established a Voice and Teams recording policy to govern the effective preservation, protection and management of voice records. The Group has put in place this policy with the aim of providing clear guidance to its employees.

The Group shall retain records, for use in:

- Investigations or an analysis of the possibility of illegal activities. These records may be requested by any national competent authority having the authority at law to request such information;
- Training of client facing staff;
- Compliance with regulations;
- Quality control and assessment;
- Audit requirements;
- Providing the necessary supporting evidence when instructions are received over voice messages and in situations where there are client/bank disputes; and
- Recording of meetings for training and minute taking purposes.

Information and communication technology ("ICT") and security

The Group has implemented a set of cybersecurity policies and procedures that establish security standards, controls and prevents unauthorised access to organisational assets such as hardware, networks, and data. It maintains the integrity and confidentiality of sensitive information, blocking the access of unauthorised users and adequately secure information in order to mitigate financial and reputational losses risk.

Our internal polices take into consideration the supervisory requirements, namely the EBA Guidelines on ICT and security risk management (EBA/GL/2019/04).

The Group IT security policies and rules include the following main areas:

- Information and communication technology risk management framework;
- Information security policy;
- Information classification policy;
- Network security policy;
- Server security policy;
- Vulnerability management policy;
- Workstation security policy;
- Database security policy;
- Cryptographic controls and Key management policy; and
- Audit logging policy.

The Group has also adopted the Incident management procedure, the purpose of which is to describe the process to be used for incident management. This procedure includes the flows to be followed when managing incidents affecting operations and payment services, cyber security incidents and incidents impacting data protection.

D. Environment

MeDirect is aware of the impact of climate and environmental changes on the health of society and sustainability of our planet. MeDirect does care about environment and impact of our operation on environment. The Group has an impact on environment through its operations as well as through credit and investment portfolios. Consequently, the Group has been working on developing an action plan to incorporate climate-related and environmental risks in its strategy and risk management practices.

Own operations

MeDirect has been transforming its business model to low-carbon emission model mainly operating in digital channels. MeDirect has only two physical branches in Malta and Gonzo and a offices in Malta, Brussels and London. During the past years MeDirect reduced office space while investing in digital and automated solutions. Smart tools and easy digital ways of handling everyday banking operations not only improve operational efficiency but also reduce environmental impact.

The Group's head office and its branches are equipped with LED lamps and occupancy sensors to reduce energy consumption. Furthermore, the Group encourages its employees to reduce paper printing where possible and to facilitate the recycling of all kinds of waste.

Waste is segregated in our locations. The waste stream is recycled and segregation includes local standards as follows: Malta–paper, plastic, glass and general waste; Belgium – residual waste, plastic packaging, metal packaging, drinks cartons, carton and paper; and UK–food waste, recyclables and general waste.

The car fleet is limited as the Group mainly operates in digital environment and gradually increased its electric and hybrid car fleet while encouraging the employees to use eco-friendly cars.

Cars – Electric	5
Cars – Hybrid	9
Cars – other	17

MeDirect consolidated and containerized its technology infrastructure at a Data centre level and thanks to this initiative the Group managed to reduce the carbon footprint by 41.48 tonnes per year.

Due to the nature of MeDirect's business the Group's direct impact on natural environment is limited. The data regarding resources consumption are presented in the table below.

Resources consumption – Power	MWh	277
Resources consumption – Water	m3	1975
Resources consumption – Petrol	tonnes	6
Resources consumption – Diesel	tonnes	10
Resources consumption–Natural gas	m3	53
Resources consumption – Paper	tonnes	4

Credit process

During 2021 the Group launched mortgage lending in Malta. For each property that is financed by MeDirect Malta, an Energy Performance certificate ("EPC") is requested. Following an analysis of energy performance, it was identified that approximatley 7% of mortgage loan exposures with a yearly energy requirement below 50 kWh/m2 and 6% of mortgage loan exposures with a yearly energy requirement above 150 kWh/m2.

MeDirect intends to expand its mortgage lending offering to include green mortgages to promote energy-efficient homes supporting decarbonisation of buildings and reducing global warming. Clients with green EPC certificate (certain level of yearly energy requirements in Kwh) will be able soon to apply for green mortgage with preferential terms.

The Group has a portfolio of Dutch NHG mortgages, and even though it is not the lender of record (this is done through a third-party by silent assignment through our partner HollandWoont), MeDirect allows the borrowers to take up a higher mortgage amount (106% instead of 100%), provided the additional amount is used to take energy savings measures. An analysis of the energy performance of the mortgages identified approximatley 10% of mortgage loan exposures with rating A (yearly energy requirement below 160 kWh/m2) while the majority of loans (54%) are with ratings B to D (yearly energy requirement between 150 and 290 kWh/m2).

Mortgage loans were also launched in Belgium at the start of 2022 via a silent assignment partnership and there as well data is being gathered about the energy consumption (via the EPC). The Group is currently considering launching a “green loan” offer with preferential terms for properties with a maximum level of energy consumption.

In line with the approach adopted in the 2022 ECB Climate Stress Test, the Group evaluates flood risk for residential and commercial real estate portfolios in the Netherlands, Belgium, and Malta, using a regional approach based on Eurostat’s Nomenclature of Territorial Units for Statistics (“NUTS”). Using this approach, the Group is able to differentiate between those regions at higher, medium, low and minor risk of flooding, for example due to differences in altitude.

MeDirect also offers a range of banking services to corporate clients in Malta and participates in international syndicate lending focused primarily in the EU and the UK. Similar to the onboarding of retail clients, the onboarding of corporate clients is governed by a number of policies of which the Group’s Client acceptance policy which restricts and prohibits the commencement of a banking relationship with certain types of clients and/or the entering into certain types of transactions, for example: business involved in the production or trade in radio-active materials and/or arms of mass destruction, business involved or operating in the extraction of previous metals or raw materials.

The Group’s exposure to the sectors highly contributing to climate change represents 26.5% of our corporate lending book and 4.6% of total Group assets as presented in the table below. The Group does not have direct exposure to coal mining, electricity, gas, steam, air conditioning supply and water supply due to our low-risk appetite in these sectors.

Industry	NACE	% of Group corporate lending book	% of Group assets
Agriculture, forestry and fishing	A1-A2	0.1%	0.1%
Mining and Quarrying	B5-B9	0%	0%
Manufacturing	C10-C33	8%	1.4%
Electricity, gas, steam and air conditioning supply	D35	0%	0%
Water supply; sewerage, waste management and remediation activities	E36-E39	0%	0%
Construction	F40-F43	4%	0.8%
Wholesale and retail trade; repair of motor vehicles and motorcycles	G45-G47	4%	0.7%
Transportation and storage	H49-H53	1%	0.2%
Accommodation and food service activities	I55-I56	3%	0.5%
Real estate activities	L68	6%	1.0%

The above data that represents the carrying amount of exposures in the international corporate lending portfolio and the corporate lending portfolio in Malta.

The Group is cognisant of the fact that its corporate borrowers are active in sectors which may be associated with potential impacts on the environment, including greenhouse gas emissions, biodiversity loss and water scarcity. For this reason, borrowers active in the following sectors are not permitted:

- Companies engaged in thermal coal power production and subsequent distribution to third parties;
- Arctic offshore oil and gas exploration and production;
- New or expansions or refurbishments of existing nuclear power plants, or related equipment or services;
- High-level nuclear waste processing, transportation or storage activities;
- Mining, exploration, upgrading or trading of oil tar sands;
- Mining, trading or processing of asbestos, uranium or thermal coal;
- Involving mountaintop removal;
- Deforestation and/or burning down tropical rainforests;
- Operations that generate a negative impact on areas such as the UNESCO World Heritage Sites and wetlands registered by the Ramsar Convention;
- Products related to the production of chemical and biological weapons; and
- Beaching of ships.

One of the key elements of the Group's ESG initiatives is to embed climate-related and environmental risks in the various stages of the credit process loan origination, portfolio monitoring, stress testing, scenarios, reporting. The Group has started to incorporate sustainability in credit risk appetite, policies and procedures which will then drive the Group's credit risk profile. MeDirect has been prepared and will start to adopt new procedures on ESG due diligence (ESG questionnaire) of the corporate clients during loan origination (Malta) and also post-transaction (ICL) as an initial data-collecting process for corporate lending clients. The Group is also in the process of collating the required data to be able to assess the borrower's exposure to environmental factors and the impact on climate change, whilst making use of heat maps to identify borrowers that are exposed to increased climate-related and environmental risks. An ESG action plan will be in place in 2022 whereby the Group aims to achieve a number of targets related to climate and environmental risks at short and medium term.

Sustainability, climate-related and environmental risks

The Group has started to incorporate sustainability in its internal governance framework including oversight of CER by the Board and ESG committee. The ESG Committee directly oversees ESG-related risks and opportunities, including climate-related and environmental risks while the Board maintains oversight via updates that are given during the routine board meetings. As a part of the Group's ESG action plan, the Group intends to continue integrating C&E risks across the three lines of defence by updating the risk management framework, compliance monitoring plans and internal audit plan. The Group has recruited in 2022 the Head of Sustainability to be the primary coordination point amongst functions internally.

The Board is kept updated on this topic via standing agenda items during routine board meetings that include updates on supervisory questionnaires on climate-related and environmental risks, the supervisory climate stress test and action plan that will be implemented by the Group to enhance the embedding of ESG/CER in the strategy and risk management of the Group.

The Group has started to develop ESG/CER competencies inside the organisation through organising ESG/CER trainings to the Board and its employees. Last year the Board participated in specific and detailed ESG/CER training and internal training was conducted on ECB CER Guide to risk community and top managers.

The Group participated in the 2022 ECB stress tests and questionnaires related to CER to meet supervisory requirements and track regulatory expectations.

The Group has also prepared two ESG/CER action plans on ECB CER expectations and SFDR requirements to be implemented going forward.

The Group has conducted an initial materiality assessment to analyse the main Climate & Environmental Risks ("CER") that may impact its strategy, business model, asset portfolios, funding sources, wealth management services, as well as the business operating centres in which it operates. The impact assessment covers all balance sheet elements and off-balance sheet services, covering physical risks to assets (primarily credit risk), funding sources (primarily the availability and eligibility of such sources), transition risks (primarily regulatory change) and high-level impact horizons. Overall, the Group has relatively moderate overall inherent risk exposure to Climate and Environmental Related Risks, and low overall inherent risk exposure in the short-term, given the focussed nature of its strategy and business model, alongside the specific products and services it provides to its clients.

MeDirect has drafted key risk indicators (''KRI'') to measure and monitor CER risks faced by the Group and its core portfolios on a regular basis, based on a proportionality and risk-based approach.

The strategic plan is to continue to reduce corporate exposure which represents higher potential risk to CER for the Group and in turn, increase residential mortgage lending activity in Belgium and Malta, based on origination criteria that includes CER related underwriting practices and the proposed launch of Green lending products and incentives for clients, as well as embedding ESG in the Wealth Management Investment Processes, to assist customers with green investment trends.

The Group has updated and will adopt its risk management framework, ICAAP & ILAAP Governance and Stress Testing Frameworks with a view to managing, monitoring, and mitigating CER over a sufficiently long-term horizon. Where deemed applicable, the Risk Management function integrates climate-related & environmental risks within its risk identification process as an overarching theme though both its financial and non-financial risks. By doing this, the Group will comprehensively analyse the ways in which CER drive and potentially impact the different risk areas.

The Group has also incorporated climate-related scenarios in its stress testing processes which encompass both physical and transition risk over various time horizons. Stress Testing helps inform the Groups management body about CER and their impact on the Group using comparable metrics. The Group is in the process of developing new stress testing processes and enhancing existing ones to be able to conduct such Climate Risk Stress Testing which is still in early stages of implementation within the banking sector.

The Group has integrated adverse climate-related and environmental events into business continuity and incident management procedures, including relevant communication planning in the event of adverse physical and transition risks occurring. Further assessments of impacts of CER into BCP and incident response planning will be included within the annual refresh of these frameworks.

The Group will continue incorporating sustainability in its business processes in order to track emerging in the business environment ESG and climate risks.

The Group has also prepared an action plan regarding its compliance with ECB Guide on climate-related and environmental risks based on eight pillars to be implemented going forward.

Investment process

The Group distributes funds through its wealth management business. On 10 March, the EU Sustainable Finance Disclosures Regulation (the "SFDR", Regulation EU 2019/2088) came into force, requiring asset managers to provide information about their investments' environmental, social and governance risks as well as impact on society and the planet. This regulation classifies funds into one of the three categories meaning Article 6, Article 8 ("Light green") and Article 9 ("Dark green") based on the sustainability objective.

Light green funds promote environmental and/or social characteristics and may invest in sustainable investments while dark green funds have sustainable investment as their main objective.

Although MeDirect does not actively promote these funds, its offering includes a wide selection of funds and exchange-traded funds ("ETFs") that are classified by the respective fund houses (data collated by Morningstar) as Light Green and Dark Green products under the SFDR regime as presented in the table below. More than 50% of the funds and around 10% of ETFs that the Group distributes includes sustainability in the investments.

Number of mutual funds offered by the Organisation under art. 8 SFDR (light green funds)	702
Number of mutual funds offered by the Organisation under art. 9 SFDR (dark green funds)	123
Number of ETFs offered by the Organisation under art. 8 SFDR (light green funds)	56
Number of ETFs offered by the Organisation under art. 9 SFDR (dark green funds)	17

Through its investment services, the Group already holds substantial invested amounts in these funds as presented in the table below. MeDirect exposure to green funds is 61% of the funds and around 1% of ETFs.

Market value of mutual funds under custody/management by the Organisation under art. 8 SFDR (light green funds)	€ million	492.2
Market value of mutual funds under custody/management by the Organisation under art. 9 SFDR (dark green funds)	€ million	61.1
Market value of ETFs under custody/management by the Organisation under art. 8 SFDR (light green funds)	€ million	9.1
Market value of ETFs under custody/management by the Organisation under art. 9 SFDR (dark green funds)	€ million	1.7

Starting from the second quarter of 2022 the Malta customers will have the ability to filter sustainable (light green and dark green) mutual funds and ETFs on the execution platform.

The Group also offers a range of model portfolios for its wealth management clients, including the Sustainable MeGreen Model portfolio that is offered through MeDirect Belgium. Sustainable MeGreen is structured in partnership with NN Investment Partners. All funds offered in the MeGreen Model Portfolio are publicly available funds managed by NN Investment Partners. All funds within this portfolio have a sustainable investment objective as described in article 9 of the SFDR. MeDirect Belgium is the distributor of the funds, that are offered in at an execution only base. The sustainability objective and methodology, the selection criteria and exclusion criteria are applied and managed by NN Investment Partners, the manufacturer of the funds within the Sustainable MeGreen Model Portfolios.

So far MeDirect is not taking into account the principle adverse impacts on environment, social and governance factors when taking investment decisions in respect of its portfolio management service and investment advice propositions. Advisors within the Malta retail investment network can provide information to customers about the sustainability rating of the individual Mutual Funds if such information is requested. Information can be obtained from the Key Investor Information Document ("KIID") of each respective fund.

The Group is currently working on revamping its suite of investment products which it aims to launch in 2022, in particular a new portfolio management offer, in partnership with a major external player, that will come through article 8 mutual funds and investment advice services that will consider the client's ESG preferences.

By the time the newly revamped products/ services have been launched, the Group will have reviewed its processes to incorporate sustainability factors and principal adverse impacts in its investment decisions and personal investment recommendations. In the meantime, MeDirect will continue to offer all types of investment funds without any preference. The Group has prepared dedicated action plan to properly address SFDR requirements.

Moreover, the Group has started actively investing in green bonds and aim to increase the holdings of this security within the banking book. The amount of the fixed income invested in green bond certified according to a potential EU Green Bond Standard reached €37 million (5% of the banking book as at 31 December 2021).

E. Way forward

In the first half of 2021 an ESG questionnaire was circulated with all Group employees to assess the awareness of sustainability and ESG principles across the Group and to ask the employees to suggest ways how the Group can become more sustainable. The outcome of this questionnaire will be used to instil a culture that is more focused on sustainability with the aim to launch more initiatives during 2022 that are also driven by the employees themselves.

The Group intends to continue strengthening and enhancing its positioning with regards to sustainability and ESG principles by identifying a number of additional actions that will be implemented by 2023.

The Group has prepared two main action plans regarding European Central Bank Guide on climate-related and environmental risks' and SFDR requirements.

Action plan on ECB Guide on climate-related and environmental risks' includes the enhancement of the risk management framework and the risk appetite framework to ensure that climate-related and environmental risks are embedded and integrated in the decision-making process and overall strategy, as well the establishment of KPIs specifically to monitor climate-related and environmental risks.

Action plan on SFDR requirements aims to include sustainability in investment advisory and the portfolio management process.

MeDirect will continue to include sustainable products in its offer supporting green transformation.

Also, starting from this year MeDirect will include ESG/CER performance objectives including Three Lines of Defence in the top management objectives in order to motivate key managers to actively participate in the ESG and climate transformation. The Group wants to develop ESG competencies inside the organisation through organising ESG and climate risks trainings to all employees.

Financial Statements

Statements of financial position

		Group		Company	
	Notes	**2021 €000**	2020 €000	**2021 €000**	2020 €000
ASSETS					
Balances with central banks and cash	4	**328,626**	490,680	**-**	-
Derivative financial instruments	5	**37,637**	1,841	**-**	-
Loans and advances to financial institutions	6	**198,877**	263,775	**102**	646
Loans and advances to customers	7	**2,324,303**	2,020,760	**-**	-
Investments					
- Treasury portfolio	8	**769,917**	857,719	**-**	-
- Securitisation portfolio	8	**507,351**	293,206	**-**	-
- Subsidiary	9	**-**	-	**264,110**	264,110
Property and equipment	10	**9,186**	11,711	**-**	-
Intangible assets	11	**13,492**	15,842	**-**	-
Non-current assets classified as held for sale	12	**1,785**	1,785	**-**	-
Current tax assets		**1,302**	1,582	**6**	6
Deferred tax assets	13	**18,390**	18,550	**-**	-
Prepayments and accrued income	14	**14,314**	16,524	**-**	-
Other assets	15	**15,329**	47,575	**12,890**	1,608
Total assets		**4,240,509**	4,041,550	**277,108**	266,370
EQUITY					
Called up issued share capital	16	**55,738**	55,738	**55,738**	55,738
Share premium	16	**13,756**	13,756	**13,756**	13,756
Shareholders' contributions	16	**136,300**	136,300	**136,300**	136,300
Reserve for general banking risks	16	**3,798**	3,357	**-**	-
Other reserves	16	**(2,059)**	(13)	**-**	-
Retained earnings	16	**27,960**	45,580	**59,928**	59,922
Total equity		**235,493**	254,718	**265,722**	265,716
LIABILITIES					
Derivative financial instruments	5	**1,131**	14,344	**-**	-
Amounts owed to financial institutions	17	**273,349**	352,067	**-**	-
Amounts owed to customers	18	**2,960,865**	2,749,929	**-**	-
Debt securities in issue	19	**658,293**	553,849	**-**	-
Subordinated liabilities	20	**65,130**	54,650	**10,136**	-
Current tax liabilities		**2**	89	**-**	-
Deferred tax liabilities	13	**816**	881	**-**	-
Provisions for liabilities and other charges	21	**1,223**	3,916	**-**	-
Accruals and deferred income	22	**24,700**	32,940	**977**	9
Other liabilities	23	**19,507**	24,167	**273**	645
Total liabilities		**4,005,016**	3,786,832	**11,386**	654
Total equity and liabilities		**4,240,509**	4,041,550	**277,108**	266,370
Memorandum items					
Commitments to purchase financial assets	33	**11,000**	22,000	**-**	-
Commitments to extend credit, guarantees and other commitments	32 - 33	**377,572**	743,929	**-**	-

The notes on pages 83 to 265 are an integral part of these financial statements. The financial statements on pages 77 to 265 were signed by Michael Bussey (Chairman) and Arnaud Denis (Chief Executive Officer) on 7 April 2022.

Statements of comprehensive income

		Group		Company	
	Notes	2021 €000	2020 €000	2021 €000	2020 €000
Interest income		**74,156**	77,849	**1,099**	-
Interest expense		**(27,108)**	(28,797)	**(1,099)**	-
Net interest income	24	**47,048**	49,052	**-**	-
Fee and commission income		**8,320**	7,973	**-**	-
Fee and commission expense		**(2,637)**	(2,472)	**(1)**	-
Net fee and commission income	25	**5,683**	5,501	**(1)**	-
Net trading income	26.1	**2,689**	1,703	**-**	-
Net gain/(loss) from other financial instruments at fair value through profit or loss		**351**	(288)	**-**	-
Other operating income					
- Realised losses on disposal of other investments	26.2	**-**	(737)	**-**	-
- Realised gains/(losses) on disposal of loans and advances		**317**	(4,156)	**-**	-
- Other income		**143**	339	**17**	-
Total operating income		**56,231**	51,414	**16**	-
Personnel expenses	27	**(22,512)**	(23,318)	**-**	-
Depreciation and amortisation	10-11	**(6,876)**	(7,295)	**-**	-
Other administrative expenses	28	**(38,390)**	(30,761)	**(10)**	(17)
Total operating expenses		**(67,778)**	(61,374)	**(10)**	(17)
Net operating (loss)/profit before changes in expected credit losses		**(11,557)**	(9,960)	**6**	(17)
Change in expected credit losses and other credit impairment charges	29	**(2,326)**	(65,253)	**-**	-
(Loss)/profit before tax		**(13,883)**	(75,213)	**6**	(17)
Tax expense	30	**(1,324)**	(6,320)	**-**	(3,426)
(Loss)/profit for the year		**(15,207)**	(81,533)	**6**	(3,443)
Other comprehensive income					
Items that may be reclassified subsequently to profit or loss					
Fair valuation of financial investments measured at fair value through other comprehensive income:					
- Net change in fair value, before tax		**(3,823)**	6,854	**-**	-
- Net amount reclassified to profit or loss, before tax		**-**	(368)	**-**	-
Income tax relating to these items		**1,109**	(1,826)	**-**	-
		(2,714)	4,660	**-**	-
Items that will not be reclassified subsequently to profit or loss					
Fair valuation of financial investments measured at fair value through other comprehensive income:					
- Net change in fair value		**1,991**	(668)	**-**	-
Other comprehensive income, net of tax		**(723)**	3,992	**-**	-
Total comprehensive income, net of tax		**(15,930)**	(77,541)	**6**	(3,443)

The notes on pages 83 to 265 are an integral part of these financial statements.

Statements of changes in equity

Group	Share capital €000	Share premium €000	Shareholders' contributions €000	Reserve for general banking risks €000	Other reserves €000	Retained earnings/ (accumulated losses) €000	Total €000
Balance at 1 January 2020	55,738	13,756	136,300	3,357	(4,005)	127,113	332,259
Total comprehensive income							
Loss for the year	–	–	–	–	–	(81,533)	(81,533)
Other comprehensive income, net of tax:							
Items that may be reclassified subsequently to profit or loss							
Fair valuation of financial investments measured at fair value through other comprehensive income:							
- Net change in fair value arising during the year, net of tax	–	–	–	–	4,920	–	4,920
- Reclassification adjustments: net amount reclassified to profit or loss, net of tax	–	–	–	–	(260)	–	(260)
	–	–	–	–	4,660	–	4,660
Items that will not be reclassified subsequently to profit or loss							
Fair valuation of financial investments measured at fair value through other comprehensive income:							
- Net change in fair value arising during the year, net of tax	–	–	–	–	(668)	–	(668)
Total comprehensive income, net of tax	–	–	–	–	3,992	(81,533)	(77,541)
Balance at 31 December 2020	55,738	13,756	136.300	3,357	(13)	45,580	254,718
Balance at 1 January 2021	**55,738**	**13,756**	**136,300**	**3,357**	**(13)**	**45,580**	**254,718**
Total comprehensive income							
Loss for the year	**–**	**–**	**–**	**–**	**–**	**(15,207)**	**(15,207)**
Other comprehensive income, net of tax:							
Items that may be reclassified subsequently to profit or loss							
Fair valuation of financial investments measured at fair value through other comprehensive income:							
- Net change in fair value arising during the year, net of tax	**–**	**–**	**–**	**–**	**(2,714)**	**–**	**(2,714)**
Items that will not be reclassified subsequently to profit or loss							
Fair valuation of financial investments measured at fair value through other comprehensive income:							
- Net change in fair value arising during the year	**–**	**–**	**–**	**–**	**1,991**	**–**	**1,991**
- Reclassification of gain on disposal of investments to retained earnings	**–**	**–**	**–**	**–**	**(1,323)**	**1,323**	**–**
	–	**–**	**–**	**–**	**668**	**1,323**	**1,991**
Total comprehensive income, net of tax	**–**	**–**	**–**	**–**	**(2,046)**	**(13,884)**	**(15,930)**
Transfer to Reserve for general banking risks	**–**	**–**	**–**	**441**	**–**	**(441)**	**–**
Transactions with owners							
Acquisition of subsidiary (Note 38)	**–**	**–**	**–**	**–**	**–**	**(3,295)**	**(3,295)**
Balance at 31 December 2021	**55,738**	**13,756**	**136,300**	**3,798**	**(2,059)**	**27,960**	**235,493**

The notes on pages 83 to 265 are an integral part of these financial statements.

Statements of changes in equity

Company	Share capital €000	Share premium €000	Shareholders' contributions €000	Retained earnings €000	Total €000
Balance at 1 January 2020	55,738	13,756	136,300	63,365	269,159
Total comprehensive income					
Loss for the year	–	–	–	(3,443)	(3,443)
Balance at 31 December 2020	**55,738**	**13,756**	**136,300**	**59,922**	**265,716**
Balance at 1 January 2021	**55,738**	**13,756**	**136,300**	**59,922**	**265,716**
Total comprehensive income					
Profit for the year	**–**	**–**	**–**	**6**	**6**
Balance at 31 December 2021	**55,738**	**13,756**	**136,300**	**59,928**	**265,722**

The notes on pages 83 to 265 are an integral part of these financial statements.

Statements of cash flows

	Notes	Group 2021 €000	Group 2020 €000	Company 2021 €000	Company 2020 €000
Cash flows from operating activities					
Interest and commission receipts		**78,073**	84,393	-	-
Interest and commission payments		**(30,972)**	(28,102)	-	-
Payments to employees and suppliers		**(65,724)**	(58,557)	-	-
Operating cash flows before changes in operating assets/liabilities		**(18,623)**	(2,266)	-	-
(Increase)/decrease in operating assets:					
- Reserve deposit with central banks		**(2,390)**	218,028	-	-
- Loans and advances to financial institutions and customers		**(307,382)**	218,028	-	-
Increase/(decrease) in operating liabilities:					
- Amounts owed to financial institutions and customers		**197,927**	326,448	-	-
- Other payables		**4,272**	(14,237)	-	(536)
Tax (paid)/refunded		**(227)**	986	-	(4)
Net cash used in operating activities		**(126,423)**	(220,685)	-	(540)
Cash flows from investing activities					
Acquisition of property and equipment	10	**(803)**	(490)	-	–
Acquisition and development of intangible assets	11	**(3,650)**	(1,688)	-	–
Acquisition of investments measured at amortised cost	8	**(65,000)**	(49,991)	-	–
Acquisition of investments measured at fair value through other comprehensive income	8	**(448,569)**	(365,554)	-	–
Disposal/redemption of investments measured at amortised cost	8	**255,295**	236,606	-	–
Disposal/redemption of investments measured at fair value through other comprehensive income	8	**122,297**	206,237	-	–
Net advance to subsidiary company		**–**	-	**(10,549)**	-
Net cash (used in)/from investing activities		**(140,430)**	25,120	**(10,549)**	-
Cash flows from financing activities					
Issuance of debt securities	19,20	**508,960**	558,295	**10,005**	–
Redemption of debt securities	19	**(393,082)**	(5,003)	-	–
Principal element of lease payments	23	**(1,166)**	(3,543)	-	-
Net advances (to)/from immediate parent company		**(48)**	1,683	-	-
Net advances from ultimate parent company		**318**	3,116	-	-
Net advances from/(to) other group companies		**8,448**	(2,829)	-	968
Net cash from financing activities		**123,430**	551,719	**10,005**	968
Net (decrease)/increase in cash and cash equivalents		**(143,423)**	356,154	**(544)**	428
Cash and cash equivalents at beginning of year		**302,182**	(53,972)	**646**	218
Cash and cash equivalents at end of year	31	**158,759**	302,182	**102**	646

The notes on pages 83 to 265 are an integral part of these financial statements.

Notes to the financial statements

Notes to the financial statements

1. Summary of significant accounting policies

1.1 Reporting entity

MDB Group Limited (the "Company") is a limited liability company domiciled and incorporated in Malta with its registered address at The Centre,

Tigne' Point, Sliema, Malta, TPO 0001.

The consolidated financial statements of the Company as at and for the financial year ended 31 December 2021 comprise the financial statements of the Company and its subsidiaries, together referred to as "the Group". Therefore, these financial statements report the consolidated financial results of MDB Group Limited for the financial year ended 31 December 2021, including the financial results of MeDirect Bank (Malta) plc ("MeDirect Malta"); its principal subsidiary, namely MeDirect Bank SA ("MeDirect Belgium"); Grand Harbour I B.V. ("GH I"), a controlled special purpose entity utilised as part of the Group's funding strategy in respect of the International Corporate Lending portfolio; Bastion 2020-1 NHG B.V. ("Bastion 2020-1"), Bastion 2021-1 NHG B.V. ("Bastion 2021-1") and Cavalier 2020 B.V. ("Cavalier 2020"), three controlled special purpose entities utilised as part of the Group's funding strategy in respect of the Dutch Mortgage business; MeHomeLoans B.V. that may eventually be used for new business in the Netherlands; Medifin Leasing Limited ("Medifin Leasing") that leases computer hardware and software to MeDirect Malta and MeDirect Belgium; and Medifin Estates, a property leasing partnership.

The principal customer-related activities of MeDirect Malta and MeDirect Belgium include an easy-to-use wealth platform with access to fund houses and mutual funds, a suite of wealth products available digitally through digital channels, attractive and innovative savings products in Malta and Belgium and senior secured loans and revolving credit facilities to finance the business of European corporates.

MeDirect Belgium invests in Dutch residential mortgages via an established third-party mortgage originator in the Netherlands. Also as from March 2021, MeDirect Malta started offering innovative and attractive home loan products in a client-oriented process.

MeDirect Malta continues to support the Maltese real economy through convenient banking services such as payment services and foreign exchange and through lending to Maltese corporates on large scale projects and to small and medium-sized enterprises through fully collateralised lending facilities.

The Group has retained substantially all risks and rewards pertaining to the activities of GH I, Bastion 2020-1, Bastion 2021-1 and Cavalier 2020 and hence to assets, liabilities and related income and expenditure attributable to these entities, and as such, all assets, liabilities and related income and expenditure have been reflected within the Group's consolidated financial statements.

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

GH I, is a Dutch special purpose vehicle which is bankruptcy remote and was utilised as part of the Group's funding strategy. Grand Harbour I used to hold euro and sterling-denominated corporate loans, and was financed through a tranche bought by MeDirect Belgium (the "Senior Loan") having a senior ranking vis-à-vis the tranche acquired by MeDirect Malta (the "Junior Loan").

In 2020, the Group implemented an extensive restructuring of such intragroup funding arrangements between MeDirect Malta and MeDirect Belgium, primarily associated with the Group's GH I funding vehicle. These amendments had been implemented in order to stabilise the Group's capital and liquidity adequacy, to maximise recoveries from collateral, enhance loss protection and preserve the rights of the senior lender, whilst preserving the funding stability of the junior lender. The amendments were subject to an Article 77 approval, in respect of 1° of the Belgian Act of 25 April 2014, from the National Bank of Belgium ("NBB") and the European Central Bank ("ECB"). As a result of such restructuring, the Group had agreed that no new assets will be purchased by GH I and that repayments of principal on the collateral pool will be applied first to the repayment of the senior loan provided by MeDirect Belgium and second to the repayment of the junior loan provided by MeDirect Malta. As at 31 December 2020, MeDirect Belgium and MeDirect Malta invested in GH I on a 56% – 44% basis respectively, with the Senior Loan amounting to €327.2 million and the Junior Loan amounting to €176.3 million.

On 23 December 2021, MeDirect Malta and MeDirect Belgium agreed to instruct GH I and the Collateral Manager to dispose of all the collateral in the form of international corporate loans. MeDirect Malta acquired collateral loans from GH I at a consideration of €156.1 million and £77.5 million and MeDirect Belgium acquired collateral loans at a consideration of €142.5 million and £11.8 million. As a result of the proceeds from such sale of loans, with transfer prices being at arm's length, GH I repaid the Senior Loan of MeDirect Belgium that at that date was equivalent to €103.3 million and £44.1 million, with the remaining funds available, after settlement of expenses, released to MeDirect Malta in respect of its Junior Loan.

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

In September 2020, MeDirect Belgium established a €350 million warehouse funding facility provided by a major Dutch bank through Cavalier 2020 B.V., a special purpose vehicle established in the Netherlands, which is controlled by MeDirect Belgium. The warehouse facility provides bridge financing enabling MeDirect Belgium to build up a Dutch Mortgage portfolio large enough to be securitised through a RMBS transaction. This facility was used to build up a Dutch Mortgage portfolio equivalent to €154 million, which was subsequently securitised.

More specifically, in January 2021 MeDirect Belgium securitised a further part of its Dutch retail mortgages portfolio through a RMBS transaction whereby a principal amount of €414 million of the Dutch Mortgage portfolio was sold to a securitisation special purpose entity, Bastion 2021-1 NHG B.V., established in the Netherlands, which is controlled by MeDirect Belgium. On closing, the Dutch retail mortgages portfolio acquired by Bastion 2021-1 NHG B.V. included the €154 million portfolio of Dutch Mortgages that was financed through the warehouse funding facility obtained via Cavalier 2020 B.V. This portfolio, that was originated by MeDirect Belgium and subsequently transferred to Cavalier 2020 B.V., was repurchased by MeDirect Belgium and together with a further €260 million portfolio of Dutch Mortgages was transferred to Bastion 2021-1 NHG prior to closing.

MeDirect Belgium, in line with article 6 of the Securitisation Regulation (EU) No 2017/2402 of the European Parliament and of the Council of 12 December 2017, undertook to retain, on an ongoing basis, a material net economic interest in the securitisation transactions. This implies that the Group retains substantially all risks and rewards pertaining to the activities of these securitisation structures and hence to the assets, liabilities and related income and expenditure attributable to the structures and as such, all assets, liabilities and related income and expenditure of the securitisation special purpose entities are reflected in the Group's financial statements.

The warehouse facility provided through Cavalier 2020 was suspended in May 2021 and Cavalier 2020 was dissolved on 23 December 2021.

Medifin Estates, a property leasing partnership, was set up to lease property which is then leased back to the Group.

On 4 January 2021, MeDirect Malta acquired substantially all the share capital of Medifin Leasing Ltd. from the ultimate parent company Medifin Investments Ltd., after receiving full regulatory approval, with the intention of consolidating the entity within the Group. Medifin Leasing Ltd. owns the key rights and licences, including software solutions that are utilised by both MeDirect Malta and MeDirect Belgium. It leases out amongst other equipment, software and motor vehicles and provides related support services to the other Group entities. This acquisition allows management to exercise control over the assets that are that are fundamental to the Group's operations.

MeDirect Malta paid a cash consideration of €0.5 million for this acquisition, which approximates both the fair value and carrying amounts of the assets acquired and liabilities assumed as at the date of acquisition. The Group determined that Medifin Leasing satisfies the conditions to be considered a business in terms of IFRS 3 and accordingly considers the transaction as a business combination between entities under common control. In this respect, the Group elected to apply the predecessor method of accounting prospectively, i.e. with effect from the date of gaining control, without restating comparatives, and as a result, Medifin Leasing's assets and liabilities were reflected within the Group's consolidated financial statements at acquisition date. The assets and liabilities of Medifin Leasing were reflected at carrying values, with no recognition of goodwill. The difference between the consideration given and the aggregate carrying value of the assets and liabilities of Medifin Leasing at the date of the transaction as well as the difference between the carrying value of the assets and liabilities of Medifin Leasing and of the Right-of-use (ROU) assets and corresponding lease liabilities previously recognised by the Group in respect of the lease arrangements between Group entities and Medifin Leasing, amounting to €3.3 million in total, have been included in equity in retained earnings at the date of the transaction.

1.2 Basis of preparation

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

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

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

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

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

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

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

COVID-19 has tested the sustainability and resilience of businesses in all industries and the contraction in economic activity has had an impact on loan loss provisions recorded by European banks. While the impact of Covid-19 had a significant impact on the Group's financial results in 2020 and as a result it also impacted the 2021 financial results, the Group remains well positioned to achieve business growth through diversification, and is strongly capitalised, soundly funded and has access to the required levels of liquidity.

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

The financial statements are therefore prepared on a going concern basis, as the Directors are satisfied that the Group has the resources to continue in business for the foreseeable future, and that accordingly no material uncertainty exists that may cast significant doubt about the Group's ability to continue as a going concern and that may require disclosure in terms of IAS 1. In making this assessment, the Directors have considered a wide range of information relating to present and future conditions, including future projections of profitability, cash flows and the capital resources of the Group.

Standards, interpretations and amendments to published standards effective in 2021

During the financial year ended 31 December 2021, the Group adopted the amendments to existing standards relating to the 'Interest Rate Benchmark Reform – Phase 2', which amends IFRS 9, IAS 39 'Financial Instruments,' IFRS 7 'Financial Instruments,' IFRS 4 'Insurance Contracts' and IFRS 16 'Leases', and which are mandatory for the Group's accounting period beginning on 1 January 2021. As set out below, the adoption of these revisions to the requirements of IFRSs as adopted by the EU did not result in significant changes to the Group's accounting policies impacting the Group's financial performance and position.

Interest Rate Benchmark Reform

The 'Interest Rate Benchmark Reform Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16' issued in August 2020 represents the second phase of the IASB's project on the effects of interest rate benchmark reform, addressing issues affecting financial statements when changes are made to contractual cash flows and hedging relationships as a result of the reform.

Under these amendments, changes made to a financial instrument measured at other than fair value through profit or loss that are economically equivalent and required by interest rate benchmark reform do not result in the derecognition or a change in the carrying amount of the financial instrument, but instead require the effective interest rate to be updated to reflect the change in the interest rate benchmark. In addition, hedge accounting is not discontinued solely because of the replacement of the interest rate benchmark if the hedge meets other hedge accounting criteria.

Interbank offered rates ('Ibors') are used to set interest rates on hundreds of trillions of different types of financial transactions and are used extensively for valuation purposes, risk measurement and performance benchmarking.

The 2016 EU Benchmark Regulation, which aims to ensure the accuracy, robustness and integrity of interest rate benchmarks, has led various national working groups to actively discuss the mechanisms for an orderly transition of five Libor currencies (US dollar, Euro, Pound sterling, Japanese yen and the Swiss franc) and the Euro Overnight Index Average ('Eonia') to their chosen replacement near risk-free rate ('RFR').

Since 31 December 2021 representative Libor rates are no longer available in the case of all sterling, euro, Swiss franc and Japanese yen rates, and the 1-week and 2-month US dollar rates. Meanwhile, the benchmark in the case of the remaining US dollar settings (one, three, six and 12 month), will cease on 30 June 2023. In addition, the Eonia benchmark ceased on 3 January 2022.

As a result, the Group embarked on an IBOR transition programme, under the governance of the Chief Financial Officer, to facilitate an orderly transition from libors to RFRs. Over the last year the Group successfully transitioned its GBP Libor and Eonia exposures to SONIA and ESTR, respectively, and is on track to complete its transition of all remaining exposures with USD Libor dependency by June 2023.

In this respect, as at 31 December 2021, leveraged loans to customers with a gross carrying amount of €161.9 million were transitioned from underlying GBP Libor reference rates to SONIA rates. The amendments to all such contracts were deemed to be necessary as a direct consequence of the IBOR reform. In addition, the new basis for each contract was also deemed to be economically equivalent to the previous basis, which was achieved through the inclusion of credit spread adjustments to each contract.

Meanwhile, during the year, model changes were also effected to the valuation of interest rate derivative instruments with a notional value of €1.7 billion by replacing the Eonia with the ESTR discount curve. This change resulted in an adjustment to the carrying amount of derivatives amounting to €0.3 million which has been recognised in profit or loss during the year.

As a result, as at 31 December 2021, all financial instruments with a contractual maturity date after 31 December 2021 and for which the benchmark had ceased, were transitioned to RFRs accordingly

The Euribor administrator has used its prerogatives to reinforce Euribor governance and the calculation methodology to comply with the requirements of the benchmark reform ("BMR"). This benchmark can therefore continue to be used with no time limit unless it ceases to be published and is replaced by an alternative or is no longer representative. To this effect, the Group's working group will continue to review and monitor the regulatory landscape, as like any benchmark, in time, Euribor could transition to an alternative rate.

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

Certain new accounting standards and interpretations have been published, which are not mandatory for 31 December 2021 reporting periods and have not been early adopted by the Group. These standards are not expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

1.3 Consolidation

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

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

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

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

Accounting for business combinations between entities under common control

Business combinations between entities under common control, which do not fall within the scope of IFRS 3, are accounted for using the predecessor method of accounting. Under the predecessor method of accounting, assets and liabilities are incorporated at the predecessor carrying values, which are the carrying amounts of assets and liabilities of the acquired entity from the financial statement amounts of the acquired entity.

No new goodwill arises in predecessor accounting, and any difference between the consideration given and the aggregate book value of the assets and liabilities (as of the date of transaction) of the acquired entity, is included in equity in retained earnings. The financial statements incorporate the acquired entity's results only from the date on which the business combination between entities under common control occurred and reflect the acquirees assets and liabilities as from that date.

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

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

1.4 Foreign currency transactions and balances

a) Functional and presentation currency

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

b) Transactions and balances

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

1.5 Financial assets

Initial recognition and derecognition

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

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

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

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

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

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

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

Modification of terms

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

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

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

Classification and measurement

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

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

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

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

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

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

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

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

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

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

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

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

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

For this purpose, a portfolio is defined at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. Accordingly, the business model assessment does not entail an instrument-by-instrument analysis but is determined at a higher level of aggregation.

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

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

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

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

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

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

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

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

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

(iii) Expectations about future sales activity.

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

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

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

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

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

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

Financial assets measured at amortised cost

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

Lending portfolio, the Dutch Mortgage portfolio, the Local Business Lending portfolios and the Maltese Mortgage portfolio, and a portfolio of debt securities classified under the Treasury and Securitisation Investment portfolio.

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

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

Financial assets measured at fair value through other comprehensive income

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

The Group's financial assets measured at FVOCI comprise primarily a portfolio of debt securities, held for liquidity purposes and classified under the Treasury and Securitisation Investment portfolios. As at 31 December 2020, the Group also held equity instruments acquired as part of debt restructuring arrangements entered into with borrowers experiencing financial difficulties classified within the International Corporate Lending portfolio.

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

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

Financial instruments mandatorily measured at fair value through profit or loss

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

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

The Group's financial assets mandatorily measured at FVTPL comprise primarily the Group's investment in GH1-2019's subordinated tranche (also referred to as the "equity tranche") on the basis that the tranche does not meet the conditions in IFRS 9 paragraph B4.1.21(c) to qualify as having cash flow characteristics that are payments of principal and interest on the principal amount outstanding. In this respect IFRS 9 paragraph B4.1.21(c) requires the exposure to credit risk inherent in the tranche to be equal to or lower than the exposure to credit risk of the underlying pool of financial instruments.

Financial instruments designated at fair value through profit or loss

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

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

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

Assets acquired in exchange for loans

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

Impairment of amortised cost and FVOCI financial assets

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

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

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

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

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

Three stage expected credit loss approach

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

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

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

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

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

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

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

Significant increase in credit risk (SICR) or Stage 2

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

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

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

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

In this respect, the Group adopts a five-point credit quality classification system in order to rate the credit quality of its key financial assets. Further detail on internal credit risk management is outlined in Section 2 (Financial Risk Management, Credit Risk). Typically, an internal risk grade is assigned to each obligor by the business which is then reviewed by both the Credit Risk Team, and the Management Credit Committee responsible for the oversight of the Group's respective portfolios. The following are the internal risk grades:

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

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

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

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

International Corporate Lending portfolio:

Financial instruments within the Group's International Corporate Lending portfolio are managed on an individual basis for credit purposes, whereby the Group's credit analysts have access to the obligors and their financial information, the latter comprising both historical and forecasted financial information. The SICR assessment for the International Corporate Lending portfolio comprises the following:

- Use of qualitative SICR triggers, including the following qualitative triggers which are taken into consideration by the Group in the quarterly SICR trigger assessments:
  - **Qualitative SICR themes**
  - **Evidence of past due information**
  - **General business performance**
  - **Loss of major contract or tenant**
  - **Project delays or overruns**
  - **Macroeconomic conditions**
  - **Pricing of debt and equity (relative to market)**
  - **Forbearance**
  - **Major threat to business model**
  - **Sector, industry or territory concerns**
  - **Sponsor support**
  - **Covenant waivers or forecast breach of covenant**
  - **SICR observed on related financial instruments**
- Use of quantitative SICR assessment based on a ratings-based approach using lifetime 'Point in Time' (PiT) Probabilities of Default (PDs) (i.e. PD in current economic conditions)
- Hard trigger (Internal credit classification) - financial asset that has a credit quality classification of "Under surveillance" is Stage 2, classification of "Impaired" is Stage 3

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

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

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

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

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

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

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

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

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

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

Hard Trigger based on Internal Risk Classifications

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

Dutch Mortgage portfolio

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

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

In this respect, the following SICR triggers and backstops are applied and would result in a shift of these exposures to Stage 2:

Change in Probability of Default: lifetime PD of the exposure on the reporting date exceeds its lifetime PD at initial recognition by more than 200%; or

Absolute level: 12-month PD of the exposure on the reporting date exceeds 20%.

The following are also deemed to give rise to SICR:

1. Forbearance events where exposures are not 30 DPD;
2. Where payments in respect of the exposure are 30 DPD or more.

Quantitative SICR triggers are not applied to mortgages / loan parts with a PD of 0.03% or below at reporting date. Such exposures are deemed to qualify for the low credit risk exemption (Stage 1 without further staging assessment) in IFRS 9. The appropriateness of the application of this exemption is periodically tested for portfolios on which it is applied.

Local Business Lending portfolio

For Local Business Lending assets, the Group is unable to use external credit ratings as all exposures are unrated, nor rely on risk-modelling for quantifying credit risk for each asset, as no robust database exists for the asset class. The Group therefore uses the evidence of past-due information as the primary driver of SICR triggers alongside other qualitative SICR metrics.

Payments in respect of exposures within this portfolio that are more than 30-days past due are considered as evidencing a SICR trigger.

Similar to the approach taken for the International Corporate Lending portfolio, the other identifier of SICR within the Local Business Lending portfolio is the review by respective relationship managers which takes into consideration qualitative SICR triggers such as a deteriorating risk classification with other banks (through the Central Credit Register), requests for concessions and other financially related triggers as described previously in respect of the International Corporate Lending portfolio.

Exposures within the Local Business Lending portfolio are therefore managed at an individual exposure level for credit purposes, through relationship managers who have access to the customers and their financial information on a regular basis. Such qualitative SICR trigger assessments are undertaken at least quarterly and any identified SICR trigger events are presented to the appropriate Management Credit Committee. These SICR assessments could lead to changes in the internal risk grade assigned to each borrower.

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

Financial instruments that:

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

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

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

Maltese Mortgage portfolio

Staging for the Maltese Retail Residential Mortgages portfolio is similar as for Dutch Mortgages where primary determinants of SICR are Delinquency, Forbearance, and other quantitative rules relating to the relative and absolute change in PD.

Treasury Investment portfolio

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

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

Securitisation Investment portfolio

Investment in tranches within a Collateralised Loan Obligation Structured Entity ("CLO SE") originated and managed by the Group: The Group assesses the staging of the tranche rather than the facilities within the underlying portfolio of financial assets. The Group determines an Implied Rating (as a proxy measure of credit risk) for each tranche at different points in time. Expected losses and average life are used to assign an Implied Rating to each tranche based on an external vendor's methodology and observed defaults in the industry sectors of the underlying assets. 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 Lending and Treasury Investment portfolios, a quantitative ratings-based approach is utilised in order to assess the movement in credit risk since initial recognition of the Group's investment in the tranches of the CLO.

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

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

Credit impaired (Stage 3)

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

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

IFRS 9 introduces a rebuttable presumption that default does not occur later than when a contractual repayment relating to a financial asset is 91 days past due, unless reasonable and supportable information is available to demonstrate that a more lagging criterion is more appropriate. This presumption has not been rebutted by the Group for its lending portfolios, meaning that default is deemed not to have occurred later than when a financial asset is 90 days past due. Although this presumption is applicable to all lending portfolios managed by the Group, it is much more relevant for identifying defaulted exposures within the Local Business Lending portfolio and the Dutch and Maltese Mortgage portfolios.

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

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

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

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

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

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

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

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

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

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

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

In respect of the Dutch and Maltese Mortgage portfolios, the key indicator of credit-impairment arises when exposures are past due by more than 90 days taking into account the materiality threshold for Retail exposures as per the EBA regulatory definition of default, with other unlikeliness to pay indicators, such as the extension of forbearance measures, also being taken into consideration.

For the Securitisation Investment portfolio, the 90 DPD presumption has been rebutted by the Group for the purposes of the investment in tranches in CLO SE measured at amortised cost. All tranches in the Group's securitisation investments are deemed to have defaulted in the event that the CLO is unable to partially or fully repay the Senior Notes, and / or the interest thereon, i.e. if payment is 1 DPD. This might be driven by a significant level of defaults occurring in the underlying portfolio, which might lead to an insufficient level of cash flows to honour the payment commitments linked with each tranche within the funding structure. Similarly, the 90 DPD presumption has also been rebutted by the Group with respect to exposures within the Treasury Investment portfolio. In this regard, an exposure is deemed to be defaulted in the event that the obligor is unable to partially or fully repay any amount due.

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

Write-offs

Financial assets and the associated credit loss allowances are normally written off, either partially or in full, when there is no realistic prospect of recovery. In the case of international corporate loans, the determination is made after considering facts and circumstances relating the borrower's financial position, typically following a distressed restructure. Where loans are secured, this is generally after receipt of any proceeds from the realisation of security. In circumstances where the net realisable value of any collateral has been determined and there is no reasonable expectation of further recovery, write-off may be earlier (see Note 2.2.5). In this respect, the Group writes off financial assets when the relevant Management Credit Committee of MeDirect Malta and MeDirect Belgium determines that the balance is uncollectible.

Modified financial assets

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

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

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

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

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

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

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

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

With respect to loans within the Dutch and Maltese Mortgage portfolios, when the modification is not substantial enough to result in derecognition, renegotiated loans are classified as credit impaired, and accordingly as Stage 3 assets, when the exposure is 90 DPD. In all other instances, renegotiated loans within these portfolios are initially classified as Stage 2 assets.

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

Purchased or originated credit-impaired

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

Movement between stages

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

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

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

In addition, for exposures within the International Corporate and Local Business Lending portfolios, curing of Stage 2 exposures is governed by the Management Credit Committee Quarterly Portfolio Review process where supportive evidence of improved performance and thereby stage transfer is reviewed and approved by the committee.

Similarly, for movement of Stage 3 corporate loans to either Stage 2 or Stage 1, a full assessment from the appropriate Management Credit Committee is required for approval that unlikeliness to pay criteria are no longer present, the exposure is no longer considered as impaired and there is no past due amount on the exposure (through settling of amounts in a regular manner).

Stage transfer in respect of corporate exposures is also subject to a 12-month probation period where defaulted (Stage 3) exposures are classified as NPEs before they can be upgraded to Stage 2. Meanwhile, stage transfer of defaulted retail exposures is subject to a 3-month probation period, unless the default/NPE classification is the result of forbearance measures for which a 12-month probation period applies.

For loans that are assessed for impairment on a portfolio basis, the evidence to support the stage transfer assessment typically comprises a history of payment performance against the original or revised terms, as appropriate to the circumstances. For loans that are assessed for impairment on an individual basis, all evidence is determined on a case-by-case basis.

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

Measurement of expected credit losses

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

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

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

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

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

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

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

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

Probability of Default

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

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

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

Loss Given Default

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

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

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

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

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

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

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

With regards to the Malta Residential Mortgages portfolio, as the bank has no internal loss data, LGD parameters are based on external, publicly available sources of loss data for similar assets.

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

Exposure at Default

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

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

International Corporate Lending portfolio

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

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

Dutch Mortgage portfolio

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

Local Business Lending portfolio

For the Local Business Lending portfolio, the maturity date is deemed to be equal to the contractual maturity of the exposure.

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

Maltese Mortgage portfolio

The EAD for the Maltese Residential Mortgage portfolio is based on amortisation per the contractual payment profiles. The maturity date is deemed to be equal to the contractual maturity of the mortgage. To measure the EAD of off-balance sheet assets, the Group applies a 90% CCF.

Treasury Investment portfolio

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

Securitisation Investment portfolio

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

Credit-Impaired financial assets (Stage 3)

For Stage 3 assets in the International Corporate Lending and Local Business Lending portfolios, the Group estimates ECL on an individual basis. When assessing impairment for these assets, the recoverable amount corresponds to the present value of estimated future cash flows. In the case of collateralised exposures, typically within the Local Business Lending portfolio, the estimation of the recoverable amount reflects the cash flows that may result from the liquidation of the collateral discounted at the original effective interest rate.

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

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

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

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

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

For the Dutch and Maltese Mortgages and the Securitisation Investment portfolios, the ECL on Stage 3 exposures is equivalent to the LGD parameter multiplied by the exposure amount, with PD equivalent to 100%.

Forward looking information

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

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

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

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

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

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

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

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

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

Presentation of ECL in the Statement of financial position

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

- Financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- Loan commitments and financial guarantee contracts: as a provision;

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

1.6 Offsetting financial instruments

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

1.7 Intangible assets

1.7.1 Goodwill

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

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

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

1.7.2 Computer software

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

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

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

- the expenditure attributable to the software during its development can be reliably measured.

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

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

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

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

1.8 Property, plant and equipment

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

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

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

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

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

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

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

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

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

1.9 Impairment of non-financial assets

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

1.10 Non-current assets classified as held for sale

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

1.11 Current and deferred income tax

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

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

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

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

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

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

1.12 Share capital

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

1.13 Financial liabilities

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

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

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

1.14 Derivative financial instruments

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

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

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

1.14.1 Fair value hedges

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

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

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

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

The Group establishes the hedging ratio by matching the notional of the derivatives with the principal of the portfolio being hedged. Possible sources of ineffectiveness are as follows:

- Differences between the expected and actual volume of prepayments, as the Bank hedges to the expected repayment date taking into account expected prepayments based on past experience
- Difference in the discounting between the hedged item and the hedging instruments, as cash collateralised interest rate swaps are discounted using Overnight Indexed Swaps (OIS) discount curves, which are not applied to the fixed rate mortgages
- Hedging derivatives with a non-zero fair value at the date of initial designation as a hedging instrument
- Counterparty credit risk which impacts the fair value of uncollateralised interest rate swaps but not the hedged items.

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

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in profit or loss, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The gain or loss relating to the effective portion of interest rate swaps hedging fixed interest loans and securities is recognised in profit or loss within interest income, together with changes in the fair value of the hedged fixed interest loans and securities attributable to interest rate risk.

The gain or loss relating to the ineffective portion is also recognised in profit or loss within interest income and disclosed separately. If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to profit or loss over the period to maturity using a recalculated effective interest rate.

1.15 Provisions

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

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

1.16 Interest income and expense

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

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

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

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

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

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

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

1.17 Fees and commissions

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

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

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

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

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

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

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

1.18 Net trading income

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

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

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

1.20 Leases

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

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

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

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

1.21 Share-based compensation

The Group operates a deferred bonus plan in the form of a share-based compensation plan whereby selected officers or employees are awarded performance bonuses upon meeting specific performance conditions, or retention bonuses.

Together with upfront cash amounts, bonuses may comprise upfront share-linked awards and deferred share-linked awards. Share-linked awards consist of share-linked instruments in the form of a number of notional ordinary shares of MDB Group Limited computed by dividing the related portion of the bonus amount by the market value of these ordinary shares at award date. Share-linked award bonuses are eventually settled in cash on the settlement date (the expiry of the retention or delay period) on the basis of the market value of the ordinary shares of MDB Group Limited determined on the settlement date, multiplied by the number of notional shares computed on the date of award. Deferred share-linked awards attributable to retention bonuses are subject to a vesting period during which period the specific officer or employee must remain in employment for vesting to occur. Meanwhile, performance bonuses vest immediately, but are also subject to a deferral period. Therefore, both upfront and deferred share-linked awards are subject to a retention or delay period, for settlement purposes, post vesting. These share-based payment transactions are considered as cash-settled as the Group pays cash amounts based on the fair value of equity instruments of a group entity.

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

1.22 Financial guarantee contracts and loan commitments

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

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

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

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

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

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

1.23 Cash and cash equivalents

Cash and cash equivalents are carried in the statement of financial position at face value less expected credit losses. Cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash in hand, unrestricted balances held with central banks, deposits held at call with financial institutions and other short-term highly liquid investments with original maturities of three months or less.

'Amounts owed to financial institutions' that are repayable on demand or have a contractual maturity of three months or less and which form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

1.24 Customer assets

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

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

1.25 Dividend distribution

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

2. Financial risk management

2.1 Introduction and overview

The Group's core business activities include:

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

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

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

The major components within the Group's asset base are: the International Corporate Lending portfolio, comprising loans to international corporates; the Dutch Mortgage portfolio, comprising residential mortgage lending to Dutch customers; the Local Mortgage and Business Lending portfolios, comprising residential mortgage loans to retail customers to support the purchase of residential properties as their own dwellings and loans to Maltese corporates; the Treasury Investment portfolio principally comprising investment-grade debt securities; and the Securitisation Investment portfolio, comprising investments in Collateralised Loan Obligation ("CLO") transactions originated by the Group (representing a 5% vertical slice in each structured note tranche of the Grand Harbour CLO 2019-1 Designated Activity Company ("GH1-2019")), as well as acquired positions in CLO transactions managed by third party entities.

The Group continued the diversification and de-risking of its asset portfolio through continued focus on the Dutch national-guaranteed mortgage market (relying on strong partners for origination and servicing) and continued to de-emphasise investment in international corporate lending markets. The former lending activity represents prime Dutch mortgages that benefit from a guarantee from a private non-profit fund and indirectly from a government guarantee (the "Nationale Hypotheek Garantie" or "NHG"). The Dutch Mortgage business continued to grow at a positive pace during the financial year ended 31 December 2021, growing from a total gross exposure amounting to €1,078.4 million as at 31 December 2020 to €1,605.9 million as at 31 December 2021.

Another key development during the financial year ended 31 December 2021 included the second securitisation of a sub-portfolio of the Dutch Mortgage portfolio, which was sold to Bastion 2021-1, an additional special purpose securitisation vehicle established in the Netherlands, raising a further €350 million in funding through a RMBS in January 2021.

In March 2021, MeDirect Malta also launched a residential mortgage 'home-loan' product for retail customers in Malta to facilitate the purchase of dwellings for their own occupancy as part of its broader asset diversification strategy. The product was launched to strong effect, with a total gross exposure amounting to €19 million as at 31 December 2021, alongside €36.5 million of approved home-loan applications pending completion as at 31 December 2021.

MeDirect Malta continued to participate in the MeAssist lending product, which is an assistance package issued in collaboration with the Malta Development Bank ("MDB"), aimed at supporting and enhancing access to bank financing to corporate customers in the Group's Local Business Lending portfolio in Malta. Such financing, offered in the form of working capital facilities granted to assist customers with their operational requirements in view of the market disruptions brought about by the outbreak of the COVID-19 pandemic, is up to 90% secured by guarantees provided under the MDB COVID-19 Guarantee Scheme ("CGS"). The Group's total gross exposures emanating from this product as at 31 December 2021 amounted to €1.4 million (2020: €1.0 million).

In February 2021 MDB Group Limited issued €11 million fixed rate reset callable subordinated notes due in 2031. The proceeds of such Tier 2 Capital issuance were used to further optimise its regulatory capital and to support the execution of the business strategy. Such access to European capital markets continues to increase the diversification of our capital base.

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

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

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

The only major difference between the MDB Group consolidated position and the MeDirect Malta consolidated position related to the €11 million fixed rate reset callable subordinated notes issued by MDB Group Limited on 10 February 2031, the proceeds of which was lent to MeDirect Malta under identical terms to those of the subordinated notes issued by MDB Group Limited. These two instruments have the same carrying amount and are subject to the same liquidity and interest rate terms but in the MDB Group consolidated financial statements the subordinated notes are classified under "Subordinated liabilities" whereas in the MeDirect Malta consolidated financial statements these are classified within "Other liabilities". Since this note presents information at MeDirect Malta consolidation level, the subordinated notes are accordingly classified within "Other liabilities" throughout

2.1.1 Risk management framework

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

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

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

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

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

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

Figure 1: Three Lines of Defence Model

* On occasions the Legal team also performs duties within the first line of defence

2.2 Credit risk

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

2.2.1 Management of credit risk

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

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

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

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

The Group's objective is to maximise its returns while maintaining a sound and prudent credit risk profile. To facilitate achieving this target, the Group invests in a diversified portfolio of financial assets, including both high quality securities with strong ratings stability and a diversified portfolio of loans to corporates, whose higher returns are viewed as justifying a greater level of risk. In accordance with its business strategy, the Group is de-risking its asset portfolio by reducing its exposure to the International Corporate Lending portfolio, with the portfolio size having been reduced by 32% since the beginning of the previous financial period. In addition, the Group is further diversifying its business through growth in a Dutch National Mortgage portfolio, which portfolio benefits from favourable credit risk weighting treatment as a result of the NHG provided under the Dutch national-guaranteed mortgage programme; the launch of a Maltese Mortgage business and the retention of a Maltese corporate lending business; and investments in AAA-rated CLO notes managed by third parties. In respect of the latter, the Group's only exposure to CLO notes that are rated below AAA pertains to tranches in CLOs originated by the Group, which are held specifically to meet risk retention rules as required under the Capital Requirements Regulation (CRR).

The Group's financial assets are managed on a portfolio basis, taking into account correlations between asset classes. The Group diversifies its exposures to avoid excessive concentration in particular countries, industries or types of financial institutions.

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

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

The Group's Corporate Credit and Risk teams, which manage the credit analysis and research process, are composed of highly-trained individuals with specialised skill sets and years of experience in Corporate Syndicated Loans markets. The credit analysis and research process subjects potential investments to scenario analysis to determine whether they can withstand significant adverse credit, idiosyncratic and market events. Additionally, the portfolio is subject to a continual, thorough monitoring and oversight process in order to identify any financial instruments which require increased monitoring of performance. Further details on the credit approval and monitoring processes are provided within the Group's Pillar 3 Disclosures report available in the following webpage: https://www.medirect.com.mt/about-us/investor-relations.

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

The Maltese Retail lending portfolio, is not managed on an individual borrower basis, due to the high volume of relatively low value and homogenous exposures but is instead monitored on a portfolio level basis. The Maltese lending unit will alert the Management Credit Committee of any material issues or early warning signs identified and any MCC member may ask for any credit to be reviewed in detailed.

As referred to previously, the Group also has a Dutch national-guaranteed mortgage business line where the credit risk is deemed to be low on the basis that these prime Dutch mortgages benefit from a guarantee from a private non-profit fund and indirectly from a government guarantee. The residual credit risk arising therefrom is managed by MeDirect Belgium's Credit and Risk teams. On a regular basis a sample file review is performed by the Business and Credit Teams with the Risk and Compliance Teams shadowing the process. A number of mortgages that would have been originated in the prior months are selected, some of which are subject to a detailed and complete file review with the remaining subject to a high level review. Particular emphasis is placed on NHG compliance, the borrower's labour situation and income as well as on the veracity of the collateral valuation. Furthermore, meetings are held on a regular basis in which the Dutch economy, Dutch mortgage market, NHG developments and the snapshot of the credit risk profile of the portfolio is discussed, by reference to risk appetite limits, internal credit classification of the current portfolio along with the development of the staging and expected credit losses of the portfolio.

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

As a result of the outbreak of the COVID-19 pandemic during 2020 and the heightened levels of economic uncertainty observed across global markets, the Group continued to enhance its credit risk management processes for the purposes of identifying deterioration in credit risk within its lending portfolios as early as possible and for measuring credit loss allowances using all information available to the Group. During 2020, the Group increased its focus on the quality and timeliness of the data used to inform management decisions. In particular it enhanced credit risk monitoring within the International Corporate Loan portfolio and reviewed in a more timely manner those borrowers that are more vulnerable to the impacts of Covid-19. This increased active risk management performed at the level of both management and the board, particularly in the case of loan recoveries, continued during 2021.

Since the outbreak of the pandemic, the Group has continued to adopt a discounted cash flow ("DCF") approach for determining specific expected credit losses in respect of non-performing exposures within the ICL portfolio, whereby the Enterprise Value ("EV") of borrowers is prudently determined by reference to expected future cash flows under different scenarios over the upcoming three-year period. The projected cash flows used recent management information for each borrower as the starting point. Expert judgement is then applied to determine the cashflows under multiple scenarios taking into consideration the impact of the pandemic including government relief measures and the potential tapering thereof on the financial performance of each distressed borrower. This methodology enables the Group to take a view of the steady state cashflows of borrowers over the short to medium term, after which point a terminal value is estimated. The recoverable amount under each scenario is therefore estimated by reference to the EV, plus available cash, less exit fees, discounted using the borrowers' individually estimated weighted average cost of capital ("WACC"), which is determined using multiple assumptions in respect of both the cost of debt and cost of equity. An element of prudence is also built in the WACC calculation for each borrower.

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

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

MeDirect Malta Group	2021 €000	2020 €000
Net exposure:		
Financial assets measured at amortised cost		
Balances with central banks	**328,625**	490,679
Loans and advances to financial institutions	**198,775**	263,129
Loans and advances to customers	**2,324,303**	2,020,760
International Corporate Lending portfolio	**593,359**	850,191
Dutch Mortgage portfolio	**1,643,014**	1,067,865
IFRS basis adjustment: Dutch Mortgage portfolio	**(37,149)**	10,542
Local Business Lending portfolio	**106,126**	92,162
Maltese Mortgage portfolio	**18,953**	-
Investments measured at amortised cost	**298,796**	490,112
Treasury portfolio	**119,700**	198,049
Securitisation portfolio	**179,096**	292,063
Accrued income	**10,873**	14,678
Loans to related parties (included in other assets)	**283**	11,629
Other receivables (included in other assets)	**12,363**	34,966
	3,174,018	3,325,953
Instruments measured at fair value through other comprehensive income	**977,327**	659,670
Investments - Treasury portfolio	**650,217**	659,670
Investments - Securitisation portfolio	**327,110**	–
Instruments mandatorily measured at fair value through profit or loss	**38,782**	2,984
Held for trading derivative financial instruments	**37,637**	1,841
Investments - Securitisation portfolio	**1,145**	1,143
	4,190,127	3,988,607
Off balance sheet at nominal amount:		
Commitments to purchase financial assets	**11,000**	22,000
Commitments to extend credit, guarantees and other commitments	**377,572**	743,929

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

The following disclosures present the gross carrying/nominal amount of financial instruments measured at amortised cost to which the impairment requirements in IFRS 9 are applied and the associated credit loss allowances, as well as the fair value of financial instruments measured at FVOCI and the associated credit loss allowances.

MeDirect Malta Group

	2021		2020	
	Gross carrying/ nominal amount	**Credit loss allowance**	Gross carrying/ nominal amount	Credit loss allowance
	€000	**€000**	€000	€000
Financial assets measured at amortised cost				
Balances with central banks	**328,627**	**(2)**	490,681	(2)
Loans and advances to financial institutions	**198,776**	**(1)**	263,130	(1)
Loans and advances to customers	**2,346,218**	**(21,915)**	2,074,611	(53,851)
International Corporate Lending portfolio	**614,814**	**(21,455)**	903,354	(53,163)
Dutch Mortgage portfolio	**1,643,163**	**(149)**	1,068,012	(147)
IFRS basis adjustment: Dutch Mortgage portfolio	**(37,149)**	**-**	10,542	-
Local Business Lending portfolio	**106,360**	**(234)**	92,703	(541)
Maltese Mortgage portfolio	**19,030**	**(77)**	-	-
Investments measured at amortised cost	**299,072**	**(276)**	490,506	(394)
Treasury portfolio	**119,836**	**(136)**	198,292	(243)
Securitisation portfolio	**179,236**	**(140)**	292,214	(151)
Accrued income	**10,983**	**(110)**	15,119	(441)
Loans to related parties (included in other assets)	**283**	**-**	11,629	-
Other receivables (included in other assets)	**12,363**	**-**	34,966	-
	3,196,322	**(22,304)**	3,380,642	(54,689)
Off balance sheet at nominal amount				
Commitments to purchase financial assets	**11,000**	**–**	22,000	–
Commitments to extend credit, guarantees and other commitments	**378,730**	**(1,158)**	743,929	(3,783)
	389,730	**(1,158)**	765,929	(3,783)
Total	**3,586,052**	**(23,462)**	4,146,571	(58,472)

	Fair value	**Credit loss allowance**	Fair value	Credit loss allowance
	€000	**€000**	€000	€000
Instruments measured at fair value through other comprehensive income				
Investments - Treasury portfolio	**650,217**	**(27)**	652,958	(183)
Investments - Securitisation portfolio	**327,110**	**(32)**	–	–

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

	MeDirect Malta Group	
	2021	2020
	€000	€000
Instruments mandatorily measured at fair value through profit or loss		
Held for trading derivative financial instruments	**37,637**	1,841
Investments - Securitisation portfolio	**1,145**	1,143
	38,782	2,984

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

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

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

Stage 1 (Performing)

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

Stage 2 (Underperforming)

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

Stage 3 (Non-performing)

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

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

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

Deteriorating Credits

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

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

Credit-impaired loans and advances are those that are classified as "Doubtful" or "Write-off". These grades are assigned when the Group considers that either the customer is unlikely to pay its credit obligations in full, without recourse to security, or when the customer is more than 90 days past due on any material credit obligation to the Group. If unlikeliness to pay is not identified at an earlier stage, it is deemed to occur when an exposure is more than 90 days past due.

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

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

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

a) material exposures which are more than 90 days past due; and

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

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

Therefore, the definitions of credit-impaired is aligned as far as possible to the regulatory definition of 'non-performing' so that Stage 3 represents all loans that are considered defaulted or otherwise credit-impaired. For further clarity, exposures in respect of which a "default" is considered to have occurred, and exposures that have been found "credit-impaired" in accordance with IFRS as adopted by the EU, shall always be considered as "non-performing exposures".

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

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

As described in more detail in section 1.5 of the financial statements, the Group's staging assessment in respect of exposures classified within the International Corporate Lending portfolio takes into consideration both qualitative and quantitative criteria. In response to the outbreak of the pandemic, the Group's qualitative assessment was enhanced to include an evaluation of:

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

The impact of the tapering off of government support measures on borrowers' financial condition is captured within the quantitative assessment determined within the Group's IFRS 9 model, since it is taken into account within the macro-economic scenarios used to determine the probability weighted ECL, as well as in the life-time PiT PDs at reporting date used to determine SICR by comparing the magnitude of the difference between the corresponding reporting date implied rating and the origination date implied rating.

During the financial year ended 31 December 2020, greater reliance was made by the Group on its qualitative staging criteria, when compared to its quantitative staging criteria, since the quantitative staging is driven by changes in PDs / implied ratings, which are primarily determined by reference to historical information, typically, borrower-specific audited financial information and to forwarding looking macroeconomic scenarios specific to the industry and country in which borrowers operate. Borrowers' audited financial statements are received annually and during 2020 would have been mostly reflective of the performance of the borrower during periods preceding the outbreak of the pandemic. As a result, PDs / implied ratings at reporting date used during 2020 would not have been fully representative of the observations in the current economic conditions.

During 2021, the Group has obtained borrower-specific audited financial information in the normal course of business, reflective of the performance of the respective borrower following the outbreak of the pandemic. Accordingly, less judgement has been required to determine the extent to which borrowers have been impacted by the pandemic, and as result an increased level of reliance has been placed on quantitative staging criteria. Albeit, the Group continued to exercise a degree of caution in respect of determining whether a significant increase in credit risk has occurred since origination. In this respect, management has introduced certain caps/notch downgrades to the implied ratings assigned to borrowers within the International Corporate portfolio that have undergone significant restructuring to reflect an increased level of credit risk since origination. Notch downgrades were also applied to exposures that have qualitatively been considered 'under surveillance', due to management's concerns that credit losses may potentially be incurred in the future.

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

As described in more detail in section 1.5 of the financial statements, the staging criteria applied in respect of exposures classified within the Dutch Mortgage portfolio is based on credit deterioration indicators such as delinquency levels, forbearance activity and changes in PDs modelled by an external vendor on the basis of forecasted macro-economic scenarios which are revised to reflect the elevated level of economic uncertainty driven by the outbreak of the pandemic, as explained in more detail in Note 2.2.7 - 'Current Conditions and Forward-looking information incorporated in the ECL model'. In this regard, the staging criteria are still deemed to be appropriate, with the impact of the pandemic on the credit risk profile of the Dutch Mortgage portfolio being captured in the modelling of PDs. By comparison to the Local Business Lending portfolio, the Dutch Mortgage portfolio was not subject to COVID-19 relief measures in the form of the moratoria referred to above.

With respect to the Maltese Residential Mortgages outstanding, no loans have shown any deterioration in credit risk and no Covid-19 relief measures have been granted.

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

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

MeDirect Malta Group

As at 31 December 2021	Performing Regular €000	Performing Focus €000	Under performing Under surveillance €000	Non-performing Doubtful €000	Total €000
On balance sheet at amortised cost					
Balances with central banks	328,625	-	-	-	328,625
Gross	328,627	-	-	-	328,627
Credit loss allowances	(2)	-	-	-	(2)
Loans and advances to financial institutions	198,775	-	-	-	198,775
Gross	198,776	-	-	-	198,776
Credit loss allowances	(1)	-	-	-	(1)
Loans and advances to customers	1,902,706	149,118	180,024	92,455	2,324,303
- International Corporate Lending portfolio	210,756	131,125	170,894	80,584	593,359
Gross	211,661	132,350	174,749	96,054	614,814
Credit loss allowances	(905)	(1,225)	(3,855)	(15,470)	(21,455)
- Dutch Mortgage portfolio	1,600,848	1,168	3,441	408	1,605,865
Gross	1,638,068	1,168	3,503	424	1,643,163
Credit loss allowances	(71)	-	(62)	(16)	(149)
- IFRS basis adjustment: Dutch Mortgage portfolio	(37,149)		-	-	(37,149)
- Local Business Lending portfolio	72,149	16,825	5,689	11,463	106,126
Gross	72,240	16,840	5,704	11,576	106,360
Credit loss allowances	(91)	(15)	(15)	(113)	(234)
- Maltese Mortgage portfolio	18,953	-	-	-	18,953
Gross	19,030	-	-	-	19,030
Credit loss allowances	(77)	-	-	-	(77)
Investments measured at amortised cost	286,074	12,327	395	-	298,796
- Treasury portfolio	107,373	12,327	-	-	119,700
Gross	107,399	12,437	-	-	119,836
Credit loss allowances	(26)	(110)	-	-	(136)
- Securitisation portfolio	178,701	-	395	-	179,096
Gross	178,720	-	516	-	179,236
Credit loss allowances	(19)	-	(121)	-	(140)
Accrued income	7,403	1,110	1,814	546	10,873
Gross	7,409	1,119	1,855	600	10,983
Credit loss allowances	(6)	(9)	(41)	(54)	(110)
Loans to related parties (included in other assets)	283	-	-	-	283
Other receivables (included in other assets)	12,363	-	-	-	12,363
	2,736,229	162,555	182,233	93,001	3,174,018
Off balance sheet at nominal amount					
Commitments to purchase financial assets					
Nominal amount	11,000	–	–	–	11,000
Credit loss allowances	–	–	–	–	–
Commitments to extend credit, guarantees and other commitments					
Nominal amount	209,416	121,966	42,490	4,858	378,730
Credit loss allowances	(93)	(221)	(330)	(514)	(1,158)
	220,323	121,745	42,160	4,344	388,572
Instruments measured at fair value through other comprehensive income					
- Investments - Treasury portfolio					
Fair value	650,217	–	–	–	650,217
Credit loss allowances	(27)	–	–	–	(27)
- Investments - Securitisation portfolio					
Fair value	327,110	–	–	–	327,110
Credit loss allowances	(32)	–	–	–	(32)

MeDirect Malta Group

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

As at 31 December 2020, commitments to purchase financial assets relate to loans acquired by the Group and immediately sold to GH1-2019, specifically to comply with risk retention rules emanating from the Securitisation Regulation. The related ECL was insignificant due to the short period of time to which the Group is exposed to credit risk in respect of these exposures. There were no such commitments as at 31 December 2021.

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

MeDirect Malta Group

	Measured at amortised cost		Measured at fair value through other comprehensive income	
	Group		Group	
	2021	2020	**2021**	2020
Treasury Investment portfolio	**€000**	€000	**€000**	€000
National and regional government securities, supranationals and agencies				
AAA	**30,477**	30,620	**35,984**	36,651
AA+ to AA-	**55,691**	66,166	**196,743**	206,455
A- to BBB-	**-**	-	**17,511**	22,818
Other securities				
AAA	**10,020**	77,472	**266,964**	280,489
AA+ to AA-	**11,185**	11,485	**133,015**	103,043
A- to BBB-	**-**	-	**-**	3,502
Not rated	**12,327**	12,306	**-**	-
Equity instruments				
Not rated	**N/A**	N/A	**-**	6,712
	119,700	198,049	**650,217**	659,670

Securitisation Investment portfolio	Measured at amortised cost		Measured at fair value through other comprehensive income	
	Group		Group	
	2021	2020	**2021**	2020
	€000	€000	**€000**	€000
AAA	**173,238**	287,522	**327,110**	-
AA+ to AA-	**2,950**	1,650	**-**	-
A- to BBB-	**1,399**	1,399	**-**	-
BB+ to B-	**1,509**	1,492	**-**	-
	179,096	292,063	**327,110**	-
Total	**298,796**	490,112	**977,327**	659,670

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

As at 31 December 2021 and 2020, all the investments in the Treasury Investment portfolio and the Securitisation Investment portfolio are classified as regular, with the exception of the Group's investment in the most junior non-equity GH1-2019 tranche measured at amortised cost, which is rated B- (2020: B-) and which is deemed to have experienced a SICR since initial recognition hence being classified as "Under Surveillance".

Staging in respect of the Group's investment in the GH1-2019 structured note tranches is determined by reference to Implied Ratings determined in accordance with the methodology described in Note 1.5 of the financial statements, whereby a SICR assessment is only performed when Implied Ratings fall below investment-grade.

2.2.3 Detailed information on credit quality of financial assets

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

Summary of credit risk (excluding financial instruments not subject to impairment requirements) by stage distribution and ECL coverage.

MeDirect Malta Group	Gross carrying/nominal amount				Credit loss allowance				ECL coverage %			
As at 31 December 2021	Stage 1 €000	Stage 2 €000	Stage 3 €000	Total €000	Stage 1 €000	Stage 2 €000	Stage 3 €000	Total €000	Stage 1 %	Stage 2 %	Stage 3 %	Total %
On balance sheet at amortised cost												
Balances with central banks	328,627	–	–	328,627	(2)	–	–	(2)	–	–	–	–
Loans and advances to financial institutions	198,776	–	–	198,776	(1)	–	–	(1)	–	–	–	–
Loans and advances to customers												
– International Corporate Lending portfolio	344,011	174,749	96,054	614,814	(2,130)	(3,855)	(15,470)	(21,455)	0.6	2.2	16.1	3.5
– Dutch Mortgage portfolio	1,639,236	3,503	424	1,643,163	(71)	(62)	(16)	(149)	–	1.8	3.8	–
– IFRS basis adjustment: Dutch Mortgage portfolio	(37,149)	–	–	(37,149)	–	–	–	–	–	–	–	–
– Local Business Lending portfolio	89,080	5,704	11,576	106,360	(106)	(15)	(113)	(234)	0.1	0.3	1.0	0.2
– Maltese Mortgage portfolio	19,030	–	–	19,030	(77)	–	–	(77)	0.4	–	–	0.4
Investments measured at amortised cost												
– Treasury portfolio	119,836	–	–	119,836	(136)	–	–	(136)	0.1	–	–	0.1
– Securitisation portfolio	178,720	516	–	179,236	(19)	(121)	–	(140)	–	23.4	–	0.1
Accrued income	8,528	1,855	600	10,983	(15)	(41)	(54)	(110)	0.2	2.2	9.0	1.0
Loans to related parties (included in other assets)	283	–	–	283	–	–	–	–	–	–	–	–
Other receivables (included in other assets)	12,363	–	–	12,363	–	–	–	–	–	–	–	–
Off balance sheet at nominal amount												
Commitments to purchase financial assets	11,000	–	–	11,000	–	–	–	–	–	–	–	–
Commitments to extend credit, financial guarantees and other commitments	331,382	42,490	4,858	378,730	(314)	(330)	(514)	(1,158)	0.1	0.8	10.6	0.3
	3,243,723	228,817	113,512	3,586,052	(2,871)	(4,424)	(16,167)	(23,462)	0.1	1.9	14.2	0.7

	Fair value				Credit loss allowance				ECL coverage %			
As at 31 December 2021	Stage 1 €000	Stage 2 €000	Stage 3 €000	Total €000	Stage 1 €000	Stage 2 €000	Stage 3 €000	Total €000	Stage 1 %	Stage 2 %	Stage 3 %	Total %
Investments at fair value through other comprehensive income												
– Treasury portfolio	650,217	–	–	650,217	(27)	–	–	(27)	–	–	–	–
– Securitisation portfolio	327,110	–	–	327,110	(32)	–	–	(32)	–	–	–	–

MeDirect Malta Group	Gross carrying/nominal amount				Credit loss allowance				ECL coverage %			
As at 31 December 2020	Stage 1 €000	Stage 2 €000	Stage 3 €000	Total €000	Stage 1 €000	Stage 2 €000	Stage 3 €000	Total €000	Stage 1 %	Stage 2 %	Stage 3 %	Total %
On balance sheet at amortised cost												
Balances with central banks	490,681	–	–	490,681	(2)	–	–	(2)	–	–	–	–
Loans and advances to financial institutions	263,130	–	–	263,130	(1)	–	–	(1)	–	–	–	–
Loans and advances to customers												
– International Corporate Lending portfolio	548,118	192,459	162,777	903,354	(7,187)	(4,682)	(41,294)	(53,163)	1.3	2.4	25.4	5.9
– Dutch Mortgage portfolio	1,064,584	3,183	245	1,068,012	(97)	(32)	(18)	(147)	–	1.0	7.3	–
– IFRS basis adjustment: Dutch Mortgage portfolio	10,542	–	–	10,542	–	–	–	–	–	–	–	–
– Local Business Lending portfolio	68,674	16,823	7,206	92,703	(405)	(129)	(7)	(541)	0.6	0.8	0.1	0.6
Investments measured at amortised cost												
– Treasury portfolio	198,292	–	–	198,292	(243)	–	–	(243)	0.1	–	–	0.1
– Securitisation portfolio	291,704	510	–	292,214	(30)	(121)	–	(151)	–	23.7	–	0.1
Accrued income	9,113	3,078	2,928	15,119	(58)	(38)	(345)	(441)	0.6	1.2	11.8	2.9
Loans to related parties (included in other assets)	11,629	–	–	11,629	–	–	–	–	–	–	–	–
Other receivables (included in other assets)	34,966	–	–	34,966	–	–	–	–	–	–	–	–
Off balance sheet at nominal amount												
Commitments to purchase financial assets	22,000	–	–	22,000	–	–	–	–	–	–	–	–
Commitments to extend credit, financial guarantees and other commitments	679,839	51,490	12,600	743,929	(1,728)	(567)	(1,488)	(3,783)	0.3	1.1	11.8	0.5
	3,693,272	267,543	185,756	4,146,571	(9,751)	(5,569)	(43,152)	(58,472)	0.3	2.1	23.2	1.4

	Fair value				Credit loss allowance				ECL coverage %			
As at 31 December 2020	Stage 1 €000	Stage 2 €000	Stage 3 €000	Total €000	Stage 1 €000	Stage 2 €000	Stage 3 €000	Total €000	Stage 1 %	Stage 2 %	Stage 3 %	Total %
Investments at fair value through other comprehensive income												
– Treasury portfolio	652,958	–	–	652,958	(183)	–	–	(183)	–	–	–	–

An exposure is "past due" when any amount of principal, interest or fee has not been paid on the date it was due. Past due but not credit-impaired loans are those loans and advances for which contractual interest or principal payments are past due but do not meet the Group's criteria for "credit-impaired" as outlined in the Three stage expected credit loss (ECL) approach.

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

Unless identified at an earlier stage, all financial assets are deemed to have experienced a significant increase in credit risk when they are more than 30 days past due. As at 31 December 2021 and 2020, no exposures within the Maltese Mortgage portfolio, Treasury Investment and Securitisation Investment portfolios were classified as Stage 2, with the exception of the Group's investment in the most junior GHI-2019 tranche measured at amortised cost, which was not past due but classified as "Under Surveillance" as at 31 December 2021 and 2020. None of the Stage 2 exposures within the International Corporate Lending portfolio were past due as at 31 December 2021 and 2020.

In this regard, the following disclosure only presents the ageing of Stage 2 financial assets in the Local Business Lending and Dutch Mortgage portfolios. It distinguishes between those assets that are classified as Stage 2 when they are either not past due or up to 30 days past due from those that are classified as Stage 2 due to ageing and are more than 30 days past due (>30 DPD). Past due financial instruments are those loans where customers have failed to make payments in accordance with the contractual terms of their facilities. As at 31 December 2021, Stage 1 exposures with a gross carrying amount of €0.2 million (2020: €0.2 million) and €1.2 million (2020: €0.5 million) classified within the Local Business Lending and Dutch Mortgage portfolios respectively, were classified as past due but not credit-impaired.

MeDirect Malta Group

	Gross exposure			Credit loss allowance		
	Stage 2	Of which up to 30 DPD	Of which more than 30 DPD	Stage 2	Of which up to 30 DPD	Of which more than 30 DPD
As at 31 December 2021	€000	€000	€000	€000	€000	€000
Dutch Mortgage portfolio						
– Loans and advances to customers	3,503	782	2,721	(62)	(1)	(61)
Local Business Lending portfolio						
– Loans and advances to customers	5,704	5,687	17	(15)	(15)	–
– Accrued income	9	9	–	–	–	–
	9,216	6,478	2,738	(77)	(16)	(61)
As at 31 December 2020						
Dutch Mortgage portfolio						
– Loans and advances to customers	3,183	1,827	1,356	(32)	(13)	(19)
Local Business Lending portfolio						
– Loans and advances to customers	16,823	16,818	5	(129)	(129)	–
– Accrued income	30	30	–	–	–	–
	20,036	18,675	1,361	(161)	(142)	(19)

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

MeDirect Malta Group As at 31 December 2021	Gross carrying amount/nominal amount						
	Regular €000	Focus €000	Under surveillance €000	Doubtful €000	Total €000	Credit loss allowance €000	Net €000
On balance sheet at amortised cost							
Balances with central banks							
– Stage 1	328,627	-	-	-	328,627	(2)	328,625
Loans and advances to financial institutions							
– Stage 1	198,776	-	-	-	198,776	(1)	198,775
Loans and advances to customers							
– International Corporate Lending portfolio							
– Stage 1	211,661	132,350	-	-	344,011	(2,130)	341,881
– Stage 2	-	-	174,749	-	174,749	(3,855)	170,894
– Stage 3	-	-	-	96,054	96,054	(15,470)	80,584
– Dutch Mortgage portfolio							
– Stage 1	1,638,068	1.168	-	-	1,639,236	(71)	1,639,165
– Stage 2	-	-	3,503	-	3,503	(62)	3,441
– Stage 3	-	-	-	424	424	(16)	408
– IFRS basis adjustment: Dutch Mortgage portfolio	(37,149)	-	-	-	(37,149)	-	(37,149)
– Local Business Lending portfolio							
– Stage 1	72,240	16,840	-	-	89,080	(106)	88,974
– Stage 2	-	-	5,704	-	5,704	(15)	5,689
– Stage 3	-	-	-	11,576	11,576	(113)	11,463
– Maltese Mortgage portfolio							
– Stage 1	19,030	-	-	-	19,030	(77)	18,953
Investments measured at amortised cost							
– Treasury portfolio							
– Stage 1	119,836	-	-	-	119,836	(136)	119,700
– Securitisation portfolio							
– Stage 1	178,720	-	-	-	178,720	(19)	178,701
– Stage 2	-	-	516	-	516	(121)	395
Accrued income							
– Stage 1	7,409	1,119	-	-	8,528	(15)	8,513
– Stage 2	-	-	1,855	-	1,855	(41)	1,814
– Stage 3	-	-	-	600	600	(54)	546
Loans to related parties (included in other assets)							
– Stage 1	283	-	-	-	283	-	283
Other receivables (included in other assets)							
– Stage 1	12,363	-	-	-	12,363	-	12,363
Off balance sheet at nominal amount							
Commitments to purchase financial assets							
– Stage 1	11,000	-	-	-	11,000	-	11,000
Commitments to extend credit, financial guarantees and other commitments							
– Stage 1	209,416	121,966	-	-	331,382	(314)	331,068
– Stage 2	-	-	42,490	-	42,490	(330)	42,160
– Stage 3	-	-	-	4,858	4,858	(514)	4,344
	2,957,843	285,880	228,817	113,512	3,586,052	(23,462)	3,562,590

MeDirect Malta Group

As at 31 December 2021	Fair value					Credit loss allowance
	Regular	Focus	Under surveillance	Doubtful	Total	
Investments measures at fair value through other comprehensive income	€000	€000	€000	€000	€000	€000
– Treasury portfolio						
– Stage 1	650,217	-	-	-	650,217	(27)
– Securitisation portfolio						
– Stage 1	327,110	-	-	-	327,110	(32)

MeDirect Malta Group

As at 31 December 2020

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

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

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

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

Within the following tables the line items "New business" and "Repayments and disposals" represent movements within the Group's International Corporate Lending portfolio in respect of gross carrying/nominal amounts and associated credit loss allowances. "New business" represents new lending sanctioned during the financial year. Meanwhile, "Repayments and disposals" reflect loan repayments and disposals that occurred during the financial year, which however relate to loans that would only have existed on the Group's balance sheet as at the end of the preceding financial reporting period. Accordingly, repayments and disposals relating to loans sanctioned during the financial reporting period are netted off against new lending included within "New business".

The line item "Transfers of financial instruments" represents the impact of stage transfers on gross carrying/nominal amounts and associated credit loss allowances determined as at the end of the financial reporting period. The line item "Net re-measurement of ECL arising from stage transfers and changes in risk parameters" represents the increase or decrease in credit loss allowances due to modified measurement basis from 12-month to lifetime in relation to stage transfers. It also includes the effects of changes in other expected credit loss measurement factors and model parameters such as, but not limited to, changes in time to maturity of assets; changes in underlying credit ratings; changes in measurement of loss given default and changes in respect of multiple economic scenarios. Finally, this line item also comprises the increase in ECL in respect of assets written off during the period measured as the movement between 1 January and the date of write-off.

As described in previous sections, the Group's International Corporate Lending portfolio has been particularly impacted by the COVID-19 pandemic, principally since the size and the gearing levels within the debt structure of such borrowers amplified the level of default risk stemming from the unprecedented adverse macroeconomic conditions being experienced.

In this respect, the severity of the economic impact of the pandemic and the ensuing elevated level of economic uncertainty has resulted in a substantial increase in credit risk levels within the International Corporate Lending portfolio during the preceding financial year, as reflected in the significant ECL charge recognised in respect of the financial year ended 31 December 2020.

The decrease in credit loss allowances in the financial year ended 31 December 2021 was principally driven by the general improvement in financial condition experienced by borrowers within the portfolio, leading to significant repayments and in turn a decrease in ECLs of €42 million. Also, the expected credit loss allowances decreased as a result of the disposal of Stage 3 loans and the realisation of ECLs on Stage 3 loans by way of write-off following restructuring amounting to €38 million as disclosed in the line item "Realisation of ECL through restructuring and disposals".

As per the table below, net exposures amounting to €12 million were transferred out of Stage 1 into Stages 2 or 3 during the year (2020: €264 million), with net transfers to Stage 3 amounting to €41 million (2020: €169 million). The net remeasurement of ECLs reflects the decrease in PDs and LGDs driven by point-in-time economic adjustments and more optimistic forward-looking macroeconomic scenarios being forecasted in the modelling of ECLs. As explained in more detail in Note 2.2.7 – 'Current Conditions and Forward-looking information incorporated in the ECL model', the Group increased ECLs by applying management overlays (referred to as "Uncertainty adjustment" in the tables below) through the net impact of an in-model adjustment to reduce the impact of recent strong equity market performance on PiT PDs, and of a post-model adjustment to align external vendor scenarios with the ECB staff macroeconomic projections for the euro area published in December 2021 ("ECB staff projections").

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

	Non credit-impaired				Credit-impaired		Total	
	Stage 1		Stage 2		Stage 3			
International Corporate Lending portfolio **MeDirect Malta Group**	Gross carrying/ nominal amount €000	Credit loss allowance €000	Gross carrying/ nominal amount €000	Credit loss allowance €000	Gross carrying/ nominal amount €000	Credit loss allowance €000	Gross carrying/ nominal amount €000	Credit loss allowance €000
Year ended 31 December 2021								
At beginning of year	857,774	(8,958)	239,061	(5,285)	176,859	(43,125)	1,273,694	(57,368)
New business	50,217	(145)	1,475	(11)	-	-	51,692	(156)
Repayments and disposals	(373,581)	4,005	(14,480)	537	(60,264)	29,139	(448,325)	33,681
Transfers of financial instruments								
– Transfers from Stage 1 to Stage 2	(67,388)	1,375	67,388	(1,375)	-	-	-	-
– Transfers from Stage 2 to Stage 1	67,953	(1,411)	(67,953)	1,411	-	-	-	-
– Transfers to Stage 3	(12,858)	127	(28,492)	933	41,350	(1,060)	-	-
– Transfers from Stage 3	-	-	18,632	(8,300)	(18,632)	8,300	-	-
Net remeasurement of ECL arising from stage transfers and changes in risk parameters	-	3,309	-	9,246	-	(47,309)	-	(34,754)
Uncertainty adjustment	-	(757)	-	(1,382)	-	-	-	(2,139)
Realisation of ECL through restructuring and disposals	-	-	-	-	(38,017)	38,017	(38,017)	38,017
At end of year	522,117	(2,455)	215,631	(4,226)	101,296	(16,038)	839,044	(22,719)

ECL release for the year	34,649
Effect of foreign exchange differences	557
Realisation of ECL through restructuring and disposals	(38,017)
Change in expected credit losses and other credit impairment charges for the year	(2,811)

MeDirect Malta Group	As at 31 December 2021 Gross carrying/ nominal amount €000	As at 31 December 2021 Credit loss allowance €000	Year ended 31 December 2021 ECL (charge)/ release €000
As per preceding table	839,044	(22,719)	(2,811)
Balances at central banks	328,627	(2)	-
Loans and advances to financial institutions	198,776	(1)	-
Loans and advances to customers			
Dutch Mortgage portfolio: drawn exposures	1,606,014	(149)	(2)
Dutch Mortgage portfolio: undrawn commitments	72,079	(2)	15
Local Business Lending portfolio: drawn exposures	106,360	(234)	307
Local Business Lending portfolio: undrawn commitments	60,737	-	-
Maltese Mortgage portfolio: drawn exposures	19,030	(77)	(77)
Maltese Mortgage portfolio: undrawn commitments	37,504	-	-
Investments measured at amortised cost			
Treasury portfolio	119,836	(136)	107
Securitisation portfolio	179,236	(140)	11
Other accrued income	10,992	(2)	-
Summary of financial instruments to which the impairment requirements in IFRS 9 are applied through profit or loss	3,578,235	(23,462)	(2,450)
Investments measured at fair value through other comprehensive income			
Treasury portfolio	650,217	(27)	156
Securitisation portfolio	327,110	(32)	(32)
Total credit loss allowance/total income statement ECL charge for the year		(23,521)	(2,326)

Movements in expected credit losses measured in respect of exposures within the Local Business Lending portfolio classified as Stage 1 and Stage 2 exposures, resulted in a decrease in related credit loss allowances from €0.5 million to €0.2 million during the year (2020: increase from €0.4 million to €0.5 million). The impact of the pandemic on the Group's Local Business Lending portfolio has been limited since the majority of exposures within the Local Business Lending portfolio relate to the real estate and construction sectors, which sectors have largely managed to resume operations in the aftermath of the outbreak of the pandemic and are more dependent on the longer-term economic recovery of the country. The Group's credit risk is also mitigated through the maintenance of adequate levels of collateralisation, typically by charges on real estate properties. In this regard, movements in expected credit losses were largely driven by model and risk parameter changes, primarily due to the economic recovery during the year, improving macroeconomic scenarios and to a lesser extent due to stage transfers and net book movements during the year.

The table also includes the credit loss allowances attributable to the Dutch Mortgage portfolio backed by the NHG guarantee scheme and to the Maltese Mortgage portfolio, the credit loss allowances attributable to the Securitisation Investment portfolio, which comprises the Group's investments in CLOs (5% vertical slice in each of the Grand Harbour CLO 2019-1 Designated Activity Company "GH1 – 2019" structured note tranches, and acquired portions in CLO transactions managed by third party entities), included within "Investments measured at amortised cost" and "Investments measured at fair value through other comprehensive income", as well as credit loss allowances attributable to the Treasury and Securitisation Investment portfolio measured at FVOCI. The ECL charge for the Group in respect of these portfolios is not considered significant in absolute terms and, as a result, no further disclosures were deemed necessary.

The table below provides a reconciliation of movements in gross carrying/nominal amounts and credit loss allowances by stage for the International Corporate Lending portfolio for the financial year ended 31 December 2020:

	Non credit-impaired				Credit-impaired		Total	
	Stage 1		Stage 2		Stage 3			
International Corporate Lending portfolio **MeDirect Malta Group**	**Gross carrying/ nominal amount €000**	**Credit loss allowance €000**	**Gross carrying/ nominal amount €000**	**Credit loss allowance €000**	**Gross carrying/ nominal amount €000**	**Credit loss allowance €000**	**Gross carrying/ nominal amount €000**	**Credit loss allowance €000**
Year ended 31 December 2020								
At beginning of year	1,420,082	(8,995)	177,070	(2,321)	81,037	(12,788)	1,678,189	(24,104)
New business	94,627	(1,338)	-	-	-	-	94,627	(1,338)
Repayments and disposals	(393,051)	1,620	(32,970)	202	(41,760)	5,822	(467,781)	7,644
Transfers of financial instruments								
– Transfers from Stage 1 to Stage 2	(155,688)	809	155,688	(809)	-	-	-	-
– Transfers from Stage 2 to Stage 1	14,643	(305)	(14,643)	305	-	-	-	-
– Transfers to Stage 3	(122,839)	1,985	(81,287)	829	204,126	(2,814)	-	-
– Transfers from Stage 3	-	-	35,203	(1,545)	(35,203)	1,545	-	-
Net remeasurement of ECL arising from stage transfers and changes in risk parameters	-	(1,496)	-	(1,574)	-	(66,231)	-	(69,301)
COVID-19 uncertainty adjustment	-	(1,238)	-	(372)	-	-	-	(1,610)
Realisation of ECL through restructuring and disposals	-	-	-	-	(31,341)	31,341	(31,341)	31,341
At end of year	857,774	(8,958)	239,061	(5,285)	176,859	(43,125)	1,273,694	(57,368)

ECL charge for the year	(33,264)
Effect of foreign exchange differences	(109)
Realisation of ECL through restructuring and disposals	(31,341)
Change in expected credit losses and other credit impairment charges for the year	(64,714)

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

Credit loss allowances attributable to loans and advances to customers

The following table shows the credit loss allowances on loans and advances to customers recognised on the Group's balance sheet as at 31 December 2021 and 2020, excluding credit loss allowances on accrued interest and other credit-related commitments, analysed by stage distribution.

	MeDirect Malta Group			
	Stage 1 €000	Stage 2 €000	Stage 3 €000	Total €000
As at 31 December 2021				
International Corporate Lending portfolio	2,130	3,855	15,470	21,455
Dutch Mortgage portfolio	71	62	16	149
Local Business Lending portfolio	106	15	113	234
Maltese mortgage portfolio	77	-	-	77
	2,384	3,932	15,599	21,915

	MeDirect Malta Group			
	Stage 1 €000	Stage 2 €000	Stage 3 €000	Total €000
As at 31 December 2020				
International Corporate Lending portfolio	7,187	4,682	41,294	53,163
Dutch Mortgage portfolio	97	32	18	147
Local Business Lending portfolio	405	129	7	541
	7,689	4,843	41,319	53,851

The movement in credit loss allowances and the ECL charge for the financial year ended 31 December 2021 and 2020 are analysed in detail in the tables presented in the previous section.

During the financial year ended 31 December 2021, interest income amounting to €5.4 million (2020: €7.9 million) was recognised in profit or loss on credit-impaired loans.

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

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

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

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

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

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

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

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

Typically, the Group either categorises a forborne exposure as performing or classifies the exposure as forborne non-performing if unlikely-to-pay indicators are evidenced, as outlined in the Non-Performing and Default Exposure section of the Group's Credit Policy.

Renegotiated loans can be classified as non credit-impaired where the renegotiation has resulted from significant concern about a borrower's ability to meet their contractual payment terms but the renegotiated terms are based on current market rates and contractual cash flows are expected to be collected in full following the renegotiation.

Non credit-impaired renegotiated loans also include previously impaired renegotiated loans that have demonstrated satisfactory performance over a period of time or have been assessed based on all available evidence as having no remaining indicators of impairment.

On renegotiation, where the existing agreement is cancelled and a new agreement is made on substantially different terms, or if the terms of an existing agreement are modified, such that the renegotiated loan is substantially a different financial instrument, the loan would be derecognised and a new loan is recognised, for accounting purposes. However, newly recognised loans retain the "non-performing forborne" classification for regulatory reporting purposes.

When determining whether a loan that is restructured should be derecognised and a new loan recognised, the Group considers the extent to which the changes to the original contractual terms result in the renegotiated loan, considered as a whole, being a substantially different financial instrument.

As outlined previously, renegotiated loans that are classified as credit-impaired/Stage 3 exposures at the renegotiation date which have not had a substantial modification in terms, are not derecognised and remain disclosed as credit-impaired / Stage 3 exposures until there is sufficient evidence of cure to demonstrate a significant reduction in the risk of non-payment of future cash flows observed over a one-year period and there are no other indicators of impairment. In contrast, when substantial modification has been made to the terms of the renegotiated loan, the old financial asset is derecognised and a new financial asset is recognised, the latter being classified as a Stage 1 asset unless originated credit-impaired, in which case it is classified as a POCI financial asset.

The COVID-19 pandemic adversely impacted the financial performance and financial condition of a number of borrowers classified within the International Corporate Lending portfolio. In this respect, the Group was party to a number of loan renegotiations in response to financial difficulties experienced by these borrowers. An assessment was performed in respect of these exposures in order to determine whether the restructuring resulted in contractual terms which are substantially different from those which existed prior to the restructuring, thereby requiring derecognition of the old financial instrument(s) and the recognition of new financial instrument(s).

Based on this assessment, during the current year it was determined that substantial modifications were deemed to have occurred in respect of a renegotiated loan with a pre-restructuring gross carrying amount of €11.3 million (2020: €55.5 million), thereby requiring derecognition in accordance with the principles emanating from IFRS 9. Balances amounting to €3.4 million (2020: €16.9 million) were written off as at the date of renegotiation. The new financial asset attributable to this exposure was classified as Stage 1 on the basis that contractual cash flows under the renegotiated terms are expected to be recovered in full.

In contrast during the current year, no substantial modifications were deemed to have occurred in respect of renegotiated loans with a pre-restructuring gross carrying amount of €41.4 million (2020: €26.5 million). These exposures were classified as Stage 3 prior to the restructuring. Following restructuring, one exposure remained classified in stage 3 as at the end of the financial reporting period, while another exposure was classified in stage 2, since following partial forgiveness of €11 million, the loan was no longer deemed credit-impaired. In the preceding year all such exposures remained classified in stage 3 following renegotiation. In 2020 a modification loss amounting to €0.6 million was charged to profit or loss within "Interest income" on the date of renegotiation.

In response to the outbreak of the pandemic, during the financial year ended 31 December 2020, a number of government support schemes and regulatory relief measures were implemented. This is particularly relevant in the context of the Local Business Lending portfolio, which comprises exposures that benefited from the granting of government induced moratoria on capital and / or interest payments aimed at providing relief to individual and corporate customers to enable them to overcome temporary liquidity constraints. In this regard, during 2020 the Central Bank of Malta issued Directive No. 18 in order to provide guidance on the treatment of such instances, in line with European Banking Authority ('EBA') Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the Covid-19 crisis (the 'EBA Guidelines'). Moratoria meeting the conditions emanating from Directive No. 18 and the EBA Guidelines are referred to as general payment moratoria. As a consequence of the protracted impact of the Covid-19 pandemic, on 14 January 2021 the Central Bank of Malta reactivated Directive 18 by reopening the application period for moratoria until 31 March 2021. Under the amendments introduced during 2021, first time applicants were eligible for moratoria of maximum durations of up to nine months from the application date, whereas existing moratoria were allowed to be extended for a further six months as long as the total moratorium period would not exceed nine months.

In line with the guidelines mentioned above, borrowers availing themselves of general payment moratoria are not classified as renegotiated/ forborne loans, unless such borrowers were already experiencing financial difficulties prior to the granting of the general payment moratorium, in which case the exposure would be classified as non-performing forborne / Stage 3.

Nevertheless, the regulatory relief measure afforded to exposures benefiting from a general payment moratorium does not automatically lead to a Stage 1 classification, nor does the granting of the general payment moratorium automatically trigger the assumption that credit deterioration has occurred, requiring a downgrade in classification to Stage 2. In this respect and in accordance with the requirements emanating from Directive No. 18 and the EBA Guidelines, the Group performed an assessment on the basis of available information in order to determine whether the financial difficulties being experienced by borrowers benefiting from a general payment moratorium are temporary in nature. If, notwithstanding the granting of the general payment moratorium, the impact of the pandemic was deemed to have led to a more permanent deterioration in the borrower's financial condition, the exposure was downgraded to Stage 2 or Stage 3, depending on the magnitude of the assessed impact. In case of extensions of general payment moratoria beyond the maximum period prescribed by Directive No. 18, such exposures are considered to be renegotiated / forborne.

No similar COVID-19 relief measures are applicable in respect of exposures classified within the Dutch Mortgage portfolio and, in this regard, the treatment of modifications and renegotiations of such exposures follows the regular principles established in the Group's accounting and credit policies.

As at 31 December 2021 and 31 December 2020, none of the exposures within the Maltese mortgage portfolio, Treasury Investment and Securitisation Investment portfolios were forborne reflecting the fact that both the Securitisation Investment portfolio and the Treasury Investment portfolio principally comprise of investment-grade exposures and that the Maltese Mortgage portfolio is a relatively new portfolio. In this regard, any amounts disclosed in this section relate to forbearance activity within the International Corporate Lending, Dutch Mortgage and Local Business Lending portfolios.

The following table shows the carrying amount of the Group's loans and advances to customers classified within the International Corporate Lending and Local Business Lending portfolios reflecting forbearance activity, by stage and by past due status. For the avoidance of doubt, exposures benefiting from a general payment moratorium meeting the conditions established within Directive No. 18 and the EBA Guidelines are classified as non-forborne exposures in the table below.

MeDirect Malta Group

	International Corporate Lending portfolio		Local Business Lending portfolio		
As at 31 December 2021	**Non-forborne exposures €000**	**Forborne exposures €000**	**Non-forborne exposures €000**	**Forborne exposures €000**	**Total €000**
Stage 1					
Neither past due nor credit-impaired	276,284	67,727	-	-	344,011
Past due but not credit-impaired					
– by up to 30 days	-	-	89,080	-	89,080
Stage 2					
Neither past due nor credit-impaired	77,449	97,300	3,409	312	178,470
Past due but not credit-impaired					
– by up to 30 days	-	-	1,022	944	1,966
– by up to 60 days	-	-	17	-	17
Stage 3					
Credit-impaired, net of credit loss allowances	20,185	60,399	1,041	10,422	92,047
Loans and advances to customers, net of Stage 3 credit loss allowances	373,918	225,426	94,569	11,678	705,591
Stage 1 credit loss allowances	1,280	850	106	-	2,236
Stage 2 credit loss allowances	1,258	2,597	15	-	3,870
Stage 3 credit loss allowances	6,651	8,819	112	1	15,583
As at 31 December 2020					
Stage 1					
Neither past due nor credit-impaired	449,317	98,801	65,929	2,498	616,545
Past due but not credit-impaired					
– by up to 30 days	-	-	235	12	247
Stage 2					
Neither past due nor credit-impaired	79,687	112,772	13,390	3,352	209,201
Past due but not credit-impaired					
– by up to 30 days	-	-	64	12	76
– by up to 60 days	-	-	5	-	5
Stage 3					
Credit-impaired, net of credit loss allowances	44,685	76,798	356	6,843	128,682
Loans and advances to customers, net of Stage 3 credit loss allowances	573,689	288,371	79,979	12,717	954,756
Stage 1 credit loss allowances	4,902	2,285	390	15	7,592
Stage 2 credit loss allowances	1,063	3,619	129	-	4,811
Stage 3 credit loss allowances	14,795	26,499	7	-	41,301

During the financial year ended 31 December 2021, general payment moratoria meeting the criteria emanating from Directive No. 18 and the EBA Guidelines were granted to 6 borrowers (2020: 48 borrowers) in respect of gross exposures amounting to €5.8 million (2020: €22.4 million). As at 31 December 2021, there were no exposures subject to general payment moratoria within the Local Business Lending portfolio given that in terms of the Directive, applications for such moratoria ended on 31 March 2021 and could only be granted for a maximum period of 9 months. Meanwhile, as at 31 December 2020, exposures benefitting from general payment moratoria amounted to €22.1 million. As a result, in the above table, as at 31 December 2020, exposures amounting to €19.4 million benefitting from general payment moratoria were presented as part of non-forborne exposures within the Local Business Lending portfolio.

As at 31 December 2020, an amount of €9.6 million of such exposures were classified in Stages 1 while €10.1 million were classified in stage 2 and their respective loss allowances amounted to €0.1 million and €0.1 million respectively.

As at 31 December 2021 no forborne exposures within the Local Business Lending portfolio were benefitting from general payment moratoria.

Meanwhile, as at 31 December 2020, exposures amounting to €2.7 million with a gross carrying amount of €0.2 million and €2.5 million were considered forborne and classified in Stage 1 and Stage 2 respectively. The credit loss allowances in respect of these exposures as at 31 December 2020 amounted to €0.1 million.

In May 2020, MeDirect Malta launched the MeAssist lending product to enhance access to bank financing to corporate customers in the Group's Local Business Lending portfolio in Malta. Individual loan facilities offered in the form of working capital facilities granted to assist customers with their operational requirements in view of the market disruptions brought about by the outbreak of the COVID-19 pandemic under this product are up to 90% secured by guarantees provided under the MDB CGS, capped at 50% of the actual portfolio volume. In this respect, total commitments entered into with corporate customers within the Group's Local Business Lending portfolio meeting the criteria of the MeAssist lending product amounted to €1.5 million as at 31 December 2021 (2020: €1.5 million), of which €0.5 million (2020: €1 million) was drawn down and classified in Stage 1 and €0.9 million was classified in Stage 3 (2020: nil).

The following table shows the carrying amount of the Group's loans and advances to customers classified within the Dutch Mortgage portfolio reflecting forbearance activity, by stage and by past due status.

MeDirect Malta Group

	Dutch Mortgage portfolio		
As at 31 December 2021	Non-forborne exposures €000	Forborne exposures €000	Total €000
Stage 1			
Neither past due nor credit-impaired	1,638,068	-	1,638,068
Past due but not credit-impaired			
– by up to 30 days	1,168	-	1,168
Stage 2			
Neither past due nor credit-impaired	-	782	782
Past due but not credit-impaired			
– by more than 30 days and up to 90 days	1,842	879	2,721
Stage 3			
Credit-impaired, net of credit loss allowances	408	-	408
Loans and advances to customers, net of Stage 3 credit loss allowances	1,641,486	1,661	1,643,147
Stage 1 credit loss allowances	71	-	71
Stage 2 credit loss allowances	33	29	62
Stage 3 credit loss allowances	16	-	16

MeDirect Malta Group

	Dutch Mortgage portfolio		
As at 31 December 2020	Non-forborne exposures €000	Forborne exposures €000	Total €000
Stage 1			
Neither past due nor credit-impaired	1,064,097	-	1,064,097
Past due but not credit-impaired			
– by up to 30 days	487	-	487
Stage 2			
Neither past due nor credit-impaired	1,827	-	1,827
Past due but not credit-impaired			
– by more than 30 days and up to 90 days	429	927	1,356
Stage 3			
Credit-impaired, net of credit loss allowances	227	-	227
Loans and advances to customers, net of Stage 3 credit loss allowances	1,067,067	927	1,067,994
Stage 1 credit loss allowances	97	-	97
Stage 2 credit loss allowances	19	13	32
Stage 3 credit loss allowances	18	-	18

As at 31 December 2021, all exposures within the Maltese Mortgage portfolio were classified as Stage 1 – neither past due nor credit-impaired. In addition, none of the exposures classified therein were forborne as at 31 December 2021.

As at 31 December 2021, total gross forborne loans and advances to customers as a percentage of total gross loans and advances to customers of MeDirect Malta Group were equivalent to 10.6% (2020: 15.9%).

Interest income recognised by the Group during the financial year ended 31 December 2021 in respect of forborne exposures amounted to €13.8 million (2020: €18.9 million).

The movement in the gross carrying amount of forborne loans and advances to customers, before credit loss allowances, is analysed below:

MeDirect Malta Group

	Group	
Year ended 31 December	**2021 €000**	2020 €000
At beginning of year	**328,514**	161,945
Loans to which forbearance measures have been extended during the year without derecognition	**40,876**	221,067
Capitalised interest	**5,234**	2,846
Capitalised fees	**(60)**	(186)
Repayments or disposals	**(86,532)**	(15,070)
De-recognised forborne loans due to further forbearance measures	**(19,209)**	(38,519)
Newly recognised loans as a result of forbearance measures	**7,896**	29,130
Write-offs	**(38,017)**	(31,370)
Amortisation of premium or discount	**1,855**	393
Exchange differences	**7,026**	(1,722)
At end of year	**247,583**	328,514

Capitalised fees included in the table above reflect amounts disbursed by customers in relation to the origination of the exposure. Such amounts are recognised as part of the gross carrying amount of the exposure in the form of deferred income and amortised over the life of the instrument.

As at 31 December 2021, credit loss allowances in respect of the Group's forborne loans were equivalent to €12.3 million (2020: €32.4 million). Additions to credit loss allowances on forborne loans during the year ended 31 December 2021 amounted to €6.1 million (2020: €6.5 million). Reversals of credit loss allowances on forborne loans during the year ended 31 December 2021 amounted to €26.2 million (2020: €4.3 million).

The following tables show the gross carrying amounts of the Group's holdings of renegotiated loans and advances to customers analysed by industry sector and stage:

	MeDirect Malta Group			
As at 31 December 2021	**Stage 1 €000**	**Stage 2 €000**	**Stage 3 €000**	**Total €000**
Accommodation and food service activities	-	18,692	-	18,692
Administrative and support services	-	-	22,620	22,620
Real estate and construction	-	1,256	10,423	11,679
Financial and insurance activities	26,940	35,873	45,219	108,032
Human health and social work activities	14,931	-	-	14,931
Information and communication	-	16,893	-	16,893
Manufacturing	16,471	11,935	-	28,406
Professional, scientific and technical activities	9,385	13,907	-	23,292
Households and individuals	-	1,661	-	1,661
Wholesale and retail trade; Repair of motor vehicles and motorcycles	-	-	1,377	1,377
	67,727	100,217	79,639	247,583

	MeDirect Malta Group			
As at 31 December 2020	**Stage 1 €000**	**Stage 2 €000**	**Stage 3 €000**	**Total €000**
Accommodation and food service activities	15,812	-	-	15,812
Administrative and support services	-	10,940	39,960	50,900
Real estate and construction	2,510	3,363	6,842	12,715
Financial and insurance activities	25,644	56,835	33,536	116,015
Human health and social work activities	-	14,931	-	14,931
Information and communication	-	12,664	13,091	25,755
Manufacturing	17,478	17,403	-	34,881
Professional, scientific and technical activities	39,867	-	-	39,867
Households and individuals	-	927	-	927
Wholesale and retail trade; Repair of motor vehicles and motorcycles	-	-	16,711	16,711
	101,311	117,063	110,140	328,514

The Group's forborne loans classified within the International Corporate Lending portfolio as at 31 December 2021 consist of corporate exposures based in Europe, amounting to €198.2 million (2020: €301.7 million), and in the United States, amounting to €52.7 million (2020: €13.1 million). The forborne loans classified within the Local Business Lending portfolio are mainly categorised as exposures to corporate customers within the real estate and construction sector. Forbearance measures in respect of exposures classified within the Dutch Mortgage portfolio are limited to payment arrangements, allowing customers to repay the amounts in arrears in addition to the regular monthly instalment. Past due amounts are thereby regularised within an agreed number of months. The forborne loans classified within the Dutch Mortgage portfolio, are categorised as exposures to households and individuals in the tables above.

2.2.5 Write-offs

Financial assets written off by the Group during the financial year ended 31 December 2021 amounted to €38 million (2020: €31.3 million) and were all resulting from renegotiations of financial instruments as described in further detail in note 2.2.4 – "Loans and advances to customers with renegotiated terms and the Group's forbearance policy".

2.2.6 Collateral

The Group holds collateral against loans and advances to customers classified under the Local Business Lending and the Dutch and Maltese Mortgage portfolios in the form of hypothecary rights over immovable assets and registered rights over movable assets and guarantees. The assets held as collateral are assigned a fair value at the time of credit approval. The assigned value is regularly monitored to identify assets that need revaluation.

Depending on the customer's standing and the type of product, in certain circumstances facilities may be provided on an unsecured basis, although the Group has limited appetite for such agreements. In the majority of lending facilities, a charge over collateral is obtained and considered in determining the credit risk appetite and risk-return profile of all lending decisions. In the event of a default, the Group may utilise the collateral as a source of repayment. Depending on its form, collateral can have a significant financial effect in mitigating exposure to credit risk.

Collateral received by the Group includes residential and commercial property, as well as financial collateral such as debt securities and cash on deposit. The immovable property collateral received in respect of exposures within the Local Business Lending, Maltese mortgage and Dutch Mortgage portfolios is mainly located in Malta and the Netherlands respectively.

Exposures meeting the eligibility criteria of the MeAssist lending product launched by MeDirect Malta to provide assistance to Maltese corporate customers classified within the Local Business Lending portfolio in the aftermath of the outbreak of the pandemic benefit from unfunded credit risk protection in the form of guarantees covering up to 90% of individual exposure amounts capped at 50% of the portfolio and provided under the MDB CGS.

The following tables show the gross carrying amount (before credit loss allowances) of the loans and advances to customers classified under the Local Business Lending portfolio by level of collateral expressed through the loan-to-value ("LTV") ratio. The collateral measured for the purposes of the tables below consists of fixed first charges on real estate, and charges over cash and marketable financial instruments, as well as guarantees provided under the MDB CGS. The collateral amounts represent the expected market value on an open market basis for real estate: no adjustment has been made to the collateral for any expected costs of recovery. Cash is valued at its nominal value and marketable securities at their fair value. If an exposure is fully cash secured (100% LTV), no ECL is measured in this respect, whereas ECL is calculated on exposures which are partially cash secured and having a LTV ratio less than 100%. Guarantees provided in respect of the MeAssist lending product under the MDB CGS are shown at 90% of the guaranteed exposure amount.

	Non-forborne		Forborne		Total	
MeDirect Malta Group	Gross carrying amount €000	Credit loss allowance €000	Gross carrying amount €000	Credit loss allowance €000	Gross carrying amount €000	Credit loss allowance €000
As at 31 December 2021						
Stage 1						
a) Not collateralised	712	(14)	-	-	712	(14)
b) Fully collateralised						
- Up to 50% LTV	46,834	(1)	-	-	46,834	(1)
- 51% to 75% LTV	31,984	(48)	-	-	31,984	(48)
- 76% to 90% LTV	4,725	(16)	-	-	4,725	(16)
- 91% to 100% LTV	1,825	(11)	-	-	1,825	(11)
c) Partially collateralised						
- Greater than 100% LTV	3,000	(16)	-	-	3,000	(16)
	89,080	(106)	-	-	89,080	(106)
Stage 2						
a) Fully collateralised						
- Up to 50% LTV	1,039	-	1,256	-	2,295	-
- 51% to 75% LTV	3,409	(15)	-	-	3,409	(15)
	4,448	(15)	1,256	-	5,704	(15)
Stage 3						
a) Not collateralised	2	(18)	55	(1)	57	(19)
b) Fully collateralised						
- Up to 50% LTV	262	(5)	1,214	-	1,476	(5)
- 76% to 90% LTV	-	-	2,547	-	2,547	-
- 91% to 100% LTV	889	(89)	-	-	889	(89)
- greater than 100% LTV	-	-	6,607	-	6,607	-
	1,153	(112)	10,423	(1)	11,576	(113)

MeDirect Malta Group	Non-forborne Gross carrying amount €000	Non-forborne Credit loss allowance €000	Forborne Gross carrying amount €000	Forborne Credit loss allowance €000	Total Gross carrying amount €000	Total Credit loss allowance €000
As at 31 December 2020						
Stage 1						
a) Not collateralised	1	-	-	-	1	-
b) Fully collateralised						
- Up to 50% LTV	23,275	-	-	-	23,275	-
- 51% to 75% LTV	40,597	(367)	-	-	40,597	(367)
- 76% to 90% LTV	188	(8)	2,510	(15)	2,698	(23)
c) Partially collateralised						
- Greater than 100% LTV	2,103	(15)	-	-	2,103	(15)
	66,164	(390)	2,510	(15)	68,674	(405)
Stage 2						
a) Fully collateralised						
- Up to 50% LTV	4,071	-	3,364	-	7,435	-
- 51% to 75% LTV	9,388	(129)	-	-	9,388	(129)
	13,459	(129)	3,364	-	16,823	(129)
Stage 3						
a) Not collateralised	318	(7)	-	-	318	(7)
b) Fully collateralised						
- Up to 50% LTV	45	-	237	-	282	-
- 91% to 100% LTV	-	-	6,606	-	6,606	-
	363	(7)	6,843	-	7,206	(7)

The following table shows the gross carrying amount (before credit loss allowances) of the loans and advances to customers classified under the Dutch Mortgage portfolio by level of collateral expressed through the LTV ratio. The collateral measured for the purposes of the table below consists of fixed first charges on real estate. Guarantees issued by the Dutch government (NHG) in respect of such loans, which represent additional security, are accordingly not taken into account for the purposes of the table below.

MeDirect Malta Group	Non-forborne		Forborne		Total	
	Gross carrying amount €000	Credit loss allowance €000	Gross carrying amount €000	Credit loss allowance €000	Gross carrying amount €000	Credit loss allowance €000
As at 31 December 2021						
Stage 1						
a) Fully collateralised						
- Up to 50% LTV	33,290	-	-	-	33,290	-
- 51% to 75% LTV	238,738	(7)	-	-	238,738	(7)
- 76% to 90% LTV	373,003	(16)	-	-	373,003	(16)
- 91% to 100% LTV	896,559	(43)	-	-	896,559	(43)
b) Partially collateralised						
- Greater than 100%	97,646	(5)	-	-	97,646	(5)
	1,639,236	(71)	-	-	1,639,236	(71)
Stage 2						
a) Fully collateralised						
- 51% to 75% LTV	124	(1)	119	(4)	243	(5)
- 76% to 90% LTV	223	-	133	-	356	-
- 91% to 100% LTV	1,307	(31)	956	(7)	2,263	(38)
b) Partially collateralised						
- Greater than 100%	188	(1)	453	(18)	641	(19)
	1,842	(33)	1,661	(29)	3,503	(62)
Stage 3						
a) Fully collateralised						
- 51% to 75% LTV	267	(10)	-	-	267	(10)
- 76% to 90% LTV	157	(6)	-	-	157	(6)
	424	(16)	-	-	424	(16)

MeDirect Malta Group	Non-forborne		Forborne		Total	
	Gross carrying amount €000	Credit loss allowance €000	Gross carrying amount €000	Credit loss allowance €000	Gross carrying amount €000	Credit loss allowance €000
As at 31 December 2020						
Stage 1						
a) Fully collateralised						
- Up to 50% LTV	21,092	(1)	-	-	21,092	(1)
- 51% to 75% LTV	148,074	(8)	-	-	148,074	(8)
- 76% to 90% LTV	238,122	(18)	-	-	238,122	(18)
- 91% to 100% LTV	596,364	(63)	-	-	596,364	(63)
b) Partially collateralised						
- Greater than 100%	60,932	(7)	-	-	60,932	(7)
	1,064,584	(97)	-	-	1,064,584	(97)
Stage 2						
a) Fully collateralised						
- 51% to 75% LTV	-	-	123	(1)	123	(1)
- 76% to 90% LTV	-	-	137	(1)	137	(1)
- 91% to 100% LTV	2,256	(19)	667	(11)	2,923	(30)
	2,256	(19)	927	(13)	3,183	(32)
Stage 3						
a) Fully collateralised						
- 51% to 75% LTV	91	(11)	-	-	91	(11)
- 76% to 90% LTV	154	(7)	-	-	154	(7)
	245	(18)	-	-	245	(18)

The following table shows the gross carrying amount (before credit loss allowances) of the loans and advances to customers classified under the Maltese Mortgage portfolio by level of collateral expressed through the LTV ratio. The collateral measured for the purposes of the table below consists of fixed first charges on real estate.

MeDirect Malta Group	Non-forborne		Forborne		Total	
	Gross carrying amount €000	Credit loss allowance €000	Gross carrying amount €000	Credit loss allowance €000	Gross carrying amount €000	Credit loss allowance €000
As at 31 December 2021						
Stage 1						
a) Fully collateralised						
- Up to 50% LTV	2,923	(4)	-	-	2,923	(4)
- 51% to 75% LTV	7,147	(13)	-	-	7,147	(13)
- 76% to 90% LTV	8,609	(19)	-	-	8,609	(19)
- 91% to 100% LTV	351	(41)	-	-	351	(41)
	19,030	(77)	-	-	19,030	(77)

As at 31 December 2021 the Group held senior secured loans to international borrowers classified under the International Corporate Lending portfolio which amounted to €0.6 billion (2020: €0.9 billion). In respect of such financial assets, the Group normally has a right over the borrower's unencumbered assets.

All the Group's exposures classified under the Treasury Investment portfolio as at 31 December 2021 and 2020 are unsecured with the exception of a sub-portfolio of covered bonds amounting to €471.2 million (2020: €476.0 million) which are backed by a separate group of assets in the form of loans. Similarly, all exposures classified under the Securitisation Investment portfolio as at 31 December 2021 and 2020 are also backed by a separate group of assets in the form of loans.

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

Point-in-time, forward-looking PD and LGD modelling methodology

The modelling methodology used by the Group in the measurement of credit loss allowances in respect of Stage 1 and Stage 2 exposures leverages current and multiple scenarios of future projections of macroeconomic data beyond the reporting date in order to determine point-in-time PDs and incorporate forward-looking information. Statistical models used are developed by an external vendor.

As explained in more detail in Note 1.5 of the financial statements, for the Corporate Lending and Treasury portfolios the models use rating scale to TTC PD matrices calibrated on the basis of an underlying dataset of market observations to firstly determine a TTC PD and accordingly an implied rating for each borrower. The TTC PD/implied rating is determined by calibrating borrowers' financial and non-financial profile with those of observable rated peers. An exposure's implied rating is then converted to an unconditional PiT PD using a methodology which utilises market capitalisation/equity volatility and leverage of comparable firms, with shocks to a firm's stock price translated into corresponding shocks to the credit risk metric attributable to the underlying exposure. Therefore, equity market performance is a key variable for incorporating current conditions into the Group's ECL modelling methodology, particularly in the conversion from TTC to PiT PDs.

Equity markets have rallied significantly during 2021, with performance of major indices reflecting significant year on year gains. This has led to a significant decrease in PiT PDs within the Group's ECL model, which in Management's view may not necessarily be reflective of the credit quality of corporates as at the end of the year. It is Management's view that asset prices could not only be influenced by strong earnings but potentially by other factors such as excess liquidity, government support measures, including quantitative easing programmes as well as low yields on alternative investment products.

As a result, the Group applied a management overlay, through an in-model adjustment, to reduce the effect of changes in equity values (derived from firms' daily stock prices) and volatility (derived from the recent volatility in equity value of the underlying firms) on determination of PiT PDs within the model. More specifically, the Group has attuned a volatility adjustment parameter within its ECL model designed specifically to reduce the volatility of PiT PDs by decreasing the weighting attributed to equity values, thus moving PiT PDs closer to TTC PDs than they currently are. The effect of this overlay is disclosed as part of the "Uncertainty Adjustment" within the table in section 2.2.4 disclosing the reconciliation of movements in gross carrying/nominal amounts and credit losses allowances.

The methodology then utilises macroeconomic correlation models in order to determine the historical correlation of a borrower's financial performance with overall country or region-level macroeconomic conditions, with the correlation factors estimated principally by reference to borrower size as well as the industry in which the borrower operates. Multiple macroeconomic forecasts developed by an external vendor are then applied to PiT PDs to produce probability-weighted forward-looking conditioned PiT PDs in line with the requirements of IFRS 9. The conditioning of PDs by reference to multiple macroeconomic scenarios reflects forecasted quarter-on-quarter changes in macroeconomic variables (such as GDP, unemployment and HPI) over the PD term structure of the exposure. The Group's modelling methodology therefore estimates a point-in-time and forward-looking measure of default risk. The same methodology is also used to estimate PiT LGDs.

Input parameters similar to those of the Corporate and Treasury portfolios do not exist for determining implied ratings of the Local Business Lending portfolio, mainly due to existing data limitations within the local market. Therefore, implied ratings are assigned by the Credit Risk team using professional judgement by reference to default rates experienced in similar markets as well as the financial performance and position of the borrower in relation to financial performance and position at origination. A similar approach to that adopted for Corporate and Treasury portfolios is applied to determine conditional PiT PDs, using the TTC implied risk ratings based on internal risk classifications by the Credit Risk team which are then adjusted to PiT forward looking PDs as described above.

For Dutch residential mortgages, PiT PDs and LGDs are determined using loan and borrower characteristics such as loan-to-value ('LTV') and loan-to-income ('LTI') inputs, calibrated on the basis of historical data of proxy NHG loans from RMBS transactions which are adjusted to incorporate current and forward-looking macroeconomic variables and data such as GDP, unemployment rates and house price indices. PiT PDs for Maltese mortgages are based on the actual six months lagged NPL ratio published by the Central Bank of Malta in its Financial Stability Report adjusted to incorporate forward-looking macroeconomic variables including unemployment rates and the House Price Index.

In respect of defaulted / Stage 3 exposures classified within the International Corporate Lending portfolio, the Group utilises an internally developed discounted cash flow methodology in order to estimate the net present value of forecasted operating cash flows under multiple forward-looking scenarios discounted using the borrower-specific weighted average cost of capital ("WACC"). In this regard, forward-looking expectations based on the impact of changing macroeconomic conditions on the borrower are reflected in multiple scenarios of operating cash flows developed by management, which are discounted and probability-weighted in accordance with the requirements of IFRS 9.

Similarly, the expected recoveries in respect of defaulted / Stage 3 exposures classified within the Local Business Lending portfolio are estimated by reference to multiple work-out options determined on the basis of an individual borrower assessment and taking into consideration the impact of macroeconomic conditions on the recoverable amount under each scenario.

The model used to measure credit loss allowances in respect of all exposures classified within the Dutch and Maltese Mortgage portfolio estimates PDs and LGDs by reference to historical information observed in that jurisdiction for similar assets as well as multiple forward-looking macroeconomic forecasts for the respective economy developed by the external vendor.

As at 31 December 2021, a degree of uncertainty remains as countries emerge from the pandemic at different speeds, government support measures unwind and new virus strains test the efficacy of vaccination programmes. In this respect, the macroeconomic modelling aspect within the estimation of ECLs has been particularly affected by the outbreak of the pandemic. Although the forecasting of economic conditions is subject to an inherent level of risk, the economic and socio-political uncertainties induced by the pandemic have heightened the level of subjectivity in respect of the modelling of the impact of the severe economic conditions currently being experienced on default levels and loss severities.

This has required an elevated level of review and expert judgement to ensure that the macroeconomic methodology used by the Group results in plausible scenarios which adequately capture the risks resulting from the pandemic to the best extent possible.

Significant judgement is therefore still required in the determination of macroeconomic forecasts reflecting potential future economic conditions under different scenarios and their impact on PDs and LGDs.

Forecasts of future economic conditions

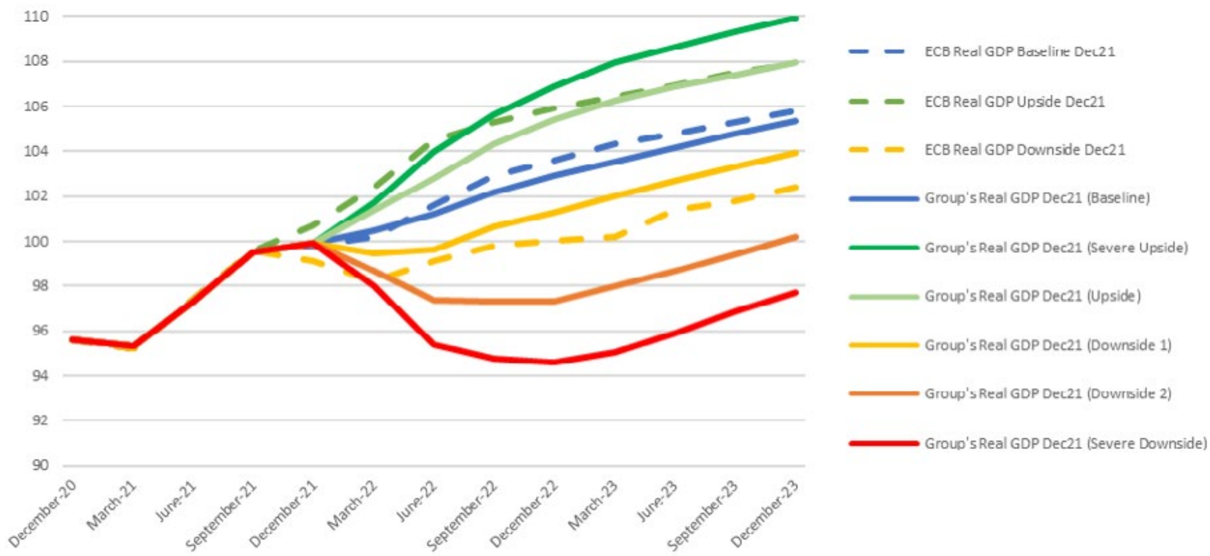
The Group applies macroeconomic scenarios sourced from an external vendor to the PD and LGD term structures for the estimation of credit loss allowances in respect of Stage 1 and Stage 2 exposures classified within the International Corporate Lending and Local Business Lending portfolios, as well as in respect of all exposures classified within the Dutch Mortgage, Maltese Mortgage, Treasury Investment and Securitisation Investment portfolios. The macroeconomic scenarios represent the Group's view of the range of potential outcomes, and application of these scenarios captures the non-linearity of expected credit losses under different scenarios for all portfolios.

The scenarios generated include a central, or baseline, scenario and "alternative" scenarios to reflect upside and downside scenarios. The scenarios are constructed by the external vendor based on a target severity for each of the scenarios. While the baseline scenario is by design in the middle of possible future economic outcomes, the alternative scenarios capture alternative economic conditions that are equally distanced from the baseline in terms of their severity as per the assumptions of the external vendor. After their construction, the scenarios are each assigned probability weights based on the external vendor's severity distribution and on how well they approximate (simulated) possible future economic developments. The scenarios are generated/refreshed on a quarterly basis.

The macroeconomic scenarios used in the Group's modelling of credit loss allowances reflect possible macroeconomic paths taking into consideration a range of potential economic impacts driven by epidemiological assumptions in respect of the pandemic, progress in roll-outs of vaccination programmes, efficacy of vaccines and restrictions imposed at national level by various governments, as well as government support schemes and regulatory relief measures. Therefore, economic forecasts remain subject to a high degree of uncertainty in the current environment.

In the aftermath of the outbreak of the COVID-19 pandemic, more rigorous monitoring of macroeconomic forecasts developed by the external vendor was performed by the Group in order to challenge the adequacy and reasonableness of the developed scenarios. In this respect, the macroeconomic scenarios were reviewed on a quarterly basis in full consideration of the guidance issued by the ECB to Significant Institutions on 1 April 2020 ("IFRS 9 in the context of the coronavirus (COVID-19) pandemic").

The scenarios have been benchmarked and assessed against the macroeconomic forecasts for the Euro area published by the ECB, in line with ECB guidance, with the latest publication available being the one published in December 2021. Despite modelled macroeconomic scenarios from the external vendor include reasonable epidemiological, economic, and geopolitical risk assumptions, management concluded that given the reduced prevailing uncertainty of the macroeconomic environment and path of economic recovery, scenarios should be consistent and aligned with those of the December 2021 ECB Staff projections. Therefore necessary adjustments were made to the number, selection and probability weightings of macroeconomic forecasts from externally sourced modelled scenarios.



The graph above presents the multiple paths for eurozone GDP under the baseline scenario from the December 2021 ECB staff macro-economic projections for the euro area and the two accompanying alternative scenarios provided within the ECB staff projections, as well as the eurozone GDP paths under six scenarios provided to the Group by the external vendor and utilised for the measurement of ECL prior to any management adjustment/overlay (indexed from December 2019).

The following graph presents the multiple paths for eurozone GDP under the baseline scenario from the December 2021 ECB staff macro-economic projections for the euro area and the two accompanying alternative scenarios provided within the ECB staff projections, as well as the eurozone GDP paths under six scenarios provided to the Group by the external vendor and utilised for the measurement of ECL prior to any management adjustment/overlay (indexed from December 2019).

To align the outcome of the forecasts sourced from the external vendor with the December 2021 ECB Staff projections, Management selected the four (2020: five) scenarios, out of the six scenarios developed by the external vendor in which eurozone GDP paths most closely aligned with the three GDP paths published within the December 2021 ECB Staff projections. Specifically, as at 31 December 2021, Management selected to use the Baseline, the Upside, the Downside 1 and Downside 2 scenarios. In the preceding year, Management had selected the Baseline, the Upside, the Severe Upside, the Downside 2 and the Severe Downside scenarios.

The scenarios used for the purposes of determining the ECL as at 31 December 2021 are described below.

Baseline	Upside
• Existing vaccines protect against the Omicron variant and economy weathers the winter outbreak • Health measures focus on boosters and unvaccinated • Some level of government imposed social distancing rolled out across countries, but effect on aggregate activity is smaller than in previous outbreaks • Better treatment, drugs and vaccines help moderate the impact. • ECB keeps policy rates unchanged for several years and continues large-scale asset purchases. • Stock, money and bond market sentiment does not worsen • Political developments do not result in anti-EU sentiment	• Vaccines prove at least partly effective so infections abate by end of winter • Consumers resume normal spending faster and use substantial share of excess savings • Business sentiment improves quickly, leading investment and hiring to rebound • Rapid rebound and continued government support, almost no long-term consequences and minimum bankruptcies and layoffs • NextGenerationEU fund proves successful in providing stimulus and transforming EU economies • ECB keeps policy rates unchanged and supports the recovery with large asset purchases and further LTROs
Downside 1	**Downside 2**
• Vaccine efficacy proves only partially effective against the new strain, necessitating prolonged restrictions and social distancing throughout winter • Continued pandemic prevents the economy from fully returning to normal, with output in some sectors of the economy remaining below capacity. • Consumers and firms remain cautious - less pent-up demand than in the baseline • ECB keeps policy rates unchanged and provides no further support to the economy • Continued economic problems cause more bankruptcies and layoffs, leading to somewhat larger demand shocks than in the baseline as well as lower potential GDP in the long run	• Pandemic persists into 2022 with current vaccines less effective against Omicron variant. New vaccines prevent more permanent scarring, but initial shock is severe. • Restrictions are reimposed this winter and remain in place for long periods • Consumers resort to voluntary social distancing and cut nonessential spending • Selloffs in financial markets, including government bond markets • ECB keeps policy rates unchanged and supports the economy • Wave of bankruptcies and layoffs, causing additional demand shocks • Sustained low investment erodes economy's potential

The year-on-year forecasts for 2021 to 2024 for key macro-economic variables (MEVs) under each of the scenarios described above together with the MEVs for the Severe Upside and Severe Downside scenarios are disclosed below.

In addition, during 2021, Management deviated from the manner in which it has historically calibrated its probability weights with the severity of the scenarios. In this respect, the Group's weighting allocation approach is that weights represent the share of outcomes that are best approximated by a scenario (not the likelihood of a specific scenario occurring). In prior years, probability weightings have always been assigned by the Group to each scenario using the mid-point approach through which the probability weight assigned to each scenario would be dependent on the mid-points between the percentiles (representing the severity of the scenario) which each scenario represents along the distribution curve. However, in order to align the perceived outcome of the forecasts sourced from the external vendor as at 31 December 2021 with the December 2021 ECB Staff projections, Management applied changes to the method of assigning probability weights based on professional judgement.

The scenarios selected versus those selected in the prior year, together with the relative probability weightings relative to the severity distribution provided by the external vendor for each scenario, are disclosed in the table below:

External vendor scenarios	Severe Upside	Upside	Baseline	Downside 1	Downside 2	Severe Downside
External Vendor Severity	96%	90%	50%	25%	10%	4%
Probability Weight 2020	7%	23%	40%		23%	7%
Probability Weight 2021		25%	50%	20%	5%	

In applying professional judgement, Management considered the losses arising under the Downside scenarios to be representative of the losses arising within the Group's portfolio in all scenarios between the 0th and 25th percentiles, and hence attributed a probability weight, collectively of 25%. Similarly, Management considered the losses arising under the Upside scenarios to be representative of the losses arising within the Group's portfolio in all scenarios between the 75th and 100th percentiles and hence attributed a probability weight of 25% to the Upside scenario. The judgements made by Management have been determined by reference to the loss experience of the Group under macro-economic conditions that were similar to those underlying these scenarios.

The effect of the change referred to above is included as part of the "Uncertainty adjustment" within section 2.2.3 disclosing the reconciliation of movements in gross carrying/ nominal amounts and credit loss allowances.

The following tables present the year-on-year growth rates for the key macroeconomic variables provided by the external vendor under the baseline and the five alternative scenarios referred to above for the measurement of ECL for all portfolios as at 31 December 2021 and 31 December 2020.

For the International Corporate Lending and Treasury portfolios, MEVs are determined for each country, with the forecasted MEV data in respect of the countries to which the Group is mostly exposed being presented in the tables below. Eurozone MEVs are used in some cases, rather than country-level MEVs, as the former are deemed to have a higher correlation to the country specific portfolio assets. For exposures within the Local Business Lending portfolio and the Maltese Mortgages portfolio, Malta-specific MEVs are used for the measurement of credit loss allowances. The key MEVs used for the estimation of ECL for exposures classified within the Corporate and Treasury portfolios comprise real GDP growth, the performance of stock market indices and unemployment rates.

With respect to the Dutch Mortgage portfolio, the Group utilises regional-level as well as national-level MEVs as appropriate in order to capture regional level peculiarities. The key MEVs used for the estimation of ECL in respect of exposures classified within the Dutch Mortgage portfolio comprise the House Price Index, unemployment rates and 10-year treasury rates, with the national level forecasts used in the ECL calculation being disclosed in the table hereunder.

With respect to the Maltese Residential Mortgages portfolio, the key MEVs used for the estimation of ECL are national levels of House Price Index, and Unemployment Rate, and actual six months lagged NPL ratio published by the Central Bank of Malta in its Financial Stability Report.

The ECL model for the measurement of credit loss allowances in respect of exposures classified within the Securitisation Investment portfolio uses Euribor and GBP Libor 3-month and 1-month rates as well as the same MEVs used for the purposes of the International Corporate Lending portfolio, since the pool of underlying assets securing the Group's investment in CLO structured tranches is similar to the exposures classified within the International Corporate Lending portfolio.

Economic Scenarios: Year-on-year Forecasts (2021 – 2024) for key MEVs

		International Lending and Treasury												Local Lending				Dutch Mortgages			
		UK				US				Eurozone				Malta				Netherlands			
Key Drivers	ECL Scenario	2021	2022	2023	2024	2021	2022	2023	2024	2021	2022	2023	2024	2021	2022	2023	2024	2021	2022	2023	2024
Real GDP Growth %	Severe Upside	6.6%	5.8%	2.1%	1.3%	5.4%	5.7%	2.2%	1.6%	4.5%	6.1%	2.9%	1.6%	4.5%	4.6%	3.5%	2.4%	–	–	–	–
	Upside	6.6%	5.1%	1.7%	1.2%	5.4%	4.1%	1.5%	2.0%	4.5%	4.8%	2.4%	1.6%	4.5%	3.8%	2.8%	2.4%	–	–	–	–
	Baseline	6.6%	3.7%	3.1%	1.4%	5.4%	3.0%	2.9%	2.7%	4.5%	3.1%	2.4%	1.9%	4.5%	3.7%	2.8%	2.4%	–	–	–	–
	Downside 1	6.6%	2.0%	4.4%	1.8%	5.4%	1.4%	2.8%	2.9%	4.5%	2.5%	2.6%	2.1%	4.5%	3.9%	3.3%	2.5%	–	–	–	–
	Downside 2	6.6%	0.2%	5.7%	2.4%	5.4%	-1.0%	2.8%	3.6%	4.5%	-0.7%	2.9%	2.8%	4.5%	-0.6%	3.5%	3.4%	–	–	–	–
	Severe Downside	6.6%	-0.9%	5.4%	2.2%	5.4%	-2.9%	0.3%	3.7%	4.5%	-3.0%	3.3%	2.8%	4.5%	-3.4%	4.1%	3.6%	–	–	–	–
UR – Average %	Severe Upside	4.6%	3.9%	2.7%	3.6%	5.4%	2.7%	2.5%	4.3%	8.3%	7.2%	6.6%	7.4%	3.7%	3.9%	4.1%	4.0%	3.2%	3.4%	3.3%	3.4%
	Upside	4.6%	4.4%	3.4%	4.0%	5.4%	3.3%	3.0%	4.6%	8.3%	7.5%	7.1%	7.7%	3.7%	4.0%	4.3%	4.1%	3.2%	3.4%	3.6%	3.6%
	Baseline	4.6%	4.8%	4.5%	4.6%	5.4%	3.6%	3.5%	4.8%	8.3%	8.0%	7.7%	8.0%	3.7%	4.0%	4.4%	4.2%	3.2%	3.6%	3.8%	3.7%
	Downside 1	4.6%	5.5%	5.6%	5.1%	5.4%	5.9%	4.3%	5.6%	8.3%	8.4%	8.4%	8.3%	3.7%	4.1%	4.4%	4.2%	3.2%	3.7%	4.1%	3.8%
	Downside 2	4.6%	5.7%	6.6%	5.6%	5.4%	7.7%	8.2%	7.1%	8.3%	9.3%	10.1%	9.2%	3.7%	4.2%	5.0%	4.5%	3.2%	3.9%	5.3%	4.3%
	Severe Downside	4.6%	6.2%	7.6%	6.0%	5.4%	7.9%	10.0%	8.2%	8.3%	10.0%	11.3%	9.9%	3.7%	4.3%	5.3%	4.7%	3.2%	4.1%	5.8%	4.7%
Stock Market Index – Growth %	Severe Upside	17.1%	4.5%	-2.7%	-0.3%	28.6%	3.2%	1.4%	3.6%	25.0%	11.8%	0.1%	-1.3%	3.4%	24.1%	2.2%	-0.3%	–	–	–	–
	Upside	17.1%	3.7%	-2.4%	-0.1%	28.6%	0.5%	1.2%	2.9%	25.0%	8.6%	0.1%	-1.2%	3.4%	19.3%	5.9%	1.0%	–	–	–	–
	Baseline	17.1%	-2.6%	0.2%	2.6%	28.6%	-11.2%	-1.9%	4.2%	25.0%	0.4%	0.9%	2.0%	3.4%	14.1%	6.7%	5.0%	–	–	–	–
	Downside 1	17.1%	-5.2%	0.1%	2.9%	28.6%	-12.6%	-2.3%	2.7%	25.0%	-2.8%	3.2%	2.7%	3.4%	7.3%	6.4%	10.1%	–	–	–	–
	Downside 2	17.1%	-8.2%	9.2%	8.3%	28.6%	-19.4%	8.9%	5.2%	25.0%	-5.0%	12.2%	6.8%	3.4%	-1.9%	15.9%	19.1%	–	–	–	–
	Severe Downside	17.1%	-18.5%	5.7%	12.2%	28.6%	-28.2%	0.6%	4.7%	25.0%	-13.2%	15.5%	11.8%	3.4%	-12.8%	19.3%	31.4%	–	–	–	–
10 Yr Treasury Rate – Average %	Severe Upside	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	-0.3%	0.4%	1.3%	0.7%
	Upside	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	-0.3%	0.1%	0.8%	0.4%
	Baseline	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	-0.3%	-0.1%	0.2%	0.0%
	Downside 1	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	-0.3%	-0.4%	-0.3%	-0.2%
	Downside 2	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	-0.3%	-0.6%	-0.5%	-0.4%
	Severe Downside	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	-0.3%	-0.7%	-0.6%	-0.5%
House Price Index %	Severe Upside	–	–	–	–	–	–	–	–	–	–	–	–	-7.3%	13.2%	9.3%	0.7%	10.8%	5.0%	2.8%	-0.8%
	Upside	–	–	–	–	–	–	–	–	–	–	–	–	-7.3%	11.7%	7.2%	0.6%	10.8%	2.1%	0.9%	-1.5%
	Baseline	–	–	–	–	–	–	–	–	–	–	–	–	-7.3%	7.4%	5.5%	2.1%	10.8%	0.3%	-0.7%	-1.4%
	Downside 1	–	–	–	–	–	–	–	–	–	–	–	–	-7.3%	4.5%	4.2%	2.7%	10.8%	-0.8%	-2.0%	-2.0%
	Downside 2	–	–	–	–	–	–	–	–	–	–	–	–	-7.3%	3.0%	3.2%	1.9%	10.8%	-7.1%	-7.2%	-3.5%
	Severe Downside	–	–	–	–	–	–	–	–	–	–	–	–	-7.3%	1.3%	1.5%	1.5%	10.8%	-10.2%	-12.2%	-6.6%

Economic Scenarios: Year-on-year Forecasts (2020 – 2023) for key MEVs

		International Lending and Treasury												Local Lending				Dutch Mortgages			
		UK				US				Eurozone				Malta				Netherlands			
Key Drivers	ECL Scenario	2021	2022	2023	2024	2021	2022	2023	2024	2021	2022	2023	2024	2021	2022	2023	2024	2021	2022	2023	2024
Real GDP Growth %	Severe Upside	-10.5%	12.1%	4.7%	3.1%	-2.8%	10.0%	4.0%	1.3%	-6.0%	8.9%	3.4%	2.6%	-7.4%	14.9%	3.6%	2.6%	–	–	–	–
	Upside	-10.5%	10.7%	4.4%	2.9%	-2.8%	7.6%	3.4%	1.6%	-6.0%	7.0%	3.6%	2.7%	-7.4%	13.5%	3.6%	2.6%	–	–	–	–
	Baseline	-10.5%	6.8%	5.9%	3.2%	-2.8%	4.1%	4.5%	2.9%	-6.0%	4.2%	3.9%	2.9%	-7.4%	11.0%	3.9%	2.6%	–	–	–	–
	Downside 2	-10.5%	1.8%	7.5%	3.5%	-2.8%	-1.5%	3.9%	4.4%	-6.0%	-0.5%	4.5%	3.1%	-7.4%	5.7%	4.5%	2.6%	–	–	–	–
	Severe Downside	-10.5%	0.4%	7.1%	3.3%	-2.8%	-3.6%	1.0%	4.0%	-6.0%	-3.5%	4.4%	3.0%	-7.4%	2.7%	4.5%	2.6%	–	–	–	–
UR – Average %	Severe Upside	4.5%	6.6%	5.9%	5.0%	8.2%	5.3%	3.7%	3.5%	8.7%	9.2%	8.2%	7.7%	4.6%	4.9%	4.5%	4.5%	4.1%	6.0%	5.7%	4.9%
	Upside	4.5%	7.2%	6.7%	5.8%	8.2%	6.3%	4.4%	3.9%	8.7%	9.5%	8.6%	8.0%	4.6%	5.0%	4.7%	4.6%	4.1%	6.1%	5.9%	5.1%
	Baseline	4.5%	7.7%	7.8%	6.9%	8.2%	7.4%	6.2%	4.8%	8.7%	10.1%	9.2%	8.5%	4.6%	5.2%	5.0%	4.9%	4.1%	6.5%	6.3%	5.6%
	Downside 2	4.5%	8.7%	10.2%	9.4%	8.2%	9.5%	9.4%	7.3%	8.7%	11.7%	11.8%	10.9%	4.6%	6.0%	7.6%	7.2%	4.1%	8.0%	8.5%	7.7%
	Severe Downside	4.5%	9.0%	11.0%	8.9%	8.2%	9.9%	11.5%	9.7%	8.7%	12.5%	13.0%	11.5%	4.6%	6.9%	9.1%	7.4%	4.1%	8.8%	9.6%	7.7%
Stock Market Index – Growth %	Severe Upside	-17.1%	15.0%	-2.2%	-1.3%	9.8%	17.1%	4.0%	3.0%	-9.0%	23.4%	0.1%	-3.1%	-13.4%	48.4%	-3.2%	-2.0%	–	–	–	–
	Upside	-17.1%	12.0%	-2.0%	-1.0%	9.8%	11.9%	3.7%	2.3%	-9.0%	17.7%	0.6%	-2.0%	-13.4%	39.1%	-5.1%	-1.4%	–	–	–	–
	Baseline	-17.1%	1.5%	0.7%	1.6%	9.8%	-1.6%	0.9%	2.2%	-9.0%	2.0%	3.6%	1.9%	-13.4%	27.5%	-3.5%	1.4%	–	–	–	–
	Downside 2	-17.1%	-17.4%	9.7%	7.3%	9.8%	-32.6%	13.3%	6.2%	-9.0%	-26.8%	17.1%	11.2%	-13.4%	-8.3%	20.1%	15.1%	–	–	–	–
	Severe Downside	-17.1%	-30.9%	6.1%	11.2%	9.8%	-47.3%	0.3%	5.8%	-9.0%	-43.0%	11.0%	18.1%	-13.4%	-24.6%	23.3%	27.0%	–	–	–	–
10 Yr Treasury Rate – Average %	Severe Upside	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	-0.4%	0.0%	1.0%	2.0%
	Upside	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	-0.4%	-0.3%	0.5%	1.3%
	Baseline	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	-0.4%	-0.4%	0.1%	0.5%
	Downside 2	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	-0.4%	-0.6%	-0.6%	-0.6%
	Severe Downside	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	-0.4%	-0.7%	-0.7%	-0.7%
House Price Index %	Severe Upside	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	3.4%	-1.4%	3.4%	1.7%
	Upside	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	3.4%	-3.1%	1.9%	1.3%
	Baseline	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	3.4%	-3.5%	-0.2%	1.2%
	Downside 2	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	3.4%	-9.1%	-7.6%	0.0%
	Severe Downside	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	3.4%	-11.3%	-12.1%	-3.9%

* Unemployment Rate presented here as the average rate during the year

Model adjustments and management overlays

ECB guidance states that subjective model inputs and post-core model adjustments (overlays) may be used given the current level of uncertainties. These need to be directionally consistent with objective and verifiable evidence such as observable macroeconomic variables and forward-looking forecasts. Overlays should be supported by adequately documented processes and subject to strict governance oversight.

In line with the ongoing monitoring and review as part of the Group's internal model governance processes, senior management and the Board discussed, reviewed and approved the implementation of model adjustments to exposures within the International Corporate Lending portfolio to ensure that the level of credit loss allowances recognised at reporting date remains appropriate.

To ensure that the Group is adequately capturing the level of credit risk in its International Corporate Lending portfolio, during 2020 the Group introduced adjustments to implied internal ratings (and indirectly to underlying PDs) in the form of notch downgrades, designed to capture potential increases in credit risk which would not have been captured by the Group's ECL model given the significant reliance of the model on borrower specific audited financial statement information to determine implied ratings. As at 31 December 2020, borrowers' audited financial statements would not have been reflective of their performance during periods subsequent to the outbreak of the pandemic. As a result, the Group introduced implied ratings downgrades, based on borrower specific financial information, as well as the country and industry in which the borrowers operate to reflect in a timely manner the risks arising as a result of the Covid-19 pandemic.

During 2021, adjustments to implied internal ratings (and indirectly to underlying PDs) in the form of sectoral-based notch downgrades designed to capture potential increases in credit risk due to the impact of the Covid pandemic which would not have been captured by the Group's internal rating models have been removed and instead the Group has introduced caps to implied internal ratings to borrowers that have undergone distressed restructuring and where necessary have applied notch downgrades to exposures that are classified as 'Under Surveillance' through qualitative factors not captured by the models to reflect the increase in credit risk since origination.

Given the sensitivity of the models used by the Group to equity values of comparable firms in determining PiT PDs, the strong performance of equity markets during 2021 has led to a significant decrease in PiT PDs within the Group's ECL model for Corporates. Accordingly, IFRS 9 model parameters and ECL model outputs were reviewed by management as there is a risk that model outputs may not be appropriately reflecting current conditions of persisting vulnerabilities in asset quality or overpricing of asset valuations due to equity markets performance.

Meanwhile, despite modelled macroeconomic scenarios from the external vendor include reasonable epidemiological, economic, and geopolitical risk assumptions, as explained in more detail in the previous section 'Forecasts of future economic conditions', management concluded that given the uncertainty of of the path of the economic recovery, scenarios should be consistent and aligned with those of the December 2021 ECB Staff projections. Therefore necessary adjustments were made to the number, selection and probability weightings of macroeconomic forecasts from externally sourced modelled scenarios. The combined effect of the management overlay to address potentially overly optimistic PiT PDs and misalignment between vendor modelled macroeconomic forecasts and ECB projections are included as the "Uncertainty adjustment" within the table in section 2.2.4 disclosing the reconciliation of movements in gross carrying/ nominal amounts and credit losses allowances.

In this respect, as at 31 December 2021 a net overlay amounting to €2.1 million was applied to credit loss allowances in respect of Stage 1 and Stage 2 exposures classified within the International Corporate Lending portfolio, calculated as the difference between the modelled ECL without adjustments and modelled ECL post adjustments made for volatility in credit risk parameters, and also to align more closely to ECB published macroeconomic forecasts.

The combined effect of these overlays is included as part of the "Uncertainty adjustment" within section 2.2.3 disclosing the reconciliation of movements in gross carrying/nominal amounts and credit loss allowances.

ECL sensitivity analysis in respect of macroeconomic scenarios

Notwithstanding the significant number of assumptions and different aspects forming part of the Group's methodology for modelling credit loss allowances in respect of exposures classified within the Group's portfolios of financial instruments, the ECL measurement is deemed to be most sensitive to the inherent level of estimation uncertainty in respect of the modelling of macroeconomic forecasts. This is particularly true due to the elevated level of uncertainty induced by the outbreak of the COVID-19 pandemic.

As explained in more detail in section 'Forecasts of future economic conditions', in comparison to 2020, adjustments were made to the number, selection and probability weightings of macroeconomic forecasts from externally sourced modelled scenarios. In view of this, the Group is hereby presenting the sensitivity analysis in respect of credit loss allowances attributable to Stage 1 and Stage 2 exposures classified within the International Corporate Lending portfolio as at 31 December 2021 and 31 December 2020, estimated by determining the range of credit loss allowances which would have been measured as at each date by assigning a 100% weighting to each of the macroeconomic scenarios developed by the external vendor, as presented in the table below.

Scenario sensitivity	Severe Upside	Upside	Baseline	Downside 1	Downside 2	Severe Downside
2021						
Probability Weight 2021		25%	50%	20%	5%	
ECL as at 31 December 2021	-	4,262,517	5,822,813	9,426,032	19,518,519	-
2020						
Probability Weight 2020	7%	23%	40%	-	23%	7%
ECL as at 31 December 2020	€5,267,103	€6,417,938	€9,728,778	-	€28,114,643	€39,824,079

It is to be noted that the weighted average ECL cannot be reconciled by applying the relative probability weights to the ECL outcomes under each scenario since staging might change across the scenarios when using a 100% weighting (e.g. an exposure might be classified as Stage 2 in one out of five individual scenarios, and as Stage 1 in the weighted average scenarios).

The estimated weighted average ECL under each scenario as at 31 December 2021, presented in the table above, is not directly comparable with the estimated weighted average ECL under each scenario as at 31 December 2020, since the size of the International Corporate Lending portfolio decreased significantly compared to the prior financial year.

In view of the Group's appropriate credit risk practices that are commensurate with the size, nature and complexity of its lending exposures, management is confident that it maintains expected credit loss allowances at an appropriate level, also considering the in-model adjustment applied. Albeit, the Group also considered the sensitivity of the ECL outcome to the number and probability weightings assigned to the scenarios as at 31 December 2021. In this respect, if the ECL outcome was estimated on the basis of the scenarios and probabilities weights used in 2020, the ECL allowance in respect of the International Corporate Lending portfolio would have amounted to €4.6 million, without any in-model adjustment for equity valuation and no change to scenario severity selection and weighting, and to €9.6 million with in-model adjustment for equity volatility and no change to scenario severity selection and weighting. These are in comparison to the weighted average ECL of €6.8 million recognised within the Group's financial statements as at 31 December 2021.

Although duly taken into consideration, the impact of macroeconomic scenarios on the measurement of credit loss allowances in respect of credit-impaired / Stage 3 exposures classified within the International Corporate Lending portfolio is less pronounced compared to other borrower-specific factors used to forecast operating cash flows under different scenarios. Accordingly, the sensitivity impact was not considered to be significant.

The sensitivity impact of macroeconomic scenarios on the ECL outcome measured in respect of exposures classified within the Dutch and Maltese Mortgage, Local Business Lending, Treasury Investment and Securitisation Investment portfolios is not considered to be significant taking cognisance of the level of credit loss allowances estimated at 31 December 2021 and 31 December 2020.

2.2.8 Concentration of credit risk exposures

2.2.8.1 Concentration of investment securities

Treasury Investment portfolio

The Group's exposure to sovereign Eurozone government bonds as at 31 December 2021 represented 23.2% (2020: 23.8%) of the total investment securities within the Treasury Investment portfolio. Credit loss allowances amounting to €11 thousand were recognised in respect of these exposures as at 31 December 2021 (2020: €120 thousand).

The Group monitors concentrations of investment securities for credit risk by type of exposure. An analysis of concentrations of credit risk at the reporting date for the financial year ended 31 December 2021 and 2020 is shown below.

MeDirect Malta Group

	Measured at amortised cost		Measured at fair value through other comprehensive income	
	2021	2020	**2021**	2020
Concentration by type	**€000**	€000	**€000**	€000
As at 31 December:				
Carrying amount:				
Covered bonds	**21,209**	88,957	**399,979**	387,034
National and regional government	**25,194**	35,301	**150,439**	164,351
Supranational and agencies	**60,970**	61,485	**99,799**	101,573
Corporations	**12,327**	12,306	**-**	6,712
Total	**119,700**	198,049	**650,217**	659,670

Securitisation Investment portfolio

The Group's Securitisation Investment portfolio comprises the investment in GH1-2019 structured note tranches, amounting to €19.6 million as at 31 December 2021 (2020: €19.6 million), as well as CLO transactions managed by third-party entities, amounting to €487.8 million (2020: €273.6 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 22 different CLOs (2020: 11), all of which are also collateralised by a pool of leveraged loans.

As at 31 December 2021, credit loss allowances in respect of exposures classified under these two sub-portfolios and measured at amortised cost amounted to €0.2 million (2020: €0.2 million). The Group's investment in the equity tranche of GH1-2019, with a fair value of €1.1 million as at 31 December 2021 (2020: €1.1 million), is measured at FVTPL and accordingly is not subject to impairment in accordance with IFRS 9.

2.2.8.2 Concentration of loans and advances to customers

An analysis of concentration of loans and advances to customers by industry sector and geography is shown in the following tables.

As at 31 December 2021, exposures to UK counterparties classified under the International Corporate Lending portfolio and categorised as 'Other European countries' in the tables below amounted to €150.1 million. As at 31 December 2020, exposures to UK counterparties were categorised as EU exposures and amounted to €242.2 million.

Exposures classified under Local Business Lending, Maltese Mortgage and Dutch Mortgage portfolios are categorised as EU exposures in the following tables, with the Local Business Lending portfolio classified under "real estate activities" and "construction" sectors whereas the Dutch and Maltese mortgage portfolio classified under the "household and individuals" sector.

MeDirect Malta Group

	Gross carrying amount					Credit loss allowance				
	EU	Other European Countries	North America	Asia	Total	EU	Other European Countries	North America	Asia	Total
Stage 1	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000
As at 31 December 2021										
Administrative and support service activities	8,484	-	-	-	8,484	(57)	-	-	-	(57)
Construction	49,658	-	-	-	49,658	(74)	-	-	-	(74)
Financial and insurance activities	111,941	44,161	17,135		173,237	(742)	(316)	(89)	-	(1,147)
Households and individuals	1,658,271	-	-	-	1,658,271	(148)	-	-	-	(148)
Human health and social work activities	18,423	-	-	-	18,423	(249)	-	-	-	(249)
Manufacturing	38,630	-	-	-	38,630	(209)	-	-	-	(209)
Professional, scientific and technical activities	55,033	33,869	-	-	88,902	(199)	(184)	-	-	(383)
Real estate activities	39,422	-	-	-	39,422	(32)	-	-	-	(32)
Transportation and storage	7,941	-	-	-	7,941	(43)	-	-	-	(43)
Wholesale and retail trade, repairs of motor vehicles and motorcycles	6,958	1,431	-	-	8,389	(37)	(5)	-	-	(42)
	1,994,761	79,461	17,135	-	2,091,357	(1,790)	(505)	(89)	-	(2,384)
Stage 2										
As at 31 December 2021										
Accommodation and food service activities	-	18,692	-	-	18,692	-	(1,253)	-	-	(1,253)
Construction	1,299	-	-	-	1,299	(1)	-	-	-	(1)
Financial and insurance activities	15,356	11,975	35,883	-	63,214	(431)	(183)	(274)	-	(888)
Households and individuals	3,503	-	-	-	3,503	(62)	-	-	-	(62)
Information and communication	-	27,250	-	-	27,250	-	(310)	-	-	(310)
Manufacturing	15,089	5,844	-	-	20,933	(551)	(246)	-	-	(797)
Professional, scientific and technical activities	44,660	-	-	-	44,660	(607)	-	-	-	(607)
Real estate activities	4,405	-	-	-	4,405	(14)	-	-	-	(14)
	84,312	63,761	35,883	-	183,956	(1,666)	(1,992)	(274)	-	(3,932)
Stage 3										
As at 31 December 2021										
Administrative and support service activities	21,352	-	-	-	21,352	(1,846)	-	-	-	(1,846)
Construction	1,442	-	-	-	1,442	(1)	-	-	-	(1)
Financial and insurance activities	61,842	-	-	-	61,842	(10,514)	-	-	-	(10,514)
Households and individuals	424	-	-	-	424	(17)	-	-	-	(17)
Real estate activities	10,134	-	-	-	10,134	(112)				(112)
Wholesale and retail trade, repairs of motor vehicles and motorcycles	572	12,288	-	-	12,860	(181)	(2,928)	-	-	(3,109)
	95,766	12,288	-	-	108,054	(12,671)	(2,928)	-	-	(15,599)

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Commitments to purchase financial assets, commitments to extend credit, guarantees and other commitments	Nominal amount					Credit loss allowance				
	EU €000	Other European Countries €000	North America €000	Asia €000	Total €000	EU €000	Other European Countries €000	North America €000	Asia €000	Total €000
As at 31 December 2021										
Accommodation and food service activities	-	3,318	-	-	3,318	-	(21)	-	-	(21)
Administrative and support service activities	18,566	-	-	-	18,566	(557)	-	-	-	(557)
Construction	58,325	-	-	-	58,325	(3)	-	-	-	(3)
Financial and insurance activities	80,266	-	37,343	-	117,609	(136)	-	(76)	-	(212)
Households and individuals	111,994	-	-	-	111,994	(4)	-	-	-	(4)
Information and communication	10,000	11,801	-	-	21,801	-	(81)	-	-	(81)
Manufacturing	5,846	-	-	-	5,846	(48)	-	-	-	(48)
Professional, scientific and technical activities	14,762	-	26,509	-	41,271	(57)	-	(30)	-	(87)
Transportation and storage	1,000	-	-	-	1,000	-	-	-	-	-
Wholesale and retail trade, repairs of motor vehicles and motorcycles	10,000	-	-	-	10,000	(145)	-	-	-	(145)
	310,759	15,119	63,852	-	389,730	(950)	(102)	(106)	-	(1,158)

MeDirect Malta Group

	Gross carrying amount					Credit loss allowance				
	EU	Other European Countries	North America	Asia	Total	EU	Other European Countries	North America	Asia	Total
Stage 1	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000
As at 31 December 2020										
Accommodation and food service activities	3,087	15,812	-	-	18,899	(35)	(433)	-	-	(468)
Administrative and support service activities	34,795	7,208	-	-	42,003	(210)	(62)	-	-	(272)
Arts, entertainment and recreation activities	-	12,730	-	-	12,730	-	(122)	-	-	(122)
Construction	12,824	-	-	-	12,824	(179)	-	-	-	(179)
Financial and insurance activities	126,687	74,184	22,003	-	222,874	(1,287)	(1,190)	(473)	-	(2,950)
Households and individuals	1,065,307	-	-	-	1,065,307	(100)	-	-	-	(100)
Human health and social work activities	12,422	-	-	-	12,422	(107)	-	-	-	(107)
Information and communication	8,413	-	17,956	-	26,369	(35)	-	(237)	-	(272)
Manufacturing	39,657	5,462	-	-	45,119	(754)	(40)	-	-	(794)
Professional, scientific and technical activities	85,649	73,750	6,272	-	165,671	(801)	(1,364)	-	-	(2,165)
Real estate activities	48,797	-	-	-	48,797	(206)	-	-	-	(206)
Wholesale and retail trade, repairs of motor vehicles and motorcycles	7,122	1,239	-	-	8,361	(41)	(13)	-	-	(54)
	1,444,760	190,385	46,231	-	1,681,376	(3,755)	(3,224)	(710)	-	(7,689)
Stage 2										
As at 31 December 2020										
Administrative and support service activities	-	10,940	-	-	10,940	-	(231)	-	-	(231)
Construction	3,266	-	-	-	3,266	(55)	-	-	-	(55)
Financial and insurance activities	74,291	14,035	3,947	-	92,273	(2,397)	(189)	(168)	-	(2,754)
Households and individuals	3,199	-	-	-	3,199	(32)	-	-	-	(32)
Human health and social work activities	14,931	-	-	-	14,931	(377)	-	-	-	(377)
Information and communication	1,786	12,664	-	-	14,450	(49)	(567)	-	-	(616)
Manufacturing	21,408	-	-	-	21,408	(284)	-	-	-	(284)
Professional, scientific and technical activities	30,544	-	-	-	30,544	(242)	-	-	-	(242)
Real estate activities	13,541	-	-	-	13,541	(74)	-	-	-	(74)
Transportation and storage	7,913	-	-	-	7,913	(178)	-	-	-	(178)
	170,879	37,639	3,947	-	212,465	(3,688)	(987)	(168)	-	(4,843)
Stage 3										
As at 31 December 2020										
Administrative and support service activities	44,458	-	-	-	44,458	(9,251)	-	-	-	(9,251)
Construction	17	-	-	-	17	-	-	-	-	-
Financial and insurance activities	8,333	52,061	-	-	60,394	(42)	(20,144)	-	-	(20,186)
Households and individuals	246	-	-	-	246	(26)	-	-	-	(26)
Information and communication	-	-	13,091	-	13,091	-	-	(1,040)	-	(1,040)
Professional, scientific and technical activities	28,032	-	-	-	28,032	(2,218)	-	-	-	(2,218)
Real estate activities	6,950	-	-	-	6,950	(7)	-	-	-	(7)
Wholesale and retail trade, repairs of motor vehicles and motorcycles	16,349	691	-	-	17,040	(8,337)	(254)	-	-	(8,591)
	104,385	52,752	13,091	-	170,228	(19,881)	(20,398)	(1,040)	-	(41,319)

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Commitments to purchase financial assets, commitments to extend credit, guarantees and other commitments	Gross carrying amount					Credit loss allowance				
	EU €000	Other European Countries €000	North America €000	Asia €000	Total €000	EU €000	Other European Countries €000	North America €000	Asia €000	Total €000
As at 31 December 2020										
Accommodation and food service activities	2	3,099	-	-	3,101	-	(9)	-	-	(9)
Administrative and support service activities	46,327	19,726	-	-	66,053	(1,597)	(104)	-	-	(1,701)
Arts, entertainment and recreation activities	5,735	-	-	-	5,735	-	-	-	-	-
Automotive	-	-	1,500	-	1,500	-	-	-	-	-
Chemicals, plastics and rubber	1,500	-	-	-	1,500	-	-	-	-	-
Construction	33,654	-	-	-	33,654	-	-	-	-	-
Financial and insurance activities	155,346	27,375	7,695	-	190,416	(898)	(266)	(96)	-	(1,260)
Fire: Finance	1,000	-	-	-	1,000	-	-	-	-	-
Fishing	14	-	-	-	14	-	-	-	-	-
High tech industries	5,500	-	-	-	5,500	-	-	-	-	-
Households and individuals	336,974	-	-	-	336,974	(17)	-	-	-	(17)
Human health and social work activities	2,000	-	1,000	-	3,000	-	-	-	-	-
Information and communication	-	23,530	6,480	-	30,010	-	(96)	(79)	-	(175)
Manufacturing	5,028	-	-	-	5,028	(47)	-	-	-	(47)
Media: broadcasting and subscription	-	4,000	-	-	4,000	-	-	-	-	-
Professional, scientific and technical activities	18,572	7,000	31,604	-	57,176	(66)	(4)	(438)	-	(508)
Real estate activities	7,125	-	-	-	7,125	-	-	-	-	-
Wholesale and retail trade, repairs of motor vehicles and motorcycles	14,143	-	-	-	14,143	(66)	-	-	-	(66)
	632,920	84,730	48,279	-	765,929	(2,691)	(479)	(613)	-	(3,783)

2.2.9 Offsetting financial assets and financial liabilities

The Group is eligible to present certain financial assets and financial liabilities on a net basis in the statement of financial position in accordance with the Group's policy described in Note 1.6 'Offsetting Financial Instruments'.

The following tables set out:

- the impact of offsetting financial assets and financial liabilities on the consolidated statement of financial position;
- the financial impact of netting for instruments subject to an enforceable master netting arrangement or similar agreement; and
- the available financial collateral received or pledged in relation to the total amounts of assets and liabilities that were not offset.

The Group enters into derivative transactions under International Swap and Derivatives Association (ISDA) master netting agreements. In general, under such agreements the amounts owed by each counterparty on a single day in respect of all transactions outstanding in the same currency are aggregated into a single net amount that is payable by one party to the other. In certain circumstances such as when an event of default occurs, all outstanding transactions under the agreement are terminated and settled in a single net amount per currency.

The ISDA agreements do not meet the criteria for offsetting the positive and negative values in the statement of financial position. This is attributable to the fact that the Group and its counterparties do not have any currently legally enforceable right to settle on a net basis or to realise the asset and settle the liability simultaneously because the right to offset is enforceable only on the occurrence of future credit events.

The Group also pledges and receives collateral in the form of cash and marketable securities primarily for sale and repurchase agreements and for margining purposes on OTC derivative transactions. Pledges are generally conducted under terms that are usual and customary for standard contracts and transactions of this nature. The rights of set off relating to such collateral are conditional upon the default of the counterparty. The financial instruments subject to such collateral arrangements are included in the table below within 'Financial collateral pledged/(received)'.

The net amount of financial instruments that do not meet the on-balance sheet offsetting criteria, including collateral pledged and received, presented within the following tables is equal to the amount presented in the statement of financial position for that instrument.

Below is a table showing financial instruments subject to offsetting, enforceable master netting arrangements and similar agreements.

MeDirect Malta Group	Gross amounts of recognised financial instruments €000	Gross amounts of recognised financial instruments offset in the statement of financial position €000	Net amounts of financial instruments presented in the statement of financial position €000	Related amounts not offset in the statement of financial position: Amounts subject to master netting arrangements €000	Related amounts not offset in the statement of financial position: Financial collateral pledged / (receicved) (incl. cash) €000	Net amount €000
As at 31 December 2021						
Financial assets						
Derivative financial instruments	37,637	-	37,637	(2)	-	37,635
Loans and advances to financial institutions	198,877	-	198,877	-	(1,129)	197,748
Investments – Treasury portfolio	769,917	-	769,917	-	(170,451)	599,466
Investments – Securitisation portfolio	507,351	-	507,351	-	(30,962)	476,389
	1,513,782	-	1,513,782	(2)	(202,542)	1,311,238
Financial liabilities						
Derivative financial instruments	(1,131)	-	(1,131)	2	1,129	-
Amounts owed to financial institutions	(273,349)	-	(273,349)	-	201,413	(71,936)
	(274,480)	-	(274,480)	2	202,542	(71,936)
As at 31 December 2020						
Financial assets						
Derivative financial instruments	1,841	-	1,841	(1,506)	-	335
Loans and advances to financial institutions	263,775	-	263,775	-	(6,739)	257,036
Investments – Treasury portfolio	857,719	-	857,719	-	(250,635)	607,084
Investments – Securitisation portfolio	293,206	-	293,206	-	(47,856)	245,350
	1,416,541	-	1,416,541	(1,506)	(305,230)	1,109,805
Financial liabilities						
Derivative financial instruments	(14,344)	-	(14,344)	1,506	6,739	(6,099)
Amounts owed to financial institutions	(352,067)	-	(352,067)	-	298,491	(53,576)
	(366,411)	-	(366,411)	1,506	305,230	(59,675)

As at 31 December 2021, the Group's derivative financial liabilities subject to master-netting agreements have a fair value of €1.0 million (2020: €1.6 million). Within the table above, these have been capped at the fair value of the derivative assets amounting to €2 thousand (2020: 1.5 million).

2.3 Liquidity risk

2.3.1 Management of liquidity risk

In line with the Group's Liquidity Risk Management Policy, management of the Group's liquidity position is the responsibility of its Treasury team under the oversight of the Asset and Liability Committee ("ALCO"), Management Risk Committee ("MRC") and the Board Risk Committee. The Treasury team has primary responsibility for managing and reporting the Group's projected liquidity position (the "base case").

The Group's Risk team ensures that all liquidity risks are identified, measured, overseen and appropriately reported. In particular, the Risk team has primary responsibility for monitoring liquidity risk, including defining potential adverse liquidity scenarios ("stress cases") that are considered for assessing the Group's exposure to these scenarios and for assessing the effectiveness of contingency plan funding measures.

The Group's liquidity risks principally relate to its banking activities and the Group's Board of Directors sets, approves and oversees the implementation of the targets for liquidity management of the Group. Analysis of liquidity risk is the joint responsibility of the Group's Treasury and Risk functions under the oversight of the ALCO and of the Board Risk Committee.

Management Asset and Liability Committee

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

Board Risk Committee

The Board delegates to the Board Risk Committee its oversight responsibilities of the risk function. Therefore, the Board Risk Committee represents the principal forum for overseeing the Group's liquidity and funding risk. In addition, it is responsible for recommending to the Board an appropriate liquidity and funding risk appetite and for approving liquidity risk-related policies and recommendations. The Board Risk Committee is also responsible for ensuring that all liquidity risk controls are in accordance with regulatory requirements and best practice and for advising the Board on the coordination and prioritisation of liquidity risk management issues throughout the Group.

The Board Risk Committee reviews regular reports on the liquidity position of the Group, including the review of stress testing scenarios to assess the resilience of its liquidity buffers in relation to the minimum regulatory requirements comprising the Liquidity Coverage Ratio ("LCR") and the Net Stable Funding Ratio ("NSFR"). It is informed immediately of new and emerging liquidity concerns and ensures that Executive management takes appropriate remedial actions to address the concerns, including the viability of contingency funding options.

Roles and responsibilities

The Group's Treasury team, under the leadership of the Group Chief Financial Officer has primary responsibility for managing and reporting the Group's projected liquidity position (the "base case"). For liquidity purposes, the Group's balance sheet, encompassing both assets and liabilities, is managed on an intraday and day-to-day basis, and includes monitoring compliance with metrics of current liquidity. The department is also responsible for forecasting the Group's future cash flow profile, as well as for analysis and management of the Group's deposit book. This is executed under the leadership of the Head of Treasury Operations.

The Group's Risk team, under the leadership of the MeDirect Malta Chief Risk Officer ("CRO"), has primary responsibility for monitoring current liquidity performance as well as defining potential adverse liquidity scenarios that should be considered, and for reporting exposure to these scenarios (the "downside case"). Under the leadership of the MeDirect Malta CRO, it is responsible for ensuring that all significant risks relating to liquidity are properly identified and clearly incorporated into the Group's risk management and reporting framework. It is also responsible for producing reports that show and analyse the Group's sensitivity to external events related to liquidity, including the definition of severe but plausible events that could constitute stress scenarios.

Funding strategy

Banks traditionally perform a role of liquidity transformation, whereby they fund through liabilities that are liquid in the short to medium term, in order to invest in longer term and less liquid assets. This mismatch of liquid liabilities and less liquid assets is a near-universal feature of bank balance sheets and clearly leads to a risk if liabilities cannot be rolled over when they mature (which may be every day in the case of money held in current or savings accounts).

The Group's strategy to mitigate this risk has four main components:

- Limiting its exposure to customer deposit withdrawal through the use of term and notice accounts rather than overnight deposits as its primary instrument of customer funding by focusing on the retail market to maximise granularity and by expanding outside Malta directly and indirectly through platforms to reduce its dependence on a single market;
- Limiting its exposure to wholesale funding withdrawal by locking in term, rather than short-dated, funding against illiquid assets (where this is used at all: illiquid assets are primarily deposit funded) and by either diversifying its sources of funding in general or ensuring that it does not rely on funding that is at the discretion of market counterparties;
- Maintaining a contingency source of funding by ensuring that substantially all of its HQLA Treasury Investment portfolio is eligible for funding at the ECB or at Eurex, as well as ensuring that other AAA-rated debt instruments are eligible for use as collateral against multiple repo lines, if alternative sources are unavailable; and
- Holding a much higher than typical proportion of assets that could over time be liquidated in the secondary market.

The Group's objective is to maintain a prudent funding structure drawn from diverse funding sources in the short-, medium- and long-term.

Potential funding sources may include, but are not limited to:

- Deposits from retail and corporate customers;
- Bond issuance, either secured (for example through CLO structures or the issuance of RMBSs, the latter representing one of the main sources of funding for the Dutch Mortgage portfolio), senior unsecured or subordinated;

- Issuance of capital instruments;
- Interbank funding (either secured, for example through repurchase agreements, warehouse lines obtained against the Dutch Mortgage portfolio, Total Return Swaps, or unsecured); and
- Central Bank funding (although it is the Group's strategy not to rely on the Central Bank for funding in the normal course of events, but instead only used as a secondary source of financing).

In order to ensure that the Group has adequate liquidity to meet its near-term obligations, the Treasury team maintains robust liquidity buffers and projects the Group's expected liquidity position for each day over the subsequent week, as well as the "residual" cash balance that takes into account known inflows and outflows (for example settlements of asset purchases or sales) beyond this period.

MDB Group Limited is the parent company of MeDirect Malta and MDB Group Limited together with its subsidiaries are referred to as "the Regulatory Group" or "MDB Group". The MDB Group and the MeDirect Malta Group comply with the Liquidity Coverage Ratio ("LCR") in relation to short-term liquidity and monitor the Net Stable Funding Ratio ("NSFR") in order to assess long-term liquidity:

- The Liquidity Coverage Ratio ("LCR"): The ratio aims to ensure that institutions are able to withstand a 30-day period of stress by virtue of having sufficient unencumbered High Quality Liquid Assets ("HQLA"). HQLA consist of cash or assets that can be converted into cash at little or no loss of value in the markets. The LCR metric is designed to promote the short-term resilience of the Group's liquidity profile.The table below displays the Group's and Bank's LCR as at 31 December 2021 and 2020:

	Group	
	2021	2020
	%	%
Actual LCR	**363.4**	562.9

During the year ended 31 December 2021, the LCR was within both the regulatory minimum and the risk appetite set by the Group. As at 31 December 2021 and 2020, the Group's LCR was significantly above 100% at all times as the Group had strong liquidity levels to withstand these liquidity challenges caused from the COVID-19 severe economic downturn.

- The Net Stable Funding Ratio ("NSFR"): This ratio looks at the relationship between long-term assets and long-term funding. The NSFR requires institutions to maintain sufficient stable funding relative to required stable funding and reflects a bank's long-term funding profile (funding with a term of more than a year). It is designed to complement the LCR. The NSFR requirement of 100% came into force with the implementation of CRR II as from June 2021.

The table below displays the Group's NSFR as at 31 December 2021 and 2020:

	Group	
	2021	2020
	%	%
Actual NSFR*	**133.5**	120.8

The Group's and MeDirect Malta's NSFR remained above the minimum legal requirement of 100% at all times during the financial year ended 31 December 2021.

2.3.2 Liquidity risk reporting

Reliable management reporting provides the Executive and the Board with timely and forward-looking information on the Group's liquidity position. Reporting of risk measures is done on a frequent basis and compares current liquidity exposures to established limits to identify any emerging pressures and limit breaches.

The Group's Risk team performs regular stress testing of its liquidity profile, as well as the availability of contingency funding options through both its ILAAP and monthly Maximum Cumulative Outflow ("MCO") report. The MCO analyses the likely risks to the Group's liquidity position and quantifies its ability to withstand the associated shocks through deployment of management contingency funding plan options. Summarised results from all of the various analyses are used as inputs to the MCO, with the liquidity impacts of different levels of severity of both idiosyncratic and market-wide scenarios modelled across a twelve-month time horizon. In addition, the Group's Liquidity Contingency Plan ("LCP") analyses the availability and practicability of its contingency funding measures with regards to idiosyncratic and market-wide stress scenarios. Impacts are assessed at Group level, as well as at MeDirect Malta and MeDirect Bank SA individual levels.

The Group's liquidity risk reporting reinforces its oversight of liquidity risk, by not only focusing its risk reporting on the 'current' state, but also providing regular and timely reporting of the potential 'stress' liquidity profile of the Group.

The Risk team also monitors deposit concentration within its monthly risk management report where the Group's top ten depositors are monitored by also looking at the corporate sector and the product maturity ladder.

2.3.3 Contractual maturity ladder

The following is an analysis of financial assets and liabilities by remaining contractual maturities as at the reporting date, with the exception of the analysis of loans and advances to customers classified under the International Corporate Lending and Dutch and Maltese Mortgage portfolios, debt securities in issue and subordinated liabilities, that are based on the expected maturities based on the date when the instruments are expected to be fully repaid, since this is how the liquidity of the Group is monitored on a regular basis. Refer also to Note 2.3.5 that provides an analysis of encumbered investments.

MeDirect Malta Group	Not more than 1 month €000	Between 1 and 3 months €000	Between 3 months and 1 year €000	Between 1 and 5 years €000	More than 5 years €000	No maturity date €000	Total €000
As at 31 December 2021							
Assets							
Balances with central banks	302,709	-	-	-	-	25,916	328,625
Derivative financial instruments	2	-	-	3,651	33,473	511	37,637
Loans and advances to financial institutions	198,775	-	-	-	-	-	198,775
Loans and advances to customers	11,094	22,291	262,171	593,444	1,472,452	(37,149)	2,324,303
- International Corporate Lending portfolio	-	12,188	210,561	370,610	-	-	593,359
- Dutch Mortgage portfolio	3,567	7,546	35,812	191,311	1,404,778	-	1,643,014
- IFRS basis adjustment: Dutch Mortgage portfolio	-	-	-	-	-	(37,149)	(37,149)
- Local Business Lending portfolio	7,464	2,431	15,229	28,488	52,514	-	106,126
- Maltese Mortgage portfolio	63	126	569	3,035	15,160	-	18,953
Investments	6,188	49,271	234,315	480,143	507,351	-	1,277,268
- Treasury portfolio	6,188	49,271	234,315	480,143	-	-	769,917
- Securitisation portfolio	-	-	-	-	507,351	-	507,351
Accrued income	5,010	3,589	2,274	-	-	-	10,873
Loans to related parties (included in other assets)	-	-	-	-	-	283	283
Other receivables (included in other assets)	9,631	-	-	-	-	2,732	12,363
Total financial assets	533,409	75,151	498,760	1,077,238	2,013,276	(7,707)	4,190,127
Liabilities							
Derivative financial instruments	963	-	43	88	37	-	1,131
Amounts owed to financial institutions	147,879	125,470	-	-	-	-	273,349
Amounts owed to customers	2,111,739	19,056	366,998	452,685	10,387	-	2,960,865
Debt securities in issue	7,268	5,883	32,185	612,957	-	-	658,293
Subordinated liabilities	-	-	20,053	34,941	-	-	54,994
Accrued interest expense (included in accruals and deferred income)	337	593	4,276	103	1,548	-	6,857
Lease liabilities (included in other liabilities)	180	90	1,299	4,794	720	-	7,083
Amounts due to related parties (included in other liabilities)	-	968	-	-	10,136	1,355	12,459
Total financial liabilities	2,268,366	152,060	424,854	1,105,568	22,828	1,355	3,975,031
Liquidity gap	(1,734,957)	(76,909)	73,906	(28,330)	1,990,448		
Cumulative liquidity gap	(1,734,957)	(1,811,866)	(1,737,960)	(1,766,290)	224,158		

MeDirect Malta Group	Not more than 1 month €000	Between 1 and 3 months €000	Between 3 months and 1 year €000	Between 1 and 5 years €000	More than 5 years €000	No maturity date €000	Total €000
As at 31 December 2020							
Assets							
Balances with central banks	467,231	-	-	-	-	23,448	490,679
Derivative financial instruments	986	448	72	8	167	160	1,841
Loans and advances to financial institutions	263,129	-	-	-	-	-	263,129
Loans and advances to customers	6,995	5,330	98,714	940,669	958,510	10,542	2,020,760
- International Corporate Lending portfolio	-	607	66,612	782,972	-	-	850,191
- Dutch Mortgage portfolio	2,100	4,604	21,376	114,171	925,614	-	1,067,865
- IFRS basis adjustment: Dutch Mortgage portfolio	-	-	-	-	-	10,542	10,542
- Local Business Lending portfolio	4,895	119	10,726	43,526	32,896	-	92,162
Investments	12,183	18,783	146,233	475,018	491,996	6,712	1,150,925
- Treasury portfolio	12,183	18,783	146,233	475,018	198,790	6,712	857,719
- Securitisation portfolio	-	-	-	-	293,206	-	293,206
Accrued income	5,123	648	1,855	6,974	78	-	14,678
Loans to related parties (included in other assets)	-	-	-	-	-	11,629	11,629
Other receivables (included in other assets)	909	-	-	-	-	34,057	34,966
Total financial assets	756,556	25,209	246,874	1,422,669	1,450,751	86,548	3,988,607
Liabilities							
Derivative financial instruments	505	1,080	33	1,279	11,447	-	14,344
Amounts owed to financial institutions	193,207	133,860	25,000	-	-	-	352,067
Amounts owed to customers	1,767,551	50,930	575,811	355,446	191	-	2,749,929
Debt securities in issue	109,740	-	122,195	321,914	-	-	553,849
Subordinated liabilities	-	-	-	54,650	-	-	54,650
Accrued interest expense (included in accruals and deferred income)	1,334	859	4,873	140	563	-	7,769
Lease liabilities (included in other liabilities)	526	810	2,045	8,442	3,061	-	14,884
Amounts due to related parties (included in other liabilities)	-	-	-	-	-	3,420	3,420
Total financial liabilities	2,072,863	187,539	729,957	741,871	15,262	3,420	3,750,912
Liquidity gap	(1,316,307)	(162,330)	(483,083)	680,798	1,435,489		
Cumulative liquidity gap	(1,316,307)	(1,478,637)	(1,961,720)	(1,280,922)	154,567		

Current accounts and savings deposits payable on demand or at short notice amounted to €1,911 million as at 31 December 2021 (2020: €1,502 million). This amount is disclosed within the 'Not more than 1 month' maturity grouping. As at 31 December 2021 savings deposits with a withdrawal notice period of one month amounting to €3 million (2020: €4 million), are disclosed within the 'Between 1 and 3 months' maturity grouping. In addition, as at 31 December 2021 savings deposits with a withdrawal notice period of three to six months amounting to €364 million (2020: €461 million) are disclosed within the 'Between 3 months and 1 year' maturity grouping. Furthermore, as at 31 December 2021, savings deposits with a withdrawal notice period of one year amounting to €163 million (2020:

€207 million) are disclosed within the 'Between 1 year and 5 years' maturity grouping. However, in practice, these deposits are maintained with the Group for longer periods; hence the effective date of repayment is later than the contractual date.

As of 31 December 2021, unencumbered financial assets classified as Treasury Investments measured at fair value through other comprehensive income, with a carrying amount of €387 million (2020: €142 million) and Treasury Investments measured at amortised cost with a carrying amount of €91 million (2020: €40 million) form part of the high-quality liquid asset portfolio for LCR purposes. Accordingly, they may be liquidated within one month. In addition to these instruments the Group held unencumbered financial assets classified as Treasury Investments measured at amortised cost with a carrying amount of €12 million (2020: €12 million) included in the category between 3 months and 1 year in the preceding table (2020: Between 1 and 5 years). As at 31 December 2020, the Group held unencumbered financial assets classified as Treasury Investments measured at fair value through other comprehensive income with a carrying amount of €7 million, that were disposed off in 2021.

The Group's cash from margin balances amounting to €57.6 million (2020: €55.7 million) can be available upon maturity of the contract, favourable change in the market value/change in the exchange rates or reduction in the initial margins.

2.3.4 Residual contractual maturities of financial liabilities

The following is an analysis of undiscounted cash flows payable under the principal non-derivative financial liabilities by remaining contractual maturities as at the reporting date, except for debt securities in issue and subordinated liabilities for which undiscounted cash flows payable are presented by expected maturities in line with the Contractual Maturity Ladder presented in Note 2.3.3.

MeDirect Malta Group	Carrying amount €000	Total outflows €000	Less than 1 month €000	Between 1 and 3 months €000	Between 3 months and 1 year €000	Between 1 and 5 years €000	More than 5 years €000
31 December 2021							
Non-derivative liabilities							
Amounts owed to financial institutions							
- Due to clearing houses	258,121	258,429	75,058	183,371	-	-	-
- Due to other banks	15,228	15,228	15,228	-	-	-	-
Amounts owed to customers	2,960,865	2,974,598	2,111,739	19,057	367,279	465,669	10,854
Debt securities in issue	658,293	661,447	7,310	6,018	32,716	615,403	-
Subordinated liabilities	54,994	60,356	-	-	22,472	37,884	-
Lease liabilities (included in other liabilities)	7,083	7,978	298	141	1,347	5,165	1,027
	3,954,584	3,978,036	2,209,633	208,587	423,814	1,124,121	11,881
31 December 2020							
Non-derivative liabilities							
Amounts owed to financial institutions							
- Due to clearing houses	352,046	351,742	192,971	133,833	24,938	-	-
- Due to other banks	21	21	21	-	-	-	-
Amounts owed to customers	2,749,929	2,761,196	1,788,504	73,329	583,341	315,824	198
Debt securities in issue	553,849	555,382	109,837	-	122,458	323,087	-
Subordinated liabilities	54,650	62,548	-	-	2,427	60,121	-
Lease liabilities (included in other liabilities)	14,884	17,493	541	847	3,692	9,021	3,392
	3,725,379	3,748,382	2,091,874	208,009	736,856	708,053	3,590

The following is an analysis of undiscounted cash flows relating to the Group's and Bank's principal derivative financial instruments by remaining contractual maturities as at the reporting date:

MeDirect Malta Group	Carrying amount €000	Inflows/ (Outflows) €000	Less than 1 month €000	Between 1 and 3 months €000	Between 3 months and 1 year €000	Between 1 and 5 years €000	More than 5 years €000
31 December 2021							
Derivative assets							
Derivative financial instruments							
- Interest rate swaps	37,124	38,687	(119)	(882)	(3,421)	10,430	32,679
- Foreign exchange swaps	2	2	2	-	-	-	-
Inflows		3,998	3,998	-	-	-	-
Outflows		(3,996)	(3,996)	-	-	-	-
- Other derivative financial instruments (no maturity)	511	-	-	-	-	-	-
	37,637	38,689	(117)	(882)	(3,421)	10,430	32,679
Derivative liabilities							
Derivative financial instruments							
- Interest rate swaps	168	412	(18)	(22)	(187)	365	274
- Foreign exchange swaps	963	(977)	(977)	-	-	-	-
Inflows		104,219	95,290	8,929	-	-	-
Outflows		(105,196)	(96,267)	(8,929)	-	-	-
	1,131	(565)	(995)	(22)	(187)	365	274

MeDirect Malta Group	Carrying amount €000	Inflows/ (Outflows) €000	Less than 1 month €000	Between 1 and 3 months €000	Between 3 months and 1 year €000	Between 1 and 5 years €000	More than 5 years €000
31 December 2020							
Derivative assets							
Derivative financial instruments							
- Interest rate swaps	175	191	-	-	(129)	(536)	856
- Foreign exchange swaps	1,506	1,475	981	441	53	-	-
Inflows		104,272	46,884	54,891	2,497	-	-
Outflows		(102,797)	(45,903)	(54,450)	(2,444)	-	-
- Other derivative financial instruments (no maturity)	160	-	-	-	-	-	-
	1,841	1,666	981	441	(76)	(536)	856
Derivative liabilities							
Derivative financial instruments							
- Interest rate swaps	12,726	(12,534)	(260)	(494)	(2,533)	(10,430)	1,183
- Foreign exchange swaps	1,618	(1,732)	(337)	(1,354)	(41)	-	-
Inflows		142,157	25,148	111,491	5,518	-	-
Outflows		(143,889)	(25,485)	(112,845)	(5,559)	-	-
	14,344	(14,266)	(597)	(1,848)	(2,574)	(10,430)	1,183

2.3.5 Encumbered assets

The following tables set out the availability of the Group's financial assets to support future funding.

MeDirect Malta Group

	Encumbered		Unencumbered		
31 December 2021	**Pledged as collateral €000**	**Other* €000**	**Available as collateral €000**	**Other** €000**	**Total €000**
Balances with central banks and cash	-	25,916	302,710	-	328,626
Derivative financial instruments	-	-	-	37,637	37,637
Loans and advances to financial institutions	69,479	-	-	129,296	198,775
Loans and advances to customers	-	-	-	2,324,303	2,324,303
- International Corporate Lending portfolio	-	-	-	593,359	593,359
- Dutch Mortgage portfolio	-	-	-	1,605,865	1,605,865
- Local Business Lending portfolio	-	-	-	106,126	106,126
- Maltese Mortgage portfolio	-	-	-	18,953	18,953
Investments	379,293	-	878,502	19,503	1,277,268
- Treasury portfolio	284,264	-	485,653	-	769,917
- Securitisation portfolio	94,999	-	392,849	19,503	507,351
Accrued income	-	-	-	10,873	10,873
Loans and advances to related parties (included in other assets)	-	-	-	283	283
Other receivables (included in other assets)	-	-	-	12,363	12,363
	448,742	25,916	1,181,212	2,534,258	4,190,128
31 December 2020					
Balances with central banks and cash	-	23,526	467,154	-	490,680
Derivative financial instruments	-	-	-	1,841	1,841
Loans and advances to financial institutions	77,010	-	-	186,119	263,129
Loans and advances to customers	-	-	-	2,020,760	2,020,760
- International Corporate Lending portfolio	-	-	-	850,191	850,191
- Dutch Mortgage portfolio	-	-	-	1,078,407	1,078,407
- Local Business Lending portfolio	-	-	-	92,162	92,162
Investments	649,516	-	189,203	312,206	1,150,925
- Treasury portfolio	649,516	-	189,203	19,000	857,719
- Securitisation portfolio	-	-	-	293,206	293,206
Accrued income	-	-	-	14,678	14,678
Loans and advances to related parties (included in other assets)	-	-	-	11,629	11,629
Other receivables (included in other assets)	-	-	-	34,966	34,966
	726,526	23,526	656,357	2,582,199	3,988,608

* Represents assets that are not pledged for funding purposes but that the Group believes it is restricted from using to secure funding, for legal or other reasons.

** Represents assets that are not restricted for use as collateral, but that the Group would not consider as readily available to secure funding in the normal course of business.

2.4 Market risk

Market risk is the risk that changes in market prices, such as interest rates, foreign exchange rates and credit spreads (not relating to changes in the obligor's/issuer's credit standing) will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

2.4.1 Management of market risks

Management of market risk is the responsibility of the Group's Treasury team and is overseen by the Group's Risk team, under the oversight of the Group's ALCO and the Board Risk Committee, and as set out in the foreign exchange ("FX") risk policy and Interest Rate Risk in the Banking Book ("IRRBB") policy.

2.4.2 Foreign exchange risk

FX risk is the risk that the value of the Group's positions may fluctuate due to movements in underlying foreign currency exchange rates. The Group seeks to minimise FX risk and thus hedges all major exposures in accordance with its risk appetite. The Group is mainly exposed to currency risk on FX movements relating to the US Dollar and GB Pound, originating from the Group's corporate banking business. In the majority of cases, the Group hedges this risk by ensuring that its foreign currency denominated liabilities are matched with corresponding assets in the same currency. Any mismatches that arise are monitored closely. The Group's Treasury team is permitted to use spots, forwards and swaps in order to hedge the Group's FX risk.

The following table provides an analysis of the principal financial assets and financial liabilities of the MeDirect Malta Group into relevant currency groupings.

MeDirect Malta Group

As at 31 December 2021

	EUR currency €000	GBP currency €000	USD currency €000	Other €000	Total €000
Financial assets					
Balances with central banks and cash	328,626	-	-	-	328,626
Derivative financial instruments	37,635	-	-	2	37,637
Loans and advances to financial institutions	155,138	20,200	13,104	10,333	198,775
Loans and advances to customers	2,154,037	158,517	11,749	-	2,324,303
- International Corporate Lending portfolio	426,889	158,517	7,953	-	593,359
- Dutch Mortgage portfolio	1,605,865	-	-	-	1,605,865
- Local Business Lending portfolio	102,330	-	3,796	-	106,126
- Maltese Mortgage portfolio	18,953	-	-	-	18,953
Investments	1,277,268	-	-	-	1,277,268
- Treasury portfolio	769,917	-	-	-	769,917
- Securitisation portfolio	507,351	-	-	-	507,351
Accrued income	9,779	992	75	27	10,873
Loans to related parties (included in other assets)	244	39	-	-	283
Other receivables (included in other assets)	12,324	39	-	-	12,363
	3,975,051	179,787	24,928	10,362	4,190,128
Financial liabilities					
Derivative financial instruments	168	802	143	18	1,131
Amounts owed to financial institutions	273,349	-	-	-	273,349
Amounts owed to customers	2,826,505	83,967	29,544	20,849	2,960,865
Debt securities in issue	658,293	-	-	-	658,293
Subordinated liabilities	50,703	4,291	-	-	54,994
Accrued interest expense (included in accruals and deferred income)	6,578	239	14	26	6,857
Lease liabilities (included in other liabilities)	6,961	122	-	-	7,083
Amounts owed to related parties (included in other liabilities)	12,437	22	-	-	12,459
	3,834,994	89,443	29,701	20,893	3,975,031
Net on-balance sheet financial position		90,344	(4,773)	(10,531)	
Notional of derivative financial instruments		(91,519)	4,341	8,456	
Residual exposure		(1,175)	(432)	(2,075)	

MeDirect Malta Group

As at 31 December 2020

	EUR currency €000	GBP currency €000	USD currency €000	Other €000	Total €000
Financial assets					
Balances with central banks and cash	490,680	-	-	-	490,680
Derivative financial instruments	335	654	435	417	1,841
Loans and advances to financial institutions	227,154	15,970	11,256	8,749	263,129
Loans and advances to customers	1,779,946	215,103	25,711	-	2,020,760
- International Corporate Lending portfolio	611,098	215,103	23,990	-	850,191
- Dutch Mortgage portfolio	1,078,407	-	-	-	1,078,407
- Local Business Lending portfolio	90,441	-	1,721	-	92,162
Investments	1,150,925	-	-	-	1,150,925
- Treasury portfolio	857,719	-	-	-	857,719
- Securitisation portfolio	293,206	-	-	-	293,206
Accrued income	12,304	2,118	230	26	14,678
Loans to related parties (included in other assets)	11,362	267	-	-	11,629
Other receivables (included in other assets)	34,796	170	-	-	34,966
	3,707,502	234,282	37,632	9,192	3,988,608
Financial liabilities					
Derivative financial instruments	12,726	1,170	448	-	14,344
Amounts owed to financial institutions	352,067	-	-	-	352,067
Amounts owed to customers	2,599,173	107,150	25,367	18,239	2,749,929
Debt securities in issue	553,849	-	-	-	553,849
Subordinated liabilities	50,643	4,007	-	-	54,650
Accrued interest expense (included in accruals and deferred income)	7,330	379	19	41	7,769
Lease liabilities (included in other liabilities)	14,575	309	-	-	14,884
Amounts owed to related parties (included in other liabilities)	3,171	243	6	-	3,420
	3,593,534	113,258	25,840	18,280	3,750,912
Net on-balance sheet financial position		121,024	11,792	(9,088)	
Notional of derivative financial instruments		(125,178)	(12,540)	9,410	
Residual exposure		(4,154)	(748)	322	

The Group uses derivative financial instruments to hedge movements in foreign exchange rates by entering into derivative contracts with notional amounts which substantially reflect the net exposure in each currency. As a result, the Group is not materially exposed to fluctuations in foreign exchange rates as evidenced in the tables above, reflecting the policy to eliminate foreign exchange risk as much as is practicable.

In view of the Group's policy for managing currency risk, the Board does not deem necessary the presentation of a sensitivity analysis disclosing how profit or loss and equity would have been affected by changes in foreign exchange rates that were reasonably possible at the end of the reporting period.

2.4.3 Interest rate risk

The Group's and MeDirect Belgium's Interest Rate Risk in the Banking Book (IRRBB) position is managed through the three lines of defence: the First Line of Defence comprising the asset and liability management process managed by the MeDirect Group/Belgium Treasury team, the Second Line of Defence being the Risk team, and the Third Line of Defence being Internal Audit. It is managed according to the Group's/MeDirect Belgium's IRRBB policy with limits established by the Risk team and monitored by both the First and Second Lines of Defence.

The monitoring/reporting activity is reviewed and managed independently by Group/MeDirect Belgium ALCO for the First Line of Defence, by the Risk Committee for the Second Line of Defence, and by the Audit Committee for the Third Line of Defence.

Interest rate risk is managed by comparing the interest rate risk profile of assets with the profile of liabilities, and by hedging unmatched interest rate risk arising in the balance sheet by purchasing interest rate derivatives, primarily interest rate swaps.

Interest rate risk reporting and analysis

As part of its monitoring duties, the Group's Risk team prepares and reports on the Group's interest rate risk position on a monthly basis. The report outputs show the effects of a number of internal and regulatory interest rate shocks on the:

- Projected net interest margin – ΔNII;
- Group's capital position – ΔEVE; and
- Time bucket sensitivity – PV01.

The Group measures its exposure adopting both contractual and behavioural views (where items without deterministic maturity are assigned certain level of stickiness). The impact of the automatic options embedded in the banking book structure is assessed under ΔNII, ΔEVE and PV01.

The table below discloses the mismatch of the dates on which interest rates on financial assets and liabilities either will be reset to market rates levels, either the date on which instruments mature. Actual cash-flows on reset dates may differ from contractual dates owing possible exercise of behavioural options such as prepayments. In addition, contractual terms may not be representative of the behaviour in respect of financial assets and liabilities.

MeDirect Malta Group	Carrying amount €000	Repricing in: 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 2021						
Financial assets						
Balances with central banks	328,625	328,625	-	-	-	-
Loans and advances to financial institutions	198,775	198,775	-	-	-	-
Loans and advances to customers	2,324,303	588,260	131.616	77	800	1,603,550
- International Corporate Lending portfolio	593,359	467,112	126,247	-	-	-
- Dutch Mortgage portfolio	1,643,014	955	517	79	818	1,640,645
- IFRS basis adjustment: Dutch Mortgage portfolio	(37,149)	(22)	(12)	(2)	(18)	(37,095)
- Local Business Lending portfolio	106,126	101,262	4,864	-	-	-
- Maltese Mortgage portfolio	18,953	18,953	-	-	-	-
Investments	1,276,123	417,185	378,795	251,205	228,938	-
- Treasury portfolio	769,917	55,459	234,315	251,205	228,938	-
- Securitisation portfolio	506,206	361,726	144,480	-	-	-
	4,127,826	1,532,845	510,411	251,282	229,738	1,603,550
Financial liabilities						
Amounts owed to financial institutions	273,349	273,349	-	-	-	-
- Due to clearing houses	258,121	258,121	-	-	-	-
- Due to other banks	15,228	15,228	-	-	-	-
Amounts owed to customers	2,960,865	2,130,795	366,998	361,385	91,300	10,387
Debt securities in issue	658,293	13,151	32,185	-	612,957	-
Subordinated liabilities	54,994	-	20,053	34,941	-	-
Amounts due to immediate parent company (Included in other liabilities)	11,313	-	-	-	11,313	-
	3,958,814	2,417,295	419,236	396,326	715,570	10,387
Interest rate repricing gap		(884,450)	91,175	(145,044)	(485,832)	1,593,163
Impact of hedging interest rate derivatives – notional amounts	37,124	1,454,536	(50,200)	(254,936)	(256,183)	(893,217)
Net interest rate repricing gap		570,086	40,975	(399,980)	(742,015)	699,946

MeDirect Malta Group	Carrying amount €000	Repricing in: 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						
Financial assets						
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 Corporate 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 Business 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
Financial liabilities						
Amounts owed to financial institutions	352,067	327,067	25,000	-	-	-
- Due to clearing houses	352,046	327,046	25,000	-	-	-
- Due to other banks	21	21	-	-	-	-
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 Group's exposure to interest rate risk arises predominantly from its asset/liability structure, specifically mismatches between the repricing term of its International Corporate Lending and Dutch Mortgage portfolios and the term structure of customer deposits, as well as from possible impacts on the Mark-to-Market ("MtM") value of its fixed rate instruments if market interest rates increase.

The Group's assets mainly comprise the Group's International Corporate Lending portfolio, that reprices periodically (generally every three months) and has a relatively short duration, and the Dutch Mortgage portfolio, that has a longer-term duration.

The presence of interest rate floors embedded in the majority of the International Corporate Lending portfolio enables the Group to mitigate its repricing risk from the Group's asset/liability structure, whilst the Group generally hedges the repricing risk from its financial assets, namely the treasury securities, and wholesale repo funding.

With the introduction of the Dutch Mortgage business line in September 2019, the Group's and MeDirect Belgium's exposure to interest rate risk increased due to the fixed interest rate nature of the product. The risk is managed through a hedging strategy which uses a series of plain vanilla interest rate swaps that form a run-off profile matching a mortgage portfolio run-off profile with behavioural pre-payment assumptions.

The Group's Securitisation Investment portfolio comprises an investment in the equity tranche of GH1-2019 amounting to €1.4 million (2020: €1.4 million). The returns relating to this financial instrument are variable, with repayments being equivalent to any residual amounts after the commitments relating to more senior tranches in GH1-2019 are repaid. In this regard, this financial instrument is not deemed to be subject to interest rate risk and has been excluded from the table above accordingly

A positive interest rate sensitivity gap exists where more assets than liabilities reprice during a given period. Although a positive gap position tends to benefit net interest income in a rising interest rate environment, the actual effect will depend on a number of factors, including the extent to which repayments are made earlier or later than the contracted date and variations in interest rates within repricing periods and among currencies. Similarly, a negative interest rate sensitivity gap exists where more liabilities than assets re-price during a given period. A negative gap position tends to benefit net interest income in a declining interest rate environment, but the actual effect will depend on the same factors as for positive interest rate gaps.

The management of interest rate risk attributable to interest rate repricing gap limits is supplemented by monitoring the sensitivity of the Group's financial assets and liabilities to various interest rate scenarios under the stress testing framework whilst the extent of the difference between risk factors on the asset side and liability side is monitored through the re-fixing gap analysis.

The estimated impact on the Group's Net Interest Margin ("NIM") as a result of a 100 basis points ("bps") movement and on Economic Value as a result of a 100 basis points ("bps") parallel fall / rise in the yield curves would be as follows:

31 December 2021

- NIM would decrease by €3.3 million / increase by €9.4 million.
- Economic value would increase by €3.3 million / decrease by €5.2 million.

31 December 2020

- NIM would decrease by €3.2 million / increase by €8.8 million.
- Economic value would increase by €0.3 million / decrease by €8.5 million.

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 ΔEVE 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 ΔNII purposes (constant balance sheet);

- The rate index on the Senior Secured Loan book is predominantly floored at zero and hence due to the prevailing euro negative rate environment the shift down scenario does not result in loss of interest income. On the other hand, the 1% shift up scenario will not yield 1% more income as the rate index lifts itself from below zero.
- The Group will not change deposit rates in the next 12 months even if there is an increase or decrease in ECB base rate;
- There is an implicit zero floor option on retail customer deposits as the Group will not charge negative rates to the retail segment of its customer base;
- The ∆ NII and ∆ EV metrics include the effect of changes in value of the automatic options embedded in the banking book assets; and
- Customer deposits follow their behavioural schedule.

Interest rate movements affect reported equity in the following ways:

- retained earnings arising from increases or decreases in net interest income after taking into consideration the net impact of interest rate hedging instruments; and
- fair value reserves arising from increases or decreases in fair values of investments measured at fair value through other comprehensive income reported directly in equity.

2.5 Operational risk

Operational risk is the potential for loss arising from failed or inadequate internal processes, people, systems or from external events. Operational risks can arise from all business lines and from all activities which are carried out by the Group. Failure to manage operational risk may result in a direct or indirect financial loss, reputational damage, regulatory breaches or may even have a negative impact on the management of other risks such as credit, liquidity or market risk. There are various operational risk subtypes, including but not limited to fraud (internal/external), business disruption due to reduced or non-availability of systems, inadequate outsourcing arrangements, the Group's inability to attract, retain, train and develop the right people, failed or inadequate business processes, data risk and project execution risk.

Operational Risk Management ensure that the Group's risk appetite for operational risk is translated in a form that can be implemented and managed in practice. As covered in the Risk Appetite Statement, the Group has low tolerance for operational risk events that could jeopardise its financial performance, customer outcomes or reputation. The Group's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity while maintaining risk taking within a tolerable limit.

The governance of Operational Risk follows the Group's Three Lines of Defence (3LoD) model. The First Line of Defence is accountable to manage its own risks, whilst the Operational Risk Management, which forms part of the Second Line of Defence oversees and challenges risk taking activities and ensures that operational risks are consistently identified and assessed, managed adequately, monitored and reported accordingly. The Third Line of Defence (Internal Audit) provides an independent assurance on the design and operating effectiveness of the control structure.

The Group also has an Operational Risk framework in place to make sure that it has a consistent and embedded approach for fully identifying and managing operational risks in an effective manner. The framework covers the following sections: Operational Risk Policy, Operational Risk Awareness, Operational Risk & Control Self-Assessment (RCSAs), Operational Risk Control Testing, Operational Risk Reporting and Incident Management & Business Continuity.

The Risk & Control Self-Assessment process, which at minimum, is carried out on an annual basis, is used to identify, document and assess the key risks and controls within the Group. The RCSA process provides a bottom-up approach to risk identification at granular level. The RCSA results are leveraged for creating key risk indicators and developing narratives for scenario analysis. The risk identification process is also supported through the use of audit findings and internal loss data. The Operational Risk Management uses a dedicated Operational Risk Management tool to manage the RCSA process and maintain a repository of loss data which captures and records operational loss events and "near misses" events.

Operational Risk is monitored through the development and ongoing evolution of the Key Risk Indicator (KRI) reporting process. Operational Risk Management aim to develop KRIs that allow for the monitoring of internal controls factors associated with significant risks. Operational Risk is also monitored through: Risk & Control Owners alerting Operational Risk Management of control deficiencies, Operational Risk Management identifying changes to the operational risk profiles and by Internal Audit through their assessment of Operational Risk Management and indirectly through their reviews of business areas. Control testing is also carried, using a risk-based approach to identify weaknesses in the control environment.

Operational Risk reporting provides management with a timely view of the Group's Operational Risk profile and any breaches to the Risk Appetite Statement. Material risks and breaches are escalated to the Group's governing bodies, such as Executive Committee and Board Committee, which will serve as medium to ensure that corrective action plans are in place to mitigate significant risks and avoid reoccurrence of events impacting the Group's operations. Operational risks are reported through the Monthly Group Risk Management Report, Incident Reporting, Internal Control Report and the annual ICAAP.

Operational Risk Management is also responsible to ensure that the Group has contingencies in the event of business disruption. The Group has in place a Business Continuity Plan (BCP) and an IT Disaster Recovery Plan (DRP), both of which are defined in separate documents respectively. Since the DRP focuses on the availability of IT/technology services, the document is maintained and tested by the IT department. The BCP is intended to provide the Group with a plan of actions necessary to restore critical business operations and ensuring the availability of resources whenever and wherever necessary and relies on the assumption that technology is available to support the business continuity efforts. The BCP is regularly tested to ensure the appropriateness of the responses in case of a business disruption.

In order to meet the COVID-19 challenges, the Group equipped staff members with the technology needed to allow secure remote access to the Group's systems and network. These steps were taken to ensure that the Group is able to continue operating as 'Business as usual' via a remote working environment.

A financial measurement of this risk is calculated by the Group for the purpose of allocating risk capital using the Basic Indicator Approach under Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013, also known as the CRR II. The risk weighted assets for operational risk under this method as at 31 December 2021 were calculated at €108.5 million (2020: €119.4 million).

ICT Security

ICT Risk is the risk of financial loss, disruption or damage of an organisation resulting from a failure to its information technology systems. The ICT Security team (within the Risk department) manages the Group ICT Risk management framework. Responsibility to manage and mitigate ICT risks lies with all Group employees.

Residual ICT Security risks are managed in the context of the Group's Risk Appetite Statement. ICT Security critical and non-critical risk appetite limits have been defined by the Group. Breaches at different levels will trigger a course of action – risk appetite breaches and notification thresholds are reported to the Board on a monthly basis.

The ICT security programme may be summarised into two sections: ICT Risk Identification and ICT Risk Controls:

- **ICT Risk Identification:** the group utilises multiple sources to identify ICT risks. Risk sources include external security assessments, controls tests conducted on a predefined scope, RCSAs, risks assessed during the ICT project lifecycle, risks identified through ongoing monitoring of ICT infrastructure and by keeping abreast of the cybersecurity threat landscape
- **ICT Risk Controls:** control categories may be split into Preventive, Detective and Reactive depending on their functionality. Example of Preventive control in place is 'access restriction through least privilege principle', an example of a Detective control in place is 'audit logging recording user activity on applications' whilst an example of a Reactive control is the Cyber Security Incident Management Procedure.

2.6 Environmental, social and governance-related risk

The Group is developing an overall internal governance framework in relation to sustainability including oversight of climate-related & environmental ("C&E") risks that would involve the allocation of responsibilities to the Board and the ESG committee. The ESG Committee oversees ESG-related risks and opportunities, including C&E risks, while the Board maintains oversight via updates that are provided on a regular basis. As part of the Group's sustainability and ESG action plan, the Group intends to continue integrating C&E risks across the three lines of defence by updating the risk management framework, compliance monitoring plans and internal audit plan.

The Board's training plan included an external training session that was focused on sustainability and ESG. This topic will remain high on the agenda of the Board with additional training sessions planned during 2022. The Board is kept up to date on this topic via standing agenda items during routine board meetings that include updates on supervisory questionnaires on climate-related and environmental risks, the supervisory climate stress test and action plans that will be implemented by the Group to enhance the embedding of sustainability and ESG in the strategy and risk management of the Group.

The Group has done a high-level analysis as part of its materiality assessment to determine which risks are impacted by climate risk, mainly focusing on credit risk. The Group's exposure to sectors highly contributing to climate change represents 26.5% of our corporate lending book and 4.6% of the Group's total assets. The Group does not have direct exposure to coal mining, electricity, gas, steam, air conditioning supply and water supply due to the Group's low-risk appetite in these sectors.

The Group is including climate related risks in internal stress tests as described in its recovery planning and ICAAP. Moreover, the Group includes environmental and social risks in the Risk Appetite Statement for international corporate lending based on the Moody's methodology. The Group has been working on the incorporation of sustainability risks into the credit process using a sustainability heat map. The Group plans to incorporate climate risks into its risk scenarios analysis and is currently updating the credit framework, the stress testing framework, the credit related risk appetite statement and the risk management framework with regards to sustainability risks.

One of the key elements of the Group's ESG-related initiatives is to embed climate-related and environmental risks in the various stages of the credit process loan origination, lending portfolio monitoring, stress testing, scenario analysis and reporting. The Group is currently assessing the potential impact of climate change on the credit risk appetite and the policies and procedures which will then drive the Group's credit risk profile. The required data is being collated by the Group in order to be able to assess the borrower's exposure to environmental factors and the impact on climate change, whilst making use of heat maps to identify borrowers that are exposed to increased climate-related and environmental risks.

To better manage sustainability risks the Group plans to monitor a set of KPIs on a regular basis such as for example sectors highly contributing to climate change, EPC scoring of mortgages and flood risk.

The Group has compiled an action plan regarding its compliance with the ECB Guide on climate-related and environmental risks based on eight pillars to be implemented going forward. An ESG action plan will be in place in 2022 whereby the Group aims to achieve a number of targets related to climate and environmental risks in the short and medium term.

The Group plans to incorporate climate risk into its risk scenario analysis. The Group has commenced and continues to incorporate climate-related and environmental risks as drivers of existing risk categories into its risk management framework, ICAAP & ILAAP Governance and Stress Testing Frameworks with a view to managing, monitoring, and mitigating these over a sufficiently long-term horizon. In addition, the Group has also embedded a series of key risk indicators for CER that will steer the evolution of the Risk Appetite Statements for the Group, for example, as evidenced in the RAS for Credit Risk (ICL Portfolio). CER risks are included within the ICAAP and ILAAP processes with a range of appropriate scenarios included within the assessments of risk, on a risk based and proportional level.

The Group took a significant step in its sustainability journey by recruiting a Head of Sustainability that is focusing on integrating sustainability at the heart of the Group's corporate culture, strategic goals and daily operations, in all jurisdictions. She engages with the board of directors of MeDirect Malta and MeDirect Belgium and interacts with the Group's business, support and control functions.

2.7 Capital management – regulatory capital

The Group's regulator, the ECB's Joint Supervisory Team (the "JST") sets and monitors capital requirements for the Group on the basis of the capital requirements prescribed within CRR II and Capital Requirements Directive ("CRD V").

As a result, the Group is required to maintain a prescribed ratio of total capital to total risk-weighted assets. The Group does not engage in trading and is exempt from having a trading book. Risk-weighted assets on the banking book are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets including balances with counterparties and other illiquid assets.

The Group complies with the provisions of the CRR in respect of regulatory capital and it applies the standardised approach for credit risk. For regulatory purposes, the Group's capital base is divided in two main categories, namely Common Equity Tier 1 Capital and Tier 2 Capital.

- Common Equity Tier 1 Capital which includes ordinary share capital, share premium, shareholders' contributions, retained earnings, fair value reserve and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes including deductions relating to Reserve for Depositor Compensation Scheme ('Other reserves') and certain other regulatory items; and
- Tier 2 Capital consists of unrealised gains included within the fair value reserve and subordinated liabilities in issue, which rank after the claims of all depositors (including financial institutions) and all other creditors.

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Group recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position

In this respect, the Group has complied with all externally imposed capital requirements throughout the year.

MDB Group Limited publishes full Pillar 3 disclosures as a separate document.

2.8 Fair value measurement

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

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

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

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

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

2.8.1 Fair value hierarchy

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

- Level 1: inputs that are quoted market prices (unadjusted) in active markets for identical instruments.
- Level 2: inputs other than quoted market prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data. Financial instruments which are generally included in this category include certain loans and advances to customers and over-the-counter derivatives where the fair value is based on observable inputs.
- Level 3: inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

2.8.2 Use of valuation techniques

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

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

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

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

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

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

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

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

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

2.8.3 Financial instruments measured at fair value

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

	As at 31 December 2021				As at 31 December 2020			
MeDirect Malta Group	Level 1 €000	Level 2 €000	Level 3 €000	Total €000	Level 1 €000	Level 2 €000	Level 3 €000	Total €000
Assets								
Instruments measured at fair value through other comprehensive income								
- Treasury investment portfolio								
- Debt and other fixed income securities	650,217	-	-	650,217	652,958	-	-	652,958
- Equity instruments	-	-	-	-	6,712	-	-	6,712
- Securitisation investment portfolio								
- Debt and other fixed income securities	-	-	327,110	327,110	-	-	-	-
Instruments mandatorily measured at fair value through profit or loss								
- Securitisation investment portfolio	-	-	1,145	1,145	-	-	1,143	1,143
- Derivative financial instruments	-	37,126	511	37,637	-	1,681	160	1,841
Total financial assets	650,217	37,126	328,766	1,016,109	659,670	1,681	1,303	662,654
Liabilities								
Derivative financial instruments	-	1,131	-	1,131	-	14,344	-	14,344

As at 31 December 2021 and 31 December 2020, the fair value of debt securities and equity instruments within the Treasury Investment portfolio represents the closing bid price quoted in an active market, and such instruments are therefore categorised as Level 1 assets. During the year ended 31 December 2021 equity investments previously included within the Treasury portfolio and measured at fair value through other comprehensive income were fully sold-off by the Group. The carrying amount of such instruments on date of disposal was of €6.7 million with sales proceeds of €8.7 million.

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

Level 3 assets consist of the following:

- The Group's investments in tranches of securitisation structures with a carrying amount of €327.1 million (2020: nil) are mainly rated AAA, and their fair value is determined using third party valuation models to estimate the net present value of a series of expected cash flows, taking into consideration instrument-specific contractual terms (discounted cash flow approach). Amongst other things, these models take into consideration the characteristics of the underlying portfolio of assets (including quality of underlying assets), historical portfolio performance, and the liability structure of the CLO transaction. These models also make use of independently sourced market parameters including, for example, interest rate yield curves.
- The Group's investment in the equity tranche of GH1-2019 with a carrying amount of €1.1 million (2020: €1.1 million), for which a fair value is determined using third party valuation models to estimate the net present value of a series of expected cash flows, taking into consideration instrument-specific contractual terms (discounted cash flow approach). Amongst other things, these models take into consideration the characteristics of the underlying portfolio of assets (including quality of underlying assets), historical portfolio performance, and the liability structure of the CLO transaction. These models also make use of independently sourced market parameters including, for example, interest rate yield curves.
- Tax warrants and contingent value notes resulting from a loan restructuring arrangement, classified as derivative financial instruments, amounting to €0.5 million.

The following table shows a reconciliation of the fair value measurements in Level 3 of the fair value hierarchy:

MeDirect Malta Group	Securitisation investment portfolio Measured at fair value through other comprehensive income		Securitisation investment portfolio Measured at fair value through profit or loss		Derivative financial instruments Measured at fair value through profit or loss	
	2021 €000	2020 €000	**2021 €000**	2020 €000	**2021 €000**	2020 €000
Year ended 31 December						
At beginning of year	**-**	-	**1,143**	1,447	**160**	448
Additions	**327,322**	-	**-**	-	**-**	-
Amortisation of premium/discount	**1**	-	**-**	-	**-**	-
Changes in fair value	**(213)**	-	**2**	(304)	**351**	(288)
At end of year	**327,110**	-	**1,145**	1,143	**511**	160

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

2.8.3.1 Transfers between levels

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

There were no transfers between levels of the fair value hierarchy during the financial years ended 31 December 2021 and 31 December 2020.

2.8.4 Financial instruments not measured at fair value

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

MeDirect Malta Group	As at 31 December 2021				
	Level 1 €000	Level 2 €000	Level 3 €000	Total fair values €000	Total carrying amount €000
Assets					
Loans and advances to customers	-	99,247	1,840,757	1,940,004	1,915,785
– International Corporate Lending portfolio	-	99,247	163,321	262,568	272,771
– Dutch Mortgage portfolio (excluding IFRS basis adjustment)	-	-	1,677,436	1,677,436	1,643,014
Investments	106,937	-	179,309	286,246	286,469
– Treasury portfolio	106,937	-	-	106,937	107,373
– Securitisation portfolio	-	-	179,309	179,309	179,096
Total financial assets	106,937	99,247	2,020,066	2,226,250	2,202,254
Liabilities					
Debt securities in issue	-	-	663,606	663,606	658,293
Subordinated liabilities	56,668	-	-	56,668	54,994
Total financial liabilities	56,668	-	663,606	720,274	713,287

MeDirect Malta Group

	As at 31 December 2020				
	Level 1 €000	Level 2 €000	Level 3 €000	Total fair values €000	Total carrying amount €000
Assets					
Loans and advances to customers	-	92,136	1,398,311	1,490,447	1,482,687
– International Corporate Lending portfolio	-	92,136	305,516	397,652	414,822
– Dutch Mortgage portfolio (excluding IFRS basis adjustment)			1,092,795	1,092,795	1,067,865
Investments	185,379	-	292,082	477,461	477,806
– Treasury portfolio	185,379	-	-	185,379	185,743
– Securitisation portfolio			292,082	292,082	292,063
Total financial assets	185,379	92,136	1,690,393	1,967,908	1,960,493
Liabilities					
Debt securities in issue	-	-	558,888	558,888	553,849
Subordinated liabilities	56,576	-	-	56,576	54,650
Total financial liabilities	56,576	-	558,888	615,464	608,499

As disclosed in note 20 to the financial statements 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 and thereafter at a fixed rate of interest which will reset on 10 February 2026 and were admitted to the Official List of Euronext Dublin and to trading on the Global Exchange Market of Euronext Dublin. As at 31 December 2021, the carrying amount of these notes amounted to €10.1 million and their fair value as at the same date was €10.9 million. The fair value was determined by projecting the cashflows to the first call date and discounting with January-end ESTR curves to obtain the spread over the said curve. In the absence of trades since issue of these notes in February 2021, the fair value calculation takes into account the impact of the rise in interest rates throughout this period which is the most likely meaningful contribution to the change in fair value. The spread over the ESTR curves during this period was utilised to measure the present values of future cashflows.

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

The Level 2 and Level 3 fair value disclosures of the International Corporate Lending portfolio mainly comprise price quotations sourced from an online platform in respect of internationally traded loans and advances, consisting of the Group's international loan book with foreign corporates. Loans and advances to customers forming part of the International Corporate Lending portfolio amounting to €320.6 million (2020: €423.1 million), net of expected credit losses, and a corporate debt security within the Treasury Investment portfolio, with a carrying amount of €12.4 million (2020: €12.3 million), have not been reflected within the preceding table given that there were no observable market prices or any public information available but the contractual terms of these instruments, that mainly re-price within three months, and the nature of the borrowers, are similar to those of the instruments in the preceding table and thus their fair valuation characteristics would not differ significantly from those of the instruments included in the preceding table.

The Level 3 assets also include the following:

- The Group's investments in tranches of securitisation structures amounting to €179.1 million (2020: €292.1 million) which are mainly rated AAA, and for which a fair value is determined using third party valuation models to estimate the net present value of a series of expected cash flows, taking into consideration instrument-specific contractual terms (discounted cash flow approach). Amongst other things, these models take into consideration the characteristics of the underlying portfolio of assets (including quality of underlying assets), historical portfolio performance, and the liability structure of the CLO transaction. These models also make use of independently sourced market parameters including, for example, interest rate yield curves.
- Dutch mortgages amounting to €1,606.0 million (2020: €1,078.4 million) included in Loans and advances to customers. In order to derive their fair value as at 31 December 2021 and 2020, the Group bootstraps the average of the top three interest rate quotes offered by Dutch government-backed mortgage loan lenders in the Netherlands for every mortgage fixed rate tenor to create a zero coupon discount curve and applies this curve to discount the projected future cashflows. In addition, to estimate the future cashflows, the Group considers both instrument-specific contractual terms and estimated conditional prepayment rates.

As at 31 December 2021, the carrying amount for loans and advances to customers classified under the Local Business Lending portfolio amounting to €106.4 million (2020: €92.2 million) and Maltese mortgages amounting to €18.9 million approximates their fair value because these loans are repriceable at the Group's discretion.

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

All exposures classified under loans and advances to financial institutions amounting to €198.8 million (2020: €263.1 million), and balances with central banks amounting to €328.6 million as at 31 December 2021 (2020: €490.7 million), reprice or mature in less than one year. Hence their fair value is not deemed to differ materially from their carrying amount at the reporting date.

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

The majority of the 'Amounts owed to financial institutions' as at 31 December 2021 amounting to €273.3 million (2020: €352.1 million). 'Amounts owed to customers' amounting to €2.7 billion (2020: €2.4 billion) sourced from the Maltese and Belgian markets, re-price or mature in less than one year. Hence their fair value is not deemed to differ materially from their carrying amount at the reporting date. Fair values of these liabilities are estimated using discounted cash flows, applying current rates offered for deposits of similar remaining maturities. These are considered Level 3 fair value estimates. The fair value of a demand deposit is not less than the amount payable on demand, discounted from the first date on which the amount payable is required to be paid.

2.8.5 Non-current assets held for sale

Non-current assets classified as held for sale with a carrying amount of €1.8 million comprise commercial properties that had been acquired in satisfaction of debt. The fair value of such properties is estimated by the directors to approximate its carrying amount.

3. Accounting estimates and judgements

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

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

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

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

Information about assumptions, estimations and uncertainties that have a significant risk of resulting in a material adjustment in the year ending 31 December 2022 is set out below in relation to estimated cash flows for the purposes of applying the effective interest method and the impairment of financial instruments.

3.2 Estimated cash flows upon application of the effective interest method

As part of the calculation of the effective interest rate for financial assets and liabilities measured at amortised cost utilising the effective interest method, the Group takes into account the estimated cash flows attributable to the respective financial instrument considering all contractual terms of the instrument (e.g. prepayment, call and similar options), but excluding the impact of future credit losses.

In the case where an instrument gives the issuer the option to require the instrument to be early redeemed or cancelled, and the terms of the instrument are such that it is not certain whether the option will be exercised, the probability of the option being exercised is assessed in determining the estimated cash flows.

Measuring interest income on loans and advances to customers under the effective interest rate method requires management to apply judgement, particularly in the case of the Group's senior secured loans to international borrowers, constituting the International Corporate Lending portfolio. A model is utilised by the Group to compute the impact of application of the effective interest rate method on an individual loan basis, by discounting estimated future cash flows through the expected life of the instrument to the net carrying amount, including all fees paid or received that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. A key judgement in respect of the application of the effective interest rate method to the International Corporate Lending portfolio is the assumed expected life for the loans, effectively determining the period over which interest income is recognised utilising the effective interest rate method, and accordingly determining the pattern of recognition of income throughout different accounting periods.

Management determines an assumed expected life for each individual loan within its International Corporate Lending portfolio. The sensitivity to a change in assumed expected life can vary significantly between different loans, depending on the characteristics, terms and conditions of the underlying lending transaction and parameters included within the respective effective interest rate calculation such as fee income and discounts or premiums identified at inception.

The Group has historical experience in respect of the International Corporate Lending portfolio for the purposes of supporting the expected life assumption applied to each loan. Consequently, the Group determines loan expected life assumptions on the basis of its forecasting process, which takes into account historical data but also the Group's expertise and experience in this specialised lending sector. Any changes in the expected loan life assumptions are based on management's assessment of emerging market trends (for instance changes in market interest rates and the ability of the borrower to re-finance in the circumstances) and borrower specific information that indicates changes to repayment profiles and the extent of such changes.

The level of subjectivity required to estimate expected maturities in respect of exposures classified within the International Corporate Lending portfolio has increased significantly due to the outbreak of the COVID-19 pandemic mainly since the increased credit risk experienced by such borrowers diminishes their refinancing abilities over the shorter term. In this respect, the elevated level of economic uncertainty driven by the pandemic has had an impact on the financial condition and financial performance of a number of borrowers within the International Corporate Lending portfolio, thereby adversely impacting their repayment capacity. As a result, the determination of expected maturities in the aftermath of the outbreak of the pandemic required a significant level of expert judgement and the assessment performed by management to determine expected maturities in respect of exposures classified within the International Corporate Lending portfolio is subject to an elevated level of estimation uncertainty.

For this reason, further to the monitoring of expected maturities by the Corporate Credit Team, during the Q4 QPR process, the expected maturities for stage 2 borrowers were also reviewed by the Credit Risk team, approved by the management credit committee and ratified by the Board's Risk Committee.

Typically, the determination as to which fees are considered an integral part of the effective interest rate and hence included within the effective interest rate calculations is also judgemental for the International Corporate Lending portfolio. However, during the current financial year, the origination of loans within the International Corporate Lending portfolio were minimal. Accordingly, the judgement involved in this respect was deemed by the Group to be insignificant during the current year.

3.3 Expected credit losses on loans and advances to customers

Financial assets measured at amortised cost are evaluated for impairment on the basis described in Accounting Policy Note 1.5. Expected credit losses ("ECL") on loans and advances represent management's best estimate of expected credit losses on the loan portfolios subject to IFRS 9 impairment requirements at the end of the reporting period. In this respect, management is required to exercise judgement in defining what is considered to be a significant increase in credit risk or an unlikeliness-to-pay event, in determining the expected lifetime and point of initial recognition of financial instruments, and in making assumptions and estimates to incorporate relevant information about past events, current conditions and forecasts of economic conditions when calculating expected credit losses.

The measurement of credit loss allowances in respect of loans and advances to customers in line with IFRS 9 principles requires complex statistical analyses and modelling assumptions, with ECL models built and calibrated principally by reference to historical information in respect of default levels and loss severities. However, due to the inherent level of estimation uncertainty in modelling such aspects of the ECL calculation, a significant element of expert judgement is required to ensure that model parameters produce an ECL output which is reasonable and appropriate in light of existing conditions. In this respect, the outbreak of the COVID-19 global pandemic in the early months of the financial year ended 31 December 2020 increased the level of uncertainty in making such judgements and while, restrictions to mobility have started to ease across various key markets, uncertainty remains as countries emerge from the pandemic at different speeds, government support measures unwind and new virus variants continue to test the efficacy of vaccination programmes. A heightened degree of expert judgement was therefore required in order to ensure that the impact of the pandemic has been taken into consideration in all aspects of the ECL calculation, most particularly in respect of the Group's International Corporate Lending portfolio.

For loans within the Group's International Corporate Lending and Local Business Lending portfolios, judgement is firstly required in determining whether there is objective evidence that an exposure is credit-impaired. In performing this assessment, management applies a significant level of judgement in evaluating all relevant information on indicators of unlikeliness-to-pay, including the consideration of factors that immediately indicate deterioration in the financial condition of borrowers, but also in respect of factors that impact the outlook of borrowers affecting their ability to pay, as described in Note 1.5. A higher level of judgement is required for loans to borrowers showing continued signs of financial difficulty similar to those experienced during the preceding financial year, and for borrowers that are performing better compared to the prior year to understand whether the improvements are sustainable going forward. These judgements are reflected within forecasted cash flow forecasts under different scenarios for Stage 2 borrowers particularly when assessing their unlikeliness to pay.

The measurement of credit loss allowances in respect of defaulted exposures is performed through an internally developed model based upon management's best estimate of the present value of the cash flows that are expected to be received under multiple forward looking scenarios. As described in note 2.2.1 the Group utilises a DCF approach. In estimating cash flows for defaulted exposures within the International Corporate Lending portfolio, management makes judgements about a debtor's financial situation and future repayment prospects, taking into consideration management plans for growth within the current environment. In this regard, judgement is applied in estimating the expected future cash flows from each borrower under the different scenarios, assigning probabilities to those scenarios, and determining appropriate discount rates reflecting borrower-specific characteristics. The determination of operating cash flows under multiple scenarios requires a significant level of judgement in order to adequately capture the overall impact of the pandemic in a holistic assessment.

The estimates of recoverable cash flows for each defaulted borrower are independently reviewed and challenged by the Group's credit risk function, and approved by the Group's Management Credit Committee.

During 2021 and 2020, the Group extended loan forbearance measures to borrowers experiencing financial difficulties by agreeing to modify the contractual payment terms of loans in order to improve collection opportunities or to avoid default. Where forbearance activities are present, higher levels of judgement and estimation uncertainty are involved in determining their effects on credit loss allowances. In the aftermath of the outbreak of the pandemic, a number of borrowers classified within the International Corporate Lending portfolio experienced financial difficulties, leading to debt restructuring. In this respect, significant judgement was required in determining whether substantial modifications were made to contractual terms, thereby requiring derecognition of the extinguished financial instrument(s) and the recognition of the new financial instrument(s). In addition, whether such restructuring lead to the recognition of new financial instruments or the continuing recognition of the pre-restructured debt, the determination of the relative staging of the post-restructured debt and the measurement of the associated credit loss allowances are also deemed to be highly judgemental.

For exposures classified as Stage 1 and Stage 2 within the International Corporate and Local Business Lending portfolios, and all exposures within the Dutch and Maltese Mortgage portfolios, the Group measures credit loss allowances on the basis of complex models with a number of underlying assumptions. Particularly, in respect of the International Corporate portfolio, given the impact of Covid-19 pandemic the level of estimation uncertainty has been exacerbated in respect of:

(i) modelling PiT PDs and LGDs;

(ii) forecasting macroeconomic scenarios for the purposes of estimating probability-weighted credit loss allowances;

(iii) the determination of expected maturities of facilities, particularly in the case of International Corporates classified as Stage 2; and

(iv) assessing if there has been a significant increase in credit risk, which comprise a combination of qualitative and quantitative criteria, as described in Note 1.5;

The PD, LGD and EAD models used for the measurement of credit loss allowances are developed by an external vendor, enabling the estimation of these three key risk parameters at a facility level using statistical models, mainly by benchmarking exposure-specific characteristics against an underlying dataset. Specifically, PDs and LGDs are developed on a name-by-name basis by reference to the default and loss history of comparable borrowers with similar characteristics in terms of size, industry and country of operations.

In this regard, the methodology together with the assumptions and parameterisation used in the calibration of the model are reviewed on a regular basis by management in order to ensure that the model output remains appropriate in view of the Group's observed default and credit loss history. Due to the outbreak of the pandemic, a significant level of judgement was required in order to assess the continuing appropriateness and reasonableness of the PiT PDs and LGDs being determined by the statistical models. In this respect, it is noteworthy to mention that the Group's IFRS 9 model for determining PiT PDs is particularly sensitive to equity market data. As a result, given the heightened level of uncertainty surrounding recoveries from the COVID-19 pandemic and the possibility that equity prices are driven by factors unrelated to creditworthiness, a significant level of expert judgement is required to determine the reasonableness of ECL model outputs. In this respect, the Group resorted to the application of overlays, as described in more detail in Note 2.2.7 of the financial statements.

Similarly, significant judgement was also required in the modelling and selection of macroeconomic forecasts as well as in calibration of the severities and respective probability weights of macroeconomic scenarios used in the determination of ECLs. Judgement in this respect has been amplified by the heightened level of uncertainty triggered by the unprecedented economic and socio-political conditions being currently experienced across countries and industries. In this respect, a number of modelling assumptions are required, based on expert judgement, in order to form a view on the expected time horizon for the global economy to return to pre-COVID-19 levels; the impact of the pandemic on macroeconomic variables in specific countries and industries; the possibility of further waves of infections and the mutation of the virus into different strains; the efficacy of vaccine distribution plans at national level; and the effectiveness of government support schemes and regulatory relief measures.

Hence, as at 31 December 2021, the development of multiple forward-looking macroeconomic scenarios taking into consideration all these variables represents a key element of estimation uncertainty in the measurement of credit loss allowances. In addition, as described in Note 2.2.7 of the financial statements, the Group applied a post-model adjustment to align external vendor scenarios with the ECB staff macroeconomic projections published in December 2021, by making adjustments to the number, selection and probability weightings to modelled macroeconomic forecasts provided by the external vendor that supplies the Group with the applicable modelled scenarios for the purposes of ECL modelling.

Accordingly, in view of the high subjectivity involved in forecasting scenarios and the sensitivity of the ECL to the key changes in the number, selection and probability weightings applicable to the different scenarios, the Group has recalculated the ECL under the different scenarios both by applying a 100% weight to each scenario, as well as by re-calibrating the probability weights to scenario severities determined by the external vendor as in the preceding year, i.e. prior to any post-model adjustments. The effect of this uncertainty on the ECL outcome is disclosed in the sensitivity analysis of the measured credit loss allowances as at 31 December 2021 and 2020 presented in Note 2.2.7 of the financial statements.

The determination of expected maturities, which is particularly relevant for Stage 2 exposures within the International Corporate Lending portfolio, is based on behavioural maturity, reflecting management expectations on the exercise of prepayment options, based on borrowers' ability to refinance their debt in the open market. In this respect, the level of subjectivity in determining expected maturities has increased significantly in view of the outbreak of the pandemic, mainly since the increased credit risk experienced by such borrowers diminishes their refinancing abilities over the shorter term. In this context, management continues to monitor the expected maturities of borrowers in Stage 2 by reference to borrower specific information as well as by benchmarking the expected timing of future recoveries against actual outcomes to ensure that they remain appropriate.

The identification of SICR events, particularly in respect of the International Corporate Lending portfolio, has also been rendered more complex in the aftermath of the outbreak of the pandemic, since significant judgement is required in order to assess the severity of the impact of the pandemic on the financial performance and financial condition of such borrowers. In this respect, during 2021, increased reliance has continued to be made by the Group on its qualitative staging criteria, particularly through the introduction of caps on implied ratings and notch downgrades to ensure that borrower specific risks as at the end of the financial reporting period are captured in as timely a manner as possible.

4. Balances with central banks and cash

As at 31 December 2021, balances held with central banks include reserve deposits of the Group amounting to €25.9 million (2020: €23.5 million) relating to the Minimum Reserve Requirement in terms of Regulation (EC) No 1745/2003 of the ECB bearing interest at 0% per annum. Other balances with central banks held with the National Bank of Belgium amounting to €187.0 million (2020: €351.7 million) are subject to a negative interest rate of 0.5% (2020: negative interest rate of 0.5%) per annum. The remaining balances that are held with Central Bank of Malta are subject to an interest rate of 0% per annum (2020: 0% per annum).

Balances with central banks in the preceding table are shown net of credit loss allowances amounting to €2 thousand as at 31 December 2021 (2020: €2 thousand).

5. Derivative financial instruments

The Group established derivative lines with counterparties to purchase foreign exchange swaps, interest rate swaps and other appropriate instruments approved for hedging risks.

The Group uses over-the-counter foreign exchange swaps to hedge its exposure to changes in foreign exchange rates. All foreign exchange swaps mature within 2 months (2020: 12 months) from the reporting date.

The Group uses over-the-counter interest rate swaps to hedge its exposure to changes in the fair values of specific fixed rate securities attributable to changes in market interest rates (micro fair value hedging). Interest rate swaps are matched to fixed rate securities in designated fair value hedging transactions. The net losses on the hedged items arising during the year attributable to the hedged risk were €1.2 million (2020: net gains of €1.1 million). The net gains on the related hedging instruments during the year ended 31 December 2021 were €1.2 million (2020: net losses of €1.3 million).

The Group also uses over-the-counter interest rate swaps to hedge its exposure to interest rate risk emanating from a portfolio of fixed-rate mortgages (see Note below – macro fair value hedging under the EU carve-out version of IAS 39). The net gains on the related hedging instruments during the year ended 31 December 2021 were €48.3 million (2020: net losses of €12.4 million). The net losses on the hedged items arising during the year attributable to the hedged risk were €47.7 million (2020: net gains of €10.9 million).

Foreign exchange and interest rate swaps are commitments to exchange one set of cash flows for another, resulting in an economic exchange of currencies or interest rates (for example, fixed rate for floating rate).

	Group	
	2021 €000	2020 €000
Derivative financial assets	**37,637**	1,841
Derivative financial liabilities	**(1,131)**	(14,344)

The Group applies fair value hedge accounting on micro level in which one hedged item is hedged with one or multiple hedging instruments as well as on macro level whereby a portfolio of items is hedged with multiple hedging instruments. For macro hedges of interest rate risk, the Group applies the EU 'carve-out' version of IAS 39. The EU 'carve-out' rules for macro hedging enable a group of derivatives (or proportions) to be viewed in combination and jointly designated as the hedging instrument and remove some of the limitations in fair value hedge accounting relating to hedging net positions of loans and core deposits and under-hedging strategies. Thus, interest rate exposures on retail funding (savings and current accounts) and Dutch mortgages are initially offset. The remaining exposure is hedged in a portfolio hedge, using the EU 'carve-out' version of IAS 39, in which a portion of the retail mortgage lending portfolio is designated as a hedged item for hedge accounting purposes.

The Group applies the following types of hedge accounting:

Fair value hedges

Hedging the interest rate risk in respect of loans and advances to customers (macro hedge)

The hedged portfolio comprises fixed-rate mortgages of MeDirect Belgium (refer to Note 7). These are mortgages that have a fixed-rate interest period of more than six months. The hedging instruments are interest rate swaps entered into as part of interest rate risk management in the Asset and Liability Management ('ALM') process. The risk being hedged is the risk of change in fair value of the portfolio attributable to movements in market interest rates. Effectiveness assessments are performed on a retrospective and a prospective basis, using the dollar offset method.

Hedging the interest rate risk on investments (micro hedge)

The interest rate risk on specific fixed-income investments (refer to Note 8), on an individual asset basis, is hedged by swapping the coupon to a floating interest rate using interest rate swaps. The country or credit spread is not hedged. The hedges provide protection for changes in fair value of the relevant fixed-income investments attributable to movements in market interest rates. Effectiveness assessments are performed on a retrospective and a prospective basis, using the dollar offset method.

The fair values of the held for trading derivatives and derivatives designated as hedging instruments in fair value hedges together with the related notional amounts, distinguishing between micro hedges and macro hedges for the purposes of hedge accounting, are as follows:

	Group			
	Notional 2021 €000	**Fair value 2021 €000**	Notional 2020 €000	Fair value 2020 €000
Derivatives held for trading – Assets				
Instrument type:				
- Foreign exchange swaps	**3,997**	**2**	103,723	1,506
- Other derivative financial instruments		**511**		160
		513		1,666
Derivatives held for trading – Liabilities				
Instrument type:				
- Foreign exchange swaps	**105,054**	**(963)**	143,445	(1,618)
- Interest rate swaps	**200,000**	**(57)**	-	-
		(1,020)		(1,618)
Net derivatives held for trading		**(507)**		48

	Group			
	Notional 2021 €000	**Fair value 2021 €000**	Notional 2020 €000	Fair value 2020 €000
Derivatives designated as hedging instruments in fair value hedges – Assets				
Instrument type:				
- Interest rate swaps maturing in				
More than one year and less than five years				
- Micro hedges	**71,300**	**728**	-	-
- Macro hedges	**372,859**	**2,923**	17,200	8
More than five years				
- Macro hedges	**884,317**	**33,473**	45,400	167
		37,124		175
Derivatives designated as hedging instruments in fair value hedges – Liabilities				
Instrument type:				
- Interest rate swaps maturing in				
More than one year and less than five years				
- Micro hedges	**49,000**	**(11)**	95,000	(349)
- Macro hedges	**79,360**	**(63)**	236,536	(930)
More than five years				
- Micro hedges	**-**	**-**	25,300	(158)
- Macro hedges	**8,900**	**(37)**	563,900	(11,289)
		(111)		(12,726)
Net derivatives designated as hedging instruments in fair value hedges		**37,013**		(12,551)

The carrying amounts and the accumulated basis adjustment for fixed-rate mortgages and fixed-income investments are respectively included in the statement of financial position within Loans and advances to customers and within Investments – Treasury portfolio, and accordingly disclosed in note 7 and note 8.

6. Loans and advances to financial institution

As at 31 December 2021, €7.1 million (2020: €21.0 million) of the Group's loans and advances to financial institutions were pledged as collateral, most of which were in relation to the funding of the purchase of Dutch mortgages amounting to €6.1 million (2020: €20.1 million).

As at 31 December 2021, an amount of €8.4 million (2020: €2.5 million) in the form of cash have been contributed by MeDirect Malta to a derivatives clearing fund held by Eurex Clearing AG, of which the Bank is a member. The clearing fund protects members against losses until they leave the clearing fund.

Besides the above, the Group has amounts of €54.0 million (2020: €53.5 million) that are held for the purposes of margin requirements on hedging instruments attributable to the Dutch Mortgage lending business, and are hence considered encumbered.

Loans and advances to financial institutions as at 31 December 2021 and 31 December 2020 were neither past due nor credit-impaired and no forbearance measures were applied by the Group in this respect. In addition, loans and advances to financial institutions in the preceding table are shown net of credit loss allowances amounting to €1 thousand as at 31 December 2021 and 31 December 2020.

7. Loans and advances to customers

	Group	
	2021 €000	2020 €000
International Corporate Lending portfolio		
Term loans and advances: corporate	**614,814**	903,354
Dutch Mortgage portfolio		
Term loans and advances: retail	**1,606,014**	1,078,554
Local Business Lending portfolio		
Repayable on call and short notice: retail	**-**	8
Repayable on call and short notice: corporate	**4,090**	5,022
Term loans and advances: retail	**-**	4,475
Term loans and advances: corporate	**102,270**	83,198
Malta Mortgage portfolio	**19,030**	-
Gross loans and advances to customers	**2,346,218**	2,074,611
Less: Credit loss allowances	**(21,915)**	(53,851)
	2,324,303	2,020,760

	Allowances booked under:							
	Stage 1		Stage 2		Stage 3		Total	
	2021 €000	2020 €000	**2021 €000**	2020 €000	**2021 €000**	2020 €000	**2021 €000**	2020 €000
Credit loss allowances:								
- International corporate lending	**(2,130)**	(7,187)	**(3,855)**	(4,682)	**(15,470)**	(41,294)	**(21,455)**	(53,163)
- Dutch mortgage portfolio	**(71)**	(97)	**(62)**	(32)	**(16)**	(18)	**(149)**	(147)
- Local business lending portfolio	**(106)**	(405)	**(15)**	(129)	**(113)**	(7)	**(234)**	(541)
- Malta mortgage portfolio	**(77)**	-	**-**	-	**-**	-	**(77)**	-
	(2,384)	(7,689)	**(3,932)**	(4,843)	**(15,599)**	(41,319)	**(21,915)**	(53,851)

The Group's Dutch Mortgage portfolio in the preceding table includes a negative fair value/basis adjustment amounting to €37.1 million (2020: positive fair value/basis adjustment amounting to €10.5 million) attributable to loans with a carrying amount of €1.5 billion (2020: €0.9 billion) in respect of which interest rate swaps were entered into as part of the interest rate risk management in the ALM process to hedge the risk of change in fair value of the portfolio attributable to movements in market interest rates (refer to Note 5). The movement led to losses on hedged items attributable to the hedged risk amounting to €47.7 million (2020: gains of €10.9 million) as disclosed in note 24 to these financial statements.

As disclosed in further detail in Note 19, as at 31 December 2021 Dutch retail mortgages amounting to €734.6 million (2020: €590.2 million) have been securitised through two Residential Mortgage-Backed Security ("RMBS") transactions. As risks and rewards were deemed to have been retained by MeDirect Belgium, as at 31 December 2021 and 2020, these were recognised on the Group's statement of financial position.

As referred to earlier, MeDirect Malta had set up a controlled special purpose entity, GH I, to grant loans and advances to customers. As risks and rewards were deemed to have been retained by MeDirect Malta, as at 31 December 2020, term loans and advances to customers amounting to €587.3 million pertaining to the controlled special purpose entity were recognised on the Group's statement of financial position. In December 2021 all the loans and advances held by GH I were transferred to MeDirect Malta and MeDirect Belgium.

Furthermore, in order to comply with risk retention rules emanating from the Securitisation Regulation, the Group is required to acquire and season all loans acquired by GH1-2019, under a securitisation transaction originated by the Group. As a result, as at 31 December 2020, the Group had contracted to acquire an amount of €22.0 million of "Term loans and advances to customers: corporate", which were contracted to be sold to GH1-2019 under a back-to-back agreement. As at 31 December 2020, the beneficial ownership of these loans was however not yet transferred to the Group and hence are not included within the above table.

Loans and advances relating to exposures within the International Corporate Lending portfolio amounting to €38.1 million have been written off during the financial year (2020: €31.3 million relating to International Corporate Lending portfolio and €29 thousand relating to exposures within the Local Business Lending portfolio). Consequently, during the financial year ended 31 December 2021 credit loss allowances amounting to €11.2 million (2020: €31.3 million) relating to such write-offs have been released to profit or loss.

Throughout the financial year ended 31 December 2021, the Group derecognised loans and advances to a European corporation with a gross carrying amount of €11.3 million as a result of restructuring procedures (2020: two European corporations with a gross carrying amount of €56.4 million). As at the date of pre-restructuring, credit loss allowances recognised in respect of these financial instruments amounted to €3.4 million (2020: €20.2 million). These financial instruments were replaced by new loans and advances to customers with a gross carrying amount of €7.9 million (2020: €27.4 million) that were classified as hold to collect financial assets measured at amortised cost on initial recognition. In the preceding year, listed equity instruments of a European corporation were also received as part of the terms of the restructuring. The listed equity instruments were assigned a fair value of €7.3 million on initial recognition and were classified as financial assets at fair value through other comprehensive income. In this regard, the restructuring in 2020 led to a net reversal of Expected Credit Losses amounting to €3.1 million. The holding of the new loans and advances to customers and, in the listed equity in the case of the previous year, represent the continuing interaction with these customers.

As at 31 December 2021, gross loans and advances to customers of the Group amounting to €96.1 million (2020: €170.2 million) were classified as Stage 3.

8. Treasury and Securitisation Investment portfolios

Treasury Investment portfolio

	Group 2021 €000	Group 2020 €000
Investments measured at amortised cost including basis adjustment attributable to the hedged risk		
– Debt and other fixed income securities	**119,836**	198,292
– Less: Credit loss allowances	**(136)**	(243)
Investments measured at fair value through other comprehensive income		
– Debt and other fixed income securities	**650,217**	652,958
– Equity instruments	**-**	6,712
	769,917	857,719
Credit loss allowances:		
– On investments measured at amortised cost	**(136)**	(243)
– On debt and other fixed income securities measured at fair value through other comprehensive income	**(27)**	(183)
	(163)	(426)

	Group			
	Measured at amortised cost		Measured at fair value through other comprehensive income	
	2021 €000	2020 €000	**2021 €000**	2020 €000
Debt securities and other fixed income securities				
Issued by public bodies				
– foreign national and regional governments	**25,194**	35,301	**150,439**	164,351
– supranational	**60,974**	61,485	**99,799**	101,573
Issued by other bodies				
– foreign banks	**11,185**	88,957	**329,641**	387,034
– corporations	**22,347**	12,306	**70,338**	-
	119,700	198,049	**650,217**	652,958
Equity instruments				
Issued by public issuers				
– corporations			**-**	6,712
			-	6,712
Listing status				
– listed on foreign recognised exchanges	**107,373**	185,743	**650,217**	659,670
– not listed	**12,327**	12,306	**-**	-
	119,700	198,049	**650,217**	659,670

	Group			
	Measured at amortised cost		Measured at fair value through other comprehensive income	
	2021	2020	**2021**	2020
	€000	€000	**€000**	€000
Year ended 31 December				
At beginning of year	**198,049**	430,199	**659,670**	500,292
Additions	**-**	-	**121,247**	365,554
Disposal/Redemptions	**(77,295)**	(226,609)	**(122,297)**	(206,237)
(Losses)/Gains on hedged items attributable to the hedged risk	**(110)**	302	**(1,046)**	825
Amortisation of premium/discount	**(1,051)**	(5,849)	**(5,738)**	(6,368)
Changes in fair value	**-**	-	**(1,619)**	5,604
Movement in credit loss allowances	**107**	6	**N/A**	N/A
At end of year	**119,700**	198,049	**650,217**	659,670

Investment securities with a nominal value of €694.8 million are pledged as collateral with Eurex against the provision of borrowing facilities (2020: €499.6 million). These include investment securities that are held on balance sheet with a carrying amount of €649.7 million (2020: €446 million). In addition, investment securities with a nominal value of €56.8 million (2020: €44.0 million) are subject to a bilateral repo with a global bank.

The cash value of unutilised borrowing facilities (headroom) of the Group as at 31 December 2021 which are secured by the investment securities referred to above amounted to €498.6 million (2020: €229.6 million).

As at 31 December 2021, an amount of €3.9 million (2020: €3.9 million) in the form of High Quality Liquid Assets have been contributed by MeDirect Malta to a derivatives clearing fund held by Eurex Clearing AG, of which the Bank is a member. The clearing fund protects members against losses until they leave the clearing fund.

A further €2.0 million in the form of High-Quality Liquid Assets as at 31 December 2021 (2020: €2.0 million) were also contributed to Eurex Clearing AG to cover for daily margining.

Furthermore, as at 31 December 2021, MeDirect Malta also held €5.3 million (2020: nil) in the form of High Quality Liquid Assets with Saxo Bank as collateral for trading purposes.

Investment securities with a nominal value of €95.6 million (2020: €353.5 million) and a carrying amount of €98.6 million (2020: 363.0 million) are also pledged as part of the cooperation with the Blauwtrust Groep to access their multi-investor platform to purchase newly originated Dutch mortgages.

As at 31 December 2021, investment securities held by the Group with a nominal value of €4.3 million (2020: €4.0 million) and a fair value of €4.3 million (2020: €4.1 million) were pledged as a "payment commitment" in favour of the Maltese Depositor Compensation Scheme (DCS).

The interest rate risk on specific fixed-income investments (refer to Note 5), on an individual asset basis, is hedged by swapping the coupon to a floating interest rate using interest rate swaps. The country or credit spread is not hedged. The hedges provide protection for changes in fair value of the relevant fixed-income investments attributable to movements in market interest rates. Effectiveness assessments are performed on a retrospective and a prospective basis, using the dollar offset method. MeDirect Malta's interest rate risk on specific fixed-income investments with a carrying amount of €103.7 million (2020 €124.5 million) is hedged by swapping the coupon to a floating interest rate using interest rate swaps. This includes a positive fair value/basis adjustment amounting to €0.3 million (2020: positive fair value/ basis adjustment amounting to €1.5 million).

As at 31 December 2021 and 2020, the Group had no commitment to purchase further investment securities.

As referred to in note 7, throughout the financial year ended 31 December 2020, as part of a debt restructuring process by a European corporation to which the Group was exposed, the Group acquired listed equity instruments that were fair valued at €7.3 million at the date of restructuring in exchange for a portion of the debt, which were designated at fair value through other comprehensive income on initial recognition.

The listed equity stake referred to above had a fair value of €6.7 million as at 31 December 2020 and was disposed off in 2021. The resulting gain of €1.3 million on disposal has been transferred to retained earnings.

Securitisation Investment portfolio

	Group	
	2021 €000	2020 €000
Investments measured at amortised cost		
– Debt and other fixed income securities	**179,236**	292,214
– Less: Credit loss allowances	**(140)**	(151)
Investments measured at fair value through other comprehensive income		
– Debt and other fixed income securities	**327,110**	-
Investments mandatorily measured at fair value through profit or loss		
– Debt and other fixed income securities	**1,145**	1,143
	507,351	293,206

Group

	Measured at amortised cost		Measured at fair value through other comprehensive income		Measured at fair value through profit or loss	
	2021 €000	2020 €000	**2021 €000**	2020 €000	**2021 €000**	2020 €000
Year ended 31 December						
At beginning of year	**292,063**	252,179	**-**	-	**1,143**	1,447
Additions	**65,000**	49,991	**327,322**	-		-
Disposal/redemptions	**(178,000)**	(9,997)	**-**	-		-
Amortisation of premium/discount	**22**	22	**2**	-		-
Changes in fair value	**-**	-	**(214)**	-	**2**	(304)
Movement in credit loss allowances	**11**	(132)	**N/A**	N/A	**N/A**	N/A
At end of year	**179,096**	292,063	**327,110**	-	**1,145**	1,143

As at 31 December 2021 the Group and Bank had pledged €94.9 million of the securitisation investment portfolio in favour of third parties against the provision of borrowing facilities (2020: nil).

As at 31 December 2021 the Group had pledged €94.9 million of the securitisation investment portfolio in favour of third parties against the provision of borrowing facilities (2020: nil).

In July 2019, MeDirect Malta acquired a 5% vertical slice in each of the GH1-2019 structured note tranches for risk retention purposes, for the amount of €20.2 million. As at 31 December 2021, with the exception of the equity tranche amounting to €1.1 million (2020: €1.1 million) and mandatorily measured at FVTPL, MeDirect Malta's investment in the remaining tranches amounting to €18.5 million (2020: €18.5 million) is measured at amortised cost.

During the financial year ended 31 December 2021, the Group also acquired portions in CLO transactions amounting to €392.3 million (2020: €50.0 million) corresponding to tranches with the highest credit rating in such CLO structures which are managed by third party entities. These acquired portions in CLO transactions are listed on recognised exchanges but not centrally traded. The underlying assets for these CLO transactions are leveraged loans, predominantly senior secured leveraged loans, and high yield corporate bonds. As at 31 December 2021, positions with a nominal value of €160.8 million in total (2020: €273.7 million) are held in a 'hold to collect' business model and measured at amortised cost, whilst €327.3 million are held in a 'hold to collect and sell business model and measured at fair value through other comprehensive income. In addition, as at 31 December 2021, the Group holds €18.5 million in GH1-2019, representing a 5% vertical slice in each structured note tranche measured at amortised cost.

9. Investment in subsidiary

Name of subsidiary	Country of incorporation /formation	Nature of business	Equity interest 2021 %	Equity interest 2020 %	Carrying amount 2021 €000	Carrying amount 2020 €000
MeDirect Bank (Malta) plc	Malta	Banking	**100**	100	**130,914**	130,914
Shareholders' contribution to MeDirect Bank (Malta) plc					**133,196**	133,196
					264,110	264,110

Year ended 31 December	2021 €000	2020 €000
At beginning and end of year	**264,110**	264,110

Name of subsidiary	Country of incorporation /formation	Nature of business	Equity interest 2021 %	Equity interest 2020 %
MeDirect Bank SA	Belgium	Banking	100	100
Medifin Leasing Limited	Malta	Leases of software and equipment	100	-
Medifin Estates (partnership)	Malta	Operating lease of branches	100	100

MeDirect Belgium was incorporated on 16 June 2014 and was authorised as a Belgian credit institution on 1 June 2015. MeDirect Belgium's principal activities comprise those of offering competitive and cost-effective savings and wealth management products to the Belgian retail market, the provision of senior secured loans to foreign companies and the senior loan facility to GH I and the financing of Dutch mortgages, including RMBS transactions. On 28 May 2021, MeDirect Belgium incorporated a new subsidiary called MeHomeLoans B.V., a company registered in the Netherlands, that may eventually be used for new business in the Netherlands.

Medifin Leasing Limited was incorporated on 20 July 2011 and was acquired by MeDirect Malta on 4 January 2021 from Medifin Investments Limited (refer to note 38). Medifin Leasing's principal activities comprise those of leasing out property, equipment and intangible assets (predominantly software) and providing related support services to MeDirect Malta and MeDirect Belgium.

Medifin Estates is a partnership set up on 5 June 2012. This partnership enters into certain operating leases for property to be used as offices and branches which are then leased to the Group.

MeDirect Malta owns the following subsidiaries:

10. Property and equipment

Group As at 1 January 2020	Improvements to premises €000	Computer equipment €000	Other equipment €000	Fixtures and fittings €000	Motor vehicles €000	Right-of-use assets €000	Total €000
Cost	562	1,195	89	846	-	11,779	14,471
Accumulated depreciation	(113)	(395)	(31)	(239)	-	(1,250)	(2,028)
Net book amount	449	800	58	607	-	10,529	12,443
Year ended 31 December 2020							
At beginning of year	449	800	58	607	-	10,529	12,443
Additions	-	459	31	-	-	1,085	1,575
Disposals	-	(9)	-	-	-	-	(9)
Depreciation for the year	(57)	(343)	(24)	(77)	-	(1,799)	(2,300)
Depreciation released on disposals	-	2	-	-	-	-	2
At end of year	392	909	65	530	-	9,815	11,711
As at 31 December 2020							
Cost	562	1,645	120	846	-	12,864	16,037
Accumulated depreciation	(170)	(736)	(55)	(316)	-	(3,049)	(4,326)
Net book amount	392	909	65	530	-	9,815	11,711
Year ended 31 December 2021							
At beginning of year	**392**	**909**	**65**	**530**	**-**	**9,815**	**11,711**
Impact of acquisition of subsidiary (Note 38)	**27**	**1,333**	**-**	**46**	**-**	**(2,129)**	**(723)**
Additions	**-**	**699**	**12**	**12**	**80**	**-**	**803**
Disposals	**-**	**(203)**	**-**	**-**	**-**	**-**	**(203)**
Depreciation for the year	**(70)**	**(1,112)**	**(27)**	**(98)**	**(5)**	**(1,266)**	**(2,578)**
Depreciation released on disposals	**-**	**176**	**-**	**-**	**-**	**-**	**176**
At end of year	**349**	**1,802**	**50**	**490**	**75**	**6,420**	**9,186**
As at 31 December 2021							
Cost	**589**	**3,474**	**132**	**904**	**80**	**10,735**	**15,914**
Accumulated depreciation	**(240)**	**(1,672)**	**(82)**	**(414)**	**(5)**	**(4,315)**	**(6,728)**
Net book amount	**349**	**1,802**	**50**	**490**	**75**	**6,420**	**9,186**

As at 31 December 2021 and 2020, the Group operated from four immovable properties which are held under lease agreements.

The right-of-use assets disclosed in the preceding table reflect the following assets relating to leases:

	Group	
	2021 €000	2020 €000
Premises	**6,420**	7,686
Computer equipment	**-**	1,918
Other equipment	**-**	211
	6,420	9,815

As referred to in Note 38, on 4 January 2021, MeDirect Malta acquired all the share capital of Medifin Leasing, which was set up with the object of acquiring immovable or movable property, rights and licences, in particular software solutions and hardware, and to lease these assets to MeDirect Malta and MeDirect Belgium. As a result of the acquisition, the assets of Medifin Leasing were reflected within the consolidated financial statements of the Group at their carrying values. Simultaneously, the Right-of-Use (ROU) assets and corresponding lease liabilities previously recognised within the Group's consolidated financial statements, arising from its lease arrangements with Medifin Leasing in respect of the same assets, have been derecognised.

The movement in the carrying amount of right-of-use assets is analysed in the following table:

Group **As at 1 January 2020**	**Premises** **€000**	**Computer equipment** **€000**	**Other equipment** **€000**	**Total** **€000**
Cost	9,018	2,480	281	11,779
Accumulated depreciation	(880)	(331)	(39)	(1,250)
Net book amount	8,138	2,149	242	10,529
Year ended 31 December 2020				
At beginning of year	8,138	2,149	242	10,529
Additions	851	234	-	1,085
Depreciation for the year	(1,303)	(465)	(31)	(1,799)
At end of year	7,686	1,918	211	9,815
As at 31 December 2020				
Cost	9,869	2,714	281	12,864
Accumulated depreciation	(2,183)	(796)	(70)	(3,049)
Net book amount	7,686	1,918	211	9,815
Year ended 31 December 2021				
At beginning of year	**7,686**	**1,918**	**211**	**9,815**
Impact of acquisition of subsidiary (Note 38)	-	**(1,918)**	**(211)**	**(2,129)**
Depreciation for the year	**(1,266)**	-	-	**(1,266)**
At end of year	**6,420**	-	-	**6,420**
As at 31 December 2021				
Cost	**9,869**	**796**	**70**	**10,735**
Accumulated depreciation	**(3,449)**	**(796)**	**(70)**	**(4,315)**
Net book amount	**6,420**	-	-	**6,420**

The relevant lease liabilities are disclosed and analysed in Note 23 to these financial statements.

There were no capitalised borrowing costs related to the acquisition of property and equipment during the year (2020: nil).

11. Intangible assets

	Group				
As at 1 January 2020	**Goodwill €000**	**Computer software €000**	**Right-of-use assets €000**	**Customer list €000**	**Total €000**
Cost	461	9,632	9,660	474	20,227
Accumulated amortisation	-	(1,570)	(1,267)	(462)	(3,299)
	461	8,062	8,393	12	16,928
Year ended 31 December 2020					
At beginning of year	461	8,062	8,393	12	16,928
Additions	-	1,685	2,283	-	3,968
Write-off	-	(755)	-	-	(755)
Amortisation and impairment charges for the year	-	(2,142)	(2,841)	(12)	(4,995)
Amortisation released on write-off	-	696	-	-	696
At end of year	461	7,546	7,835	-	15,842
As at 31 December 2020					
Cost	461	10,562	11,943	474	23,440
Accumulated amortisation	-	(3,016)	(4,108)	(474)	(7,598)
Net book amount	461	7,546	7,835	-	15,842
Year ended 31 December 2021					
At beginning of year	**461**	**7,546**	**7,835**	**-**	**15,842**
Impact of acquisition of subsidiary (Note 38)	**-**	**6,574**	**(7,835)**	**-**	**(1,261)**
Additions	**-**	**3,650**	**-**	**-**	**3,650**
Write-off	**-**	**(1,281)**	**-**	**-**	**(1,281)**
Amortisation and impairment charges for the year	**-**	**(4,298)**	**-**	**-**	**(4,298)**
Amortisation released on write-off	**-**	**840**	**-**	**-**	**840**
At end of year	**461**	**13,031**	**-**	**-**	**13,492**
As at 31 December 2021					
Cost	**461**	**19,505**	**4,108**	**474**	**24,548**
Accumulated amortisation	**-**	**(6,474)**	**(4,108)**	**(474)**	**(11,056)**
Net book amount	**461**	**13,031**	**-**	**-**	**13,492**

The right-of-use assets reflected in the preceding table related to leased computer software. The relevant lease liabilities are disclosed and analysed in Note 23 to these financial statements.

As referred to in Note 38, on 4 January 2021, MeDirect Malta acquired all the share capital of Medifin Leasing, which was set up with the object of acquiring immovable or movable property, rights and licences, in particular software solutions and hardware, and to lease these assets to MeDirect Malta and MeDirect Belgium. As a result of the acquisition, the assets of Medifin Leasing were reflected within the consolidated financial statements of the Group at their carrying values. Simultaneously, the Right-of-Use (ROU) assets and corresponding lease liabilities previously recognised within the Group's consolidated financial statements, arising from its lease arrangements with Medifin Leasing in respect of the same assets, have been derecognised.

As at 31 December 2021, internally generated software included within Computer software in the table above amounted to €5.0 million (2020: €4.5 million). Capitalised staff costs in respect of the financial year ended 31 December 2021, included within "Additions" to Computer software in the table above amounted to €1.8 million (2020: €1.3 million). Meanwhile, amortisation recognised during the year in respect of internally generated software amounts to €1.1 million (2020: €1.4 million).

Amortisation of amounts capitalised by the Group of €2.3 million (2020: €1.4 million) had not yet commenced by the end of the reporting period.

The carrying amount of the assets written off during the current financial year, and the impairment charges recognised during the year in respect of such assets, reflected in the tables above, are deemed insignificant and accordingly no further disclosures were presented in this respect.

There were no capitalised borrowing costs related to the acquisition of software during the year (2020: nil).

Impairment assessment on goodwill arising on the acquisition of Wealth Management business in prior years

The recoverable amount attributable to the wealth management business acquired in prior years was based on its value in use and was determined by discounting the future cash flows to be generated from its continuing operations taking into account synergies as well as the enhanced client platform. The recoverable amount was determined to be higher than the carrying amount (consisting of the net assets and goodwill). As a result, no impairment was deemed necessary Further disclosures in this respect, including information on assumptions used in the collection of recoverable amounts, were not deemed necessary taking cognisance of the carrying amount of goodwill.

12. Non-current assets classified as held for sale

As at 31 December 2021, the property that had been acquired in satisfaction of debt had a carrying amount of €1.8 million (2020: €1.8 million).

	Group	
	2021	2020
	€000	€000
Year ended 31 December		
At beginning and end of year	**1,785**	1,785

Repossessed properties are made available for sale in an orderly fashion, with the proceeds used to reduce or repay the outstanding indebtedness. The Group does not generally occupy repossessed properties for its business use. Repossessed properties consist mainly of immovable property that had been pledged as collateral by customers.

13. Deferred tax assets and liabilities

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

	Group	
	2021 €000	2020 €000
Deferred tax assets	**18,390**	18,550
Deferred tax liabilities	**(816)**	(881)
Net deferred tax assets	**17,574**	17,669

Deferred tax assets and liabilities are attributable to the following:

	Group	
	2021 €000	2020 €000
Property and equipment	**(721)**	(165)
Investments measured at fair value through other comprehensive income	**393**	(716)
Derivative financial instruments	**(95)**	28
Unutilised wear and tear allowances	**60**	-
Unutilised tax losses	**8,172**	5,317
Unutilised notional interest deduction	**62**	-
Credit loss allowances	**9,703**	13,205
Net deferred tax assets	**17,574**	17,669

Deferred taxes are calculated on all temporary differences under the liability method and are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled based on tax rates (and tax laws) that have been substantively enacted by the end of the reporting period. The principal tax rates used are 35% (2020: 35%) in relation to the Maltese jurisdiction and 25% (2020: 25%) in respect of the Belgian fiscal authority.

Under notional interest deduction rules for Maltese corporate income tax purposes, Maltese entities may claim a deduction of notional interest computed by reference to risk capital and a benchmark interest rate.

Excess notional interest deduction in Malta which cannot be utilised against chargeable income for the respective financial year can be carried forward and added to the notional interest deduction for the following financial year. Unutilised notional interest deduction does not have an expiry date. A deferred tax asset is recognised in respect of unutilised notional interest deduction only to the extent that it is probable that sufficient future taxable profits will be available against which the unutilised deduction can be used.

Movements in deferred tax during the year:

Group	At beginning of year €000	Acquisition of subsidiary €000	Recognised in profit or loss €000	Recognised in other comprehensive income €000	At end of year €000
Year ended 31 December 2021					
Property and equipment	**(165)**	**(348)**	**(208)**	**-**	**(721)**
Investments measured at fair value through other comprehensive income	**(716)**	**-**	**-**	**1,109**	**393**
Derivative financial instruments	**28**	**-**	**(123)**	**-**	**(95)**
Unutilised wear and tear allowances	**-**	**-**	**60**	**-**	**60**
Unutilised tax losses	**5,317**	**-**	**2,855**	**-**	**8,172**
Unutilised notional interest deduction	**-**	**48**	**14**	**-**	**62**
Credit loss allowances	**13,205**	**-**	**(3,502)**	**-**	**9,703**
	17,669	**(300)**	**(904)**	**1,109**	**17,574**

	At beginning of year €000	Recognised in profit or loss €000	Recognised in other comprehensive income €000	At end of year €000
Year ended 31 December 2020				
Property and equipment	(126)	(39)	-	**(165)**
Investments measured at fair value through other comprehensive income	1,110	-	(1,826)	**(716)**
Derivative financial instruments	(73)	101	-	**28**
Unutilised tax losses	2,487	2,830	-	**5,317**
Unutilised notional interest deduction	12,168	(12,168)	-	**-**
Credit loss allowances	9,940	3,265	-	**13,205**
	25,506	(6,011)	(1,826)	**17,669**

Company	At beginning of year €000	Recognised in profit or loss €000	Recognised in other comprehensive income €000	At end of year €000
Year ended 31 December 2020				
Unutilised notional interest deduction	3,426	(3,426)	-	-

In addition to the net reversal in 2020 of deferred tax assets on unutilised notional interest deduction and credit loss allowances of its Maltese operations amounting to approximately €7.2 million, resulting from the expectation that they will not be recovered through expected future taxable profits, during the current financial reporting period, the Group reversed further the net deferred tax assets of the Maltese operations on credit loss allowances and unutilised tax losses, which on a net basis amount to approximately €0.6 million.

The reversal that has occurred over the past two years is the result of the Group's strategy to shift more of its future business, and accordingly forecasted taxable profits, towards the Benelux region.

As a result, as at 31 December 2021, deferred tax assets attributable to MeDirect Malta equivalent to €10.0 million (2020: €10.3 million) are expected to be recovered over a period of six years, while deferred tax assets attributable to MeDirect Belgium are equivalent to €7.9 million (2020: €7.3 million).

In applying judgement in recognising deferred tax assets, the Group's management has assessed all available information, in particular future business growth and profit projections. In this respect, the most recent financial forecasts approved by management cover a five-year period and the forecasts have been extrapolated beyond five years by assuming that performance remains constant after the fifth year. The most important management judgements underlying the projected financial results in the most recent financial forecasts approved by management related to (i) the projected growth rate of the lending and wealth management businesses; (ii) the evolution in net interest margin; (iii) the decrease in the cost to income ratio over time at the level of MeDirect Belgium; and (iv), the reduction in operating expenditure within the Maltese bank expected to occur as part of the Group's current restructuring strategy.

More specifically, in the case of the Group's Maltese operations, the most relevant assumptions include the cumulative average growth rates (CAGR) in respect of the mortgage lending business volumes and the wealth management business as well as the judgement in respect of the period over which the forecasts are deemed to display convincing evidence that sufficient taxable profit will be available. Similarly, the most important assumptions supporting the recoverability of the deferred tax asset in Belgium include the growth assumptions in relation to the Assets under Management ('AuM') attributable to the wealth management business originating via MeDirect Belgium, as well as the expected interest rates to be charged on specific classes of mortgage loans in the future and the funding cost assumptions of the Belgian bank going forward.

The Group has recognised the deferred tax assets referred to above on the basis that management considers there to be convincing evidence that indicates that sufficient taxable profit will be available against which tax losses carried forward can be used. Management's assessment of the likely availability of future taxable profits against which to recover the deferred tax assets takes into consideration that Management has a robust forecasting process and that the projections are consistent with the directors' assumptions about the Group's future.

In respect of the Malta-related deferred tax assets, the directors have also taken into consideration the MeDirect Malta's success in launching the Maltese mortgage lending business during 2021 and that the business lines that are included within the projections are fully operational and consistent with the Group's strategies. Moreover, the business lines projected for the Maltese operation (predominantly Maltese mortgage lending, local corporate lending and wealth management services) have not typically displayed volatility in earnings within the local market. In addition, within the forecasts, operating costs in Malta are projected to reduce in line with the Group's restructuring processes to place more business emphasis on Belgium. In this respect, the directors believe that the forecasted cost savings are achievable and sustainable as they are based on plans which have been fully costed by management and that involve the attribution of a significant portion of costs currently incurred by MeDirect Malta to MeDirect Belgium.

Finally, the Group's directors have given due consideration to the fact that the loss attributable to MeDirect Malta arising in 2020 arose due to an identifiable and non-recurring reason, being the economic impacts of Covid-19 and to the fact that unutilised tax losses do not expire in the future. Accordingly, while the directors are cognisant that the level of taxable profits is more difficult to predict for those years that are further into the future, they have assessed and concluded that the amount of forecast taxable profits for the forthcoming six years is more likely to occur than not.

In view of the judgement involved in assessing the probability and sufficiency of future taxable profits and the sensitivity of the carrying amount of the deferred tax assets recognised by the Group in respect of the Maltese operation to the growth rate assumptions in respect of the mortgage lending and the wealth management businesses, as well as to the judgement in respect of the period over which the forecasts are deemed to display convincing evidence that sufficient taxable profit will be available, the Group has estimated the impact that changes to such assumptions would have on the carrying amount of the deferred tax assets recognised as at 31 December 2021.

Similarly, the Group has estimated the impact that changes to the AuM growth rate, expected mortgage interest rates and funding costs specific to the Belgian bank will have on the carrying amount of the deferred tax assets recognised as at 31 December 2021.

The following table shows the effect on the Group's deferred tax assets of reasonably possible changes in the most important assumptions supporting the recognition of both the Malta-based and Belgium-based deferred tax assets:

Assumption	Movement	Deferred tax asset impact € million
Malta-related assumptions:		
Growth in mortgage lending business volumes in Malta	+ 5%	0.9
	- 5%	(1.2)
Growth in wealth management business volumes in Malta	+ 5%	0.2
	- 5%	(0.5)
Belgium-related assumptions:		
Interest rates related to specific classes of mortgage loans originated in Belgium	+ 5%	1.5
	- 5%	(2.1)
Growth in wealth management business volumes in Belgium	+ 5%	0.9
	- 5%	(1.3)
Average funding costs in Belgium	+ 5%	(1.3)
	- 5%	0.7

In addition, should the Malta related forecasts be deemed to display convincing evidence of future taxable profits solely for the first five-year period, the carrying amount of the deferred tax assets recognised by the Group as at 31 December 2021 would decrease by €3.1 million. Meanwhile, if an assessment period of seven years is used, the carrying amount of the deferred tax assets recognised by the Group as at 31 December 2021 would increase by €3.1 million.

Although the Group has taken a prudent approach of reversing part of the deferred tax assets, unutilised tax losses and unutilised notional interest deduction have no expiry date and can be carried forward indefinitely even beyond the assessment period used in determining the deferred tax assets.

The following table provides an analysis of the deferred tax assets that were not recognised by the Group and the Company as deferred income tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

	Group		Company	
	2021 €000	2020 €000	**2021 €000**	2020 €000
Property and equipment	**1,816**	798	**-**	-
Unutilised tax losses	**20,759**	8,938	**-**	-
Unutilised notional interest deduction	**27,158**	22,074	**5,825**	5,823
Credit loss allowances	**-**	7,988	**-**	-
Deferred tax assets	**49,733**	39,798	**5,825**	5,823

14. Prepayments and accrued income

	Group	
	2021 €000	2020 €000
Prepayments	**3,441**	1,846
Accrued income	**10,873**	14,678
	14,314	16,524

Accrued income is shown net of credit loss allowances amounting to €0.1 million as at 31 December 2021 (2020: €0.4 million).

15. Other assets

	Group		Company	
	2021 €000	2020 €000	**2021 €000**	2020 €000
Amounts receivable from:				
- subsidiary companies	**-**	-	**11,299**	-
- other group companies	**-**	9,849	**-**	-
Dividend related refund	**2,072**	1,960	**1,578**	1,578
Deferred customer contract costs	**881**	770	**-**	-
Other receivables	**12,363**	34,966	**-**	-
Other assets	**13**	30	**13**	30
	15,329	47,575	**12,890**	1,608

As at 31 December 2021, the amounts receivable from subsidiary companies comprise a callable loan granted by MDB Group Limited to MeDirect Malta amounting to €11.1 million which is due on 10 February 2031, the terms of which mirror those of the subordinated notes issued by MDB Group Limited on the Global Exchange Market of Euronext Dublin. As a result, the loan bears a fixed interest rate of 9.75% per annum until 10 February 2026 and thereafter will bear interest at a fixed rate which will be set by an Agent Bank on 10 February 2026.

As at 31 December 2020, the amounts receivable from other group companies consisted of a loan to Medifin Leasing amounting to €7.9 million that was repayable through monthly instalments and was subject to interest at the rate of three-month Euribor floored at 0% and a revolving loan amounting to €1.9 million that was subject to interest at the rate of three-month Euribor floored at 0% and was repayable after one year from the date when repayment was demanded, unless an event of default occured in which case the loan was repayable in full immediately. As referred to in Note 38, on 4 January 2021, MeDirect Malta acquired all the share capital of Medifin Leasing. As a result, as at 31 December 2021 such intra-group balances have been eliminated on consolidation.

Other amounts receivable from subsidiary companies as at 31 December 2021 and other amounts receivable from other group companies as at 31 December 2020 are unsecured, interest free and repayable on demand.

As at 31 December 2021, the Group's 'other receivables' comprises balances amounting to €1.9 million (2020: €29.0 million) held with a third-party mortgage originator in the Netherlands until the relevant NHG eligibility criteria for specific loan applications relating to the Dutch Mortgage portfolio are fulfilled in the future.

None of these assets are deemed credit-impaired at 31 December 2021 and 2020 and expected credit losses in relation to such balances were deemed insignificant as at 31 December 2021 and 2020.

16. Capital and reserves

Share capital	2021 No.	2020 €
Authorised:		
Ordinary 'A' shares of €1 each	**99,999,999**	99,999,999
Ordinary 'B' shares of €1 each	**1**	1
	100,000,000	100,000,000
Issued and fully paid up:		
Ordinary 'A' shares of €1 each	**56,406,546**	56,406,546
Ordinary 'B' shares of €1 each	**1**	1
	56,406,547	56,406,547

As at 31 December 2021 and 2020, issued share capital is stated net of share issue expenses amounting to €0.7 million.

Rights and entitlements attached to ordinary shares

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

Share premium

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

			Share Premium	
Issue date	Number of shares	Premium per share €	2021 €000	2020 €000
5 August 2009	39,520,969	0.3407	**13,464**	13,464
31 March 2010	1,214,991*	0.2400	**292**	292
			13,756	13,756

*Converted to one share on 27 June 2014

Shareholders' contributions

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

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

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

Reserve for general banking risks

Banking Rule ("BR") 09 issued by the MFSA requires banks in Malta to hold additional reserves for general banking risks in respect of non-performing loans. This reserve is required to be funded from retained earnings. As at 31 December 2021, the reserve for general banking risks of the Group was equivalent to €3.8 million (2020: €3.4 million). This reserve, which is distributable subject to the formal consent of the Banking Regulator, represents 100% of the regulatory allocation by virtue of paragraph 38 of the Banking Rule.

Other reserves

Fair value reserve

The fair value reserve of the Group is attributable to the cumulative net change in the fair value of investments measured at fair value through other comprehensive income, until the investment is derecognised, net of deferred taxation.

Year ended 31 December	Group 2021 €000	Group 2020 €000
At beginning of year	**1,037**	(2,955)
Fair value adjustments	**(1,832)**	6,186
Deferred tax on fair value adjustments	**1,109**	(1,934)
Reclassification adjustment to profit or loss upon disposal	**–**	(368)
Deferred tax on reclassification adjustments	**–**	108
Transfer of gain on disposal of equity investments at fair value through other comprehensive income to retained earnings	**(1,323)**	–
At end of year	**(1,009)**	1,037

Other reserve

On 6 May 2015, the Group entered into an agreement to acquire the remaining 35% shareholding of Charts Investment Management Service Ltd for a cash consideration of €1.7 million. The subsidiary was principally engaged in providing stockbroking and corporate finance services and other authorised investment services under a Category 3 licence. As a result of the acquisition of the non-controlling interest, during the financial year ended 31 March 2016, the carrying amount of the non-controlling interest of €0.4 million has been derecognised. The difference between proceeds and the carrying amount of the non-controlling interest has been reflected as an adjustment to equity.

As at 31 December 2021 and 2020, other reserve also comprises of a legal reserve amounting to €0.2 million that is required to be maintained by MeDirect Belgium in line with Article 7:211 of the Belgian Companies Code which requires MeDirect Belgium to assign at least 5% of MeDirect Belgium's net profits to the legal reserve until such legal reserve amounts to 10% of MeDirect Belgium share capital.

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

Dividends

The directors of the Bank do not propose any final dividends for distribution.

17. Amounts owed to financial institutions

	Group 2021 €000	Group 2020 €000
Term deposits	**258,121**	352,046
Other	**15,228**	21
	273,349	352,067

As at 31 December 2021, amounts owed to financial institutions amounting to €258 million (2020: €352 million), consisting of repos and classified as term deposits, are secured by a pledge over MeDirect Malta's investments (refer to Note 8). The other amounts owed to financial institutions in 2021 mainly consist of amounts payable to credit institutions in respect of unsettled amounts on loans purchased and accounted for on trade date but which are still unsettled as at the end of the reporting period.

18. Amounts owed to customers

	Group 2021 €000	Group 2020 €000
Repayable on call and at short notice	**1,910,629**	1,501,976
Term deposits	**1,050,236**	1,247,953
	2,960,865	2,749,929

19. Debt securities in issue

	Group 2021 €000	Group 2020 €000
Year ended 31 December		
At beginning of year	**553,849**	-
Original face value of notes issued	**493,100**	561,100
Premium on notes issued	**5,855**	-
Issue costs incurred	**(1,428)**	(2,805)
Amortisation of premium recognised in profit or loss	**(1,242)**	-
Amortisation of issue costs recognised in profit or loss	**1,241**	557
Redemptions	**(393,082)**	(5,003)
At end of year	**658,293**	553,849
As at 31 December		
Original face value of notes issued	**656,115**	556,097
Unamortised note premium	**4,613**	-
Unamortised note issue costs	**(2,435)**	(2,248)
Net carrying amount	**658,293**	553,849
As at 31 December		
Bastion 2020-1 NHG B.V.	**321,680**	343,459
Bastion 2021-1 NHG B.V.	**336,613**	-
Cavalier BV 2020	**-**	210,390
Net carrying amount	**658,293**	553,849

By virtue of a base prospectus dated May 2020, MeDirect Belgium successfully securitised part of its Dutch retail mortgage portfolio raising €350 million through a RMBS transaction, listed on Luxembourg Stock Exchange. As part of the transaction the mortgage portfolio was sold to Bastion 2020-1, a special purpose securitisation vehicle established in the Netherlands, which is controlled by MeDirect Belgium.

This RMBS is subject to interest of 0.60% per annum above 3-month Euribor (including floor at 0%) up to the first optional redemption date being April 2025, and interest of 1.00% per annum above 3-month Euribor (including floor at 0%) from the first optional redemption date payable quarterly. All bonds are redeemable at par and shall become due for final redemption in April 2057, however, MeDirect Belgium reserves the right to redeem the bond in particular circumstances specified in the base prospectus.

An institutional investor acquired the Class A notes of the RMBS equivalent to €350 million, having a senior ranking vis-à-vis all the junior tranches retained by MeDirect Belgium. MeDirect retains substantially all risks and rewards of the underlying securitised Dutch government-backed mortgage portfolio and accordingly controls Bastion 2020-1. As a result, the mortgage portfolio, the senior notes of Bastion 2020-1 and related income and expenditure are reflected in the Group's financial statements.

On each of the Notes Payment Dates of Bastion 2020-1, falling on 25 January 2021, 23 April 2021, 23 July 2021 and 25 October 2021, amounts of €5.7 million, €4.5 million., €5.7 million and €6.2 million of Class A notes, pertaining to the senior tranche were redeemed, whereas on each of the Notes Payment Dates of 23 July 2020 and 23 October 2020, amounts of €2.0 million and €3.0 million of the said Class A notes were redeemed.

In September 2020, MeDirect Belgium established a €350 million revolving credit warehouse funding facility provided by a major Dutch bank through Cavalier 2020 B.V., a special purpose vehicle established in the Netherlands, which was controlled by MeDirect Belgium. The warehouse facility provided bridge financing that enabled MeDirect Belgium to build up a Dutch Mortgage portfolio large enough to be securitised through a RMBS transaction. As at the end of 2020, Class A notes pertaining to the senior tranche of Cavalier 2020 B.V. of €211 million were held by the major Dutch bank, with the junior notes being retained by MeDirect Belgium. In substance, these instruments have been considered as notes on on debt securities in issue. The financing facility was used to build up a Dutch Mortgage portfolio of €154 million, which was subsequently securitised. MeDirect Belgium repaid Class A notes of €104 million in January 2021, issued €143.1 million of Class A notes in April 2021, followed by a repayment of €145.0 million in May 2021 and full and final repayment of €105.0 million in June 2021, when use of Cavalier was suspended and was no longer being utilised. Cavalier 2020 was eventually dissolved on 23 December 2021.

More specifically, in January 2021 MeDirect Belgium securitised a further part of its Dutch retail mortgages portfolio through a RMBS transaction whereby a principal amount of €414 million of the Dutch Mortgage portfolio was sold to a securitisation special purpose entity, Bastion 2021-1 NHG B.V., established in the Netherlands, which is controlled by MeDirect Belgium. On closing, the Dutch retail mortgages portfolio acquired by Bastion 2021-1 NHG B.V. included the €154 million portfolio of the Dutch Mortgages that was financed through the warehouse funding facility obtained through Cavalier 2020 B.V. This portfolio, that was originated by MeDirect Belgium and subsequently transferred to Cavalier 2020 B.V., was repurchased by MeDirect Belgium and together with a further portfolio of €260 million of Dutch Mortgages was transferred to Bastion 2021-1 NHG prior to closing.

An institutional investor acquired the Class A notes of the RMBS equivalent to €350 million, having a senior ranking vis-à-vis all the junior tranches retained by MeDirect Belgium. MeDirect retains substantially all risks and rewards of the underlying securitised Dutch government-backed mortgage portfolio. As a result, the mortgage portfolio, the senior notes of Bastion 2021-1 and related income and expenditure are reflected in the Group's financial statements.

This RMBS is subject to interest of 0.7% per annum above 3-month Euribor (including floor at 0%) up to the first optional redemption date, and interest of 1.05% per annum above 3-month Euribor (including floor at 0%) from the first optional redemption date being August 2026, payable quarterly. All bonds are redeemable at par and shall become due for final redemption in August 2058, however, MeDirect Belgium reserves the right to redeem the bond in particular circumstances specified in the base prospectus.

On each of the Notes Payment Dates of Bastion 2021-1, falling on 20 May 2021, 20 August 2021 and 22 November 2021, amounts of €4.8 million, €5.7 million and €6.4 million of Class A notes, pertaining to the senior tranche were redeemed.

20. Subordinated liabilities

	Group		Company	
	2021	2020	**2021**	2020
	€000	€000	**€000**	€000
Year ended 31 December				
At beginning of year	**54,650**	54,820	**-**	-
Original face value of debt securities issued	**11,000**	-	**11,000**	-
Foreign exchange differences	**283**	(233)	**-**	-
Transaction costs incurred	**(995)**	-	**(995)**	-
Transaction costs amortised to profit or loss	**192**	63	**131**	-
At end of year	**65,130**	54,650	**10,136**	-
Analysed as follows:				
5% Subordinated Unsecured Bonds 2022 – 2027	**20,053**	19,941	-	-
4% Subordinated Unsecured Bonds 2024 – 2029	**34,941**	34,709	-	-
9.75% Subordinated Notes 2031	**10,136**	-	**10,136**	-
	65,130	54,650	**10,136**	-

On 16 October 2017, MeDirect Malta announced the issue of euro equivalent of €20 million 5% Subordinated Unsecured Bonds 2027 maturing on 13 October 2027 with a 13 October 2022 early redemption option held by MeDirect Malta. The bonds were issued on the Malta Stock Exchange in euro and pound sterling. The interest payable is fixed at 5% (effective interest rate of 5.19%) and the bonds are redeemable at their nominal value. The amounts subscribed consisted of £1.2 million (euro equivalent to €1.3 million) bonds in pound sterling and €18.7 million bonds in euro.

On 8 October 2019 MeDirect Malta announced the issue and listing of €35 million 4% Subordinated Unsecured Bonds denominated in euro and pound sterling maturing on 5 November 2029 with an annual early redemption option starting 5 November 2024 held by MeDirect Malta. The bonds were issued on the Malta Stock Exchange in euro and pound sterling. The interest payable is fixed at 4% (effective interest rate of 4.2%) and the bonds are redeemable at their nominal value. The amounts subscribed consisted of £2.4 million (euro equivalent to €2.8 million) bonds in pound sterling and €32.2 million bonds in euro.

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 and thereafter a fixed rate of interest which will reset on 10 February 2026. These notes were admitted to the Official List of Euronext Dublin and to trading on the Global Exchange Market of Euronext Dublin. The reset rate of interest will be determined by the Agent Bank on the reset determination date as the sum of the reset reference rate and the margin. The proceeds from the issuance of these notes, which qualify as Tier 2 capital, have been lent to MeDirect Malta as a subordinated loan for general corporate purposes, including to strengthen and optimise its capital and to support the execution of its business strategy.

The above liabilities will, in the event of the winding up of MeDirect Malta or MDB Group Limited, be subordinated to the claims of depositors and all other creditors of MeDirect Malta or MDB Group respectively. MeDirect Malta and MDB Group Limited have not had any defaults of interest or other breaches with respect to their subordinated debt securities during the years ended 31 December 2021 and 31 December 2020. As at 31 December 2021, the euro equivalent contractual amount due at maturity with regards to MeDirect Malta and MDB Group Limited was €55.1 million (2020: €55.0 million) and €10.1 (2020: Nil) respectively. As at 31 December 2021, the carrying amount of the subordinated debt securities in issue with respect to MeDirect Malta was €0.2 million lower than the contractual amount (2020: €0.2 million) and €0.9 million lower than the contractual amount with respect to MDB Group Limited.

21. Provisions for liabilities and other charges

	Group	
	2021 €000	2020 €000
Credit loss allowances in respect of loan commitments and financial guarantee contracts	**1,158**	3,783
Restructuring costs	**65**	133
	1,223	3,916

	Group	
	2021 €000	2020 €000
Credit loss allowances in respect of loan commitments and financial guarantee contracts		
At beginning of year	**3,783**	2,112
Change in expected credit losses	**(2,625)**	1,671
At end of year	**1,158**	3,783
Restructuring costs		
At beginning of year	**133**	2,416
Amounts utilised	**(68)**	(2,283)
At end of year	**65**	133

As at 1 January 2020, the provision for restructuring costs, which was mainly current in nature, covered one-time payment obligations emanating from severance costs attributable to the former Group senior management as a result of the organisational restructuring, staff redundancy costs in the context of the closure of specific branches and other restructuring costs, principally consultancy costs relating to restructuring plan amounting to €0.7 million and lease termination charges. The balance as at 1 January 2021, amounting to €0.1 million which was partly utilised during the year related to the closure of specific branches.

22. Accruals and deferred income

	Group		Company	
	2021 €000	2020 €000	**2021 €000**	2020 €000
Accrued interest expense	**7,825**	7,769	**968**	-
Other accrued expenses	**10,681**	10,768	**9**	9
Deferred income	**6,194**	14,403	**-**	-
	24,700	32,940	**977**	9

23. Other liabilities

	Group		Company	
	2021 €000	2020 €000	**2021 €000**	2020 €000
Amounts due to ultimate parent company	**912**	594	**-**	-
Amounts due to immediate parent company	**234**	282	**-**	-
Amounts due to other group companies	**-**	1,401	**272**	638
Indirect taxes payable	**1,226**	1,616	**-**	-
Lease liabilities	**7,083**	14,884	**-**	-
Other liabilities	**10,052**	5,390	**1**	7
	19,507	24,167	**273**	645

Amounts due to ultimate parent company, immediate parent company and other group companies are unsecured, interest free and repayable on demand.

The lease liabilities associated with the recognised right-of-use assets are analysed below.

	Non-Current		Current		Total	
	2021 €000	2020 €000	**2021 €000**	2020 €000	**2021 €000**	2020 €000
Premises	**5,515**	6,827	**1,568**	1,114	**7,083**	7,941
Computer equipment	**-**	662	**-**	620	**-**	1,282
Other equipment	**-**	81	**-**	121	**-**	202
Computer software	**-**	3,933	**-**	1,526	**-**	5,459
	5,515	11,503	**1,568**	3,381	**7,083**	14,884

The extension options in leases relating to premises, with the last extension covering till April 2032, have been included in the lease liability as the lease term reflects the exercise of such options.

The total cash outflows for leases in 2021 was €1.2 million (2020: €6.9 million). The contractual undiscounted cash flows attributable to lease liabilities as at 31 December 2021 and 2020 are analysed in Note 2.3.4.

As at 31 December 2020, the total amount of lease liabilities for computer equipment, other equipment and computer software were attributable to arrangements with Medifin Leasing Limited. As described in Note 38, Medifin Leasing was acquired by MeDirect Malta in January 2021. Accordingly, subsequent to the acquisition, the Group does not have any lease liabilities in respect of such arrangements.

The movement in the carrying amount of these liabilities is analysed in the following table:

	Group	
	2021	2020
	€000	€000
Year ended 31 December		
At beginning of year	**14,884**	17,663
Additions	**-**	3,368
Payments	**(1,167)**	(6,910)
Interest charge	**321**	763
Effect of acquisition of subsidiary (Note 38)	**(6,955)**	-
At end of year	**7,083**	14,884

The income statement reflects the following amounts relating to leases:

	Group	
	2021	2020
	€000	€000
Interest expense (Note 24)	**321**	763

24. Net interest income

	Group 2021 €000	Group 2020 €000	Company 2021 €000	Company 2020 €000
Interest Income				
Loans and advances to customers				
– interest on loans and advances to customers	**75,718**	81,639	**-**	-
– net gains/(losses) representing ineffective portion of fair value hedges	**673**	(1,445)	**-**	-
Loans and advances to ultimate parent company	**-**	48	**-**	-
Loans and advances to subsidiary company	**-**	48	**1,099**	-
Investment securities				
– interest on investment securities	**4,545**	10,037	**-**	-
– amortisation of net premiums on investment securities	**(6,765)**	(12,195)	**-**	-
– net losses representing ineffective portion of fair value hedges	**(15)**	(235)	**-**	-
Total interest income	**74,156**	77,849	**1,099**	-
Interest expense				
Loans and advances to financial institutions	**2,313**	1,402	**-**	-
Amounts owed to financial institutions	**1,312**	3,468	**-**	-
Amounts owed to customers	**19,600**	20,703	**-**	-
Lease liabilities	**321**	763	**-**	-
Subordinated liabilities	**3,562**	2,461	**1,099**	-
Total interest expense	**27,108**	28,797	**1,099**	-
Net interest income	**47,048**	49,052	**-**	-

The Group's negative interest income attributable to loans and advances to financial institutions is presented within interest expense rather than netted off within interest income.

An amount of €5.4 million (2020: €7.9 million) relating to credit-impaired financial assets is included within interest income from loans and advances to customers for the year ended 31 December 2021.

In the financial year ended 31 December 2021, fair value gains of €1.1 million (2020: losses of €1.3 million) arising on derivatives designated in micro fair value hedge relationships and €1.2 million (2020: €1.1 million) representing net decreases (2020: net increases) in the fair value of the hedged items attributable to the hedged risk are included within the Group's net interest income. These hedging relationships comprise interest rate swaps hedging interest rate risk on specific fixed rate debt securities, on an individual asset basis. The losses are reflected within interest arising from investment securities, where interest on the hedged items is presented.

On the other hand, for the macro hedging relationships comprising interest rate swaps hedging interest rate risk on a portfolio of the Group's fixed rate mortgages, fair value gains of €48.3 million (2020: losses of €12.4 million) arising on derivatives designated in fair value hedge relationships and losses of €47.7 million (2020: gains of €10.9 million) representing net decrease (2020: increase) in the fair value of the hedged items attributable to the hedged risk are included within the Group's net interest income. The losses are reflected within interest arising from loans and advances to customers, where interest on the hedged items is presented.

	Group	
	2021 €000	2020 €000
Micro hedging:		
Gains/(losses) on hedging instruments	**1,141**	(1,362)
(Losses)/gains on hedged items attributable to the hedged risk – basis adjustment to Treasury Investments measured at amortised cost (see Note 8)	**(1,156)**	1,127
	(15)	(235)
Macro hedging:		
Gains/(losses) on hedging instruments	**48,339**	(12,356)
(Losses)/gains) on hedged items attributable to the hedged risk – basis adjustment to Dutch Mortgage portfolio (see Note 7)	**(47,666)**	**10,911**
	673	(1,445)
Net gains/(losses) representing ineffective portion of fair value hedges	**658**	(1,680)

25. Net fee and commission income

	Group	
	2021 **€000**	2020 €000
Fee and commission income		
Corporate secured lending fee income	**571**	1,382
Banking transactions fee income	**1,158**	1,418
Investment services fees	**6,591**	5,173
Total fee and commission income	**8,320**	7,973
Fee and commission expense		
Corporate secured lending fee expense	**174**	110
Banking transactions fee expense	**554**	562
Investment services transaction and custody fees	**1,725**	1,631
Other fee expense	**184**	169
Total fee and commission expense	**2,637**	2,472
Net fee and commission income	**5,683**	5,501

The Group's net fee and commission income excludes income and expenses that form an integral part of the effective interest rate on financial assets and financial liabilities that are not at fair value through profit or loss, but in the financial year ended 31 December 2021 includes income of €0.6 million (2020: €1.2 million) and expenses of €0.2 million (2020: €0.1 million) relating to such financial assets and liabilities.

The net revenue arising during 2021 (i.e. the gross revenue less any commissions directly related to the acquisition of the said gross revenue) derived from activities in relation to MeDirect Malta's category 2 and category 4A investment services licences in Malta amount to €2.0 million (2020: €1.6 million).

26. Net trading income and other operating income

26.1 Net trading income

	Group	
	2021 €000	2020 €000
Net income from foreign exchange activities	**2,575**	1,855
Net income from held for trading financial instruments	**114**	(152)
	2,689	1,703

26.2 Realised losses on disposal of other investments

	Group	
	2021 €000	2020 €000
Investments measured at fair value through other comprehensive income	**-**	(368)
Investments measured at amortised cost	**-**	(369)
	-	(737)

27. Personnel expenses

Personnel expenses incurred, including remuneration and emoluments paid to the directors of MeDirect Malta and MeDirect Belgium, are analysed as follows:

	Group	
	2021 €000	2020 €000
MeDirect Malta and MeDirect Belgium Directors' emoluments		
- salaries	**3,180**	4,022
- defined contribution social security costs	**40**	34
- fees	**733**	673
- other emoluments	**18**	13
Staff costs		
- salaries	**18,426**	18,131
- defined contribution social security costs	**1,849**	1,727
Staff costs capitalised within Intangible Assets (Note 11)	**(1,734)**	(1,282)
	22,512	23,318

The directors of Medifin Leasing Limited and MeHomeLoans B.V. do not receive any directors' emoluments as they are employed within the MDB Group and their remuneration for 2021 and 2020 is presented above within 'Staff costs'.

As per above, in the financial year ended 31 December 2021 salary costs amounted to €21.6 million (2020: €22.1 million) with variable remuneration accounting for 11.9% (2020: 15.4%) of these amounts.

The weekly average number of persons employed during the year, including executive directors, was as follows:

	Group	
	2021 €000	2020 €000
Executive and senior management	**19**	18
Other managerial, supervisory and clerical	**293**	271
Other	**6**	7
	318	296

The number of persons employed with the Group as at the reporting date, including executive directors, was 337 (2020: 292).

Share-based payments are granted to certain executive directors under a performance and retention bonus plan. Under this plan, executive directors are entitled to share-linked instruments the value of which is based on changes in the fair value of the ordinary shares of MDB Group Limited but which are settled in cash and hence do not entitle the employees to shares or any interest in or right over such shares. Therefore, share-linked instruments comprise a number of notional ordinary shares of MDB Group Limited determined at award date by reference to the related bonus amounts taking cognisance of the fair value of the shares at that date.

The plan contemplates upfront share-linked awards and deferred share-linked awards that are subject to a deferral period of not less than twelve months but not greater than five years. Deferred share-linked awards attributable to retention bonuses are subject to a vesting period during which period the specific officer or employee must remain in employment for vesting to occur. Meanwhile, performance bonuses vest immediately, but are also subject to a deferral period. Any tranche of a retention bonus which has not yet vested lapses if the executive director leaves employment before the end of the deferral period, unless the executive director leaves due to certain specific reasons as listed in the deferred bonus plan. Settlement amounts are determined on the basis of the fair value of the ordinary shares at settlement date, which is the end of the retention period.

An assessment of performance over the relevant period is used to determine the amount of the deferred performance bonus award to be granted. Unlike performance awards, retention awards generally require the respective executive directors to remain in employment over the vesting period and are not subject to performance conditions after the grant date. The share-based payment is classified as cash-settled since the share-based payment transactions with the employees are settled through a cash payment.

The following is an analysis of the deferred remuneration in the form of share linked instruments awarded to specific executive directors during the financial year.

Group and Bank	2021		2020	
Year ended 31 December	Vested €000	Unvested €000	Vested €000	Unvested €000
Total outstanding deferred remuneration – share-based payments				
At beginning of year	**309**	2,538	**542**	1,550
Awarded throughout the year	**-**	438	**-**	1,650
Vested throughout the year	**1,638**	(1,638)	**-**	-
Paid throughout the year	**(306)**	-	**-**	-
Performance and other adjustments throughout the year	**(134)**	-	**(233)**	(662)
Forfeited throughout the year	**-**	(138)	**-**	-
At end of year	**1,507**	1,200	**309**	2,538

The total expense recognised during the financial year ended 31 December 2021, disclosed in the table above within 'salaries' amounted to €0.2 million (2020: €0.9 million) and the resultant liability as at 31 December 2021, arising from deferred share-based payments and presented in the statement of financial position with 'Accruals and deferred income', amounted to €2.7 million (2020: €2.8 million).

28. Other administrative expenses

Other administrative expenses are analysed as follows:

	Group		Company	
	2021 €000	2020 €000	2021 €000	2020 €000
IT support and telecommunication costs	**6,704**	6,501	**-**	-
Legal and professional expenses	**7,002**	7,271	**7**	7
Regulatory expenses	**7,390**	5,689	**1**	2
Indirect taxation	**4,868**	4,871	**-**	1
Other expenses	**12,436**	6,429	**2**	7
	38,400	30,761	**10**	17

Included in other administrative expenses are fees charged by the Group's independent auditors for the year as follows:

	Group		Company	
	2021 €000	2020 €000	2021 €000	2020 €000
Audit services	**511**	440	**5**	5
Other assurance services	**24**	-	**-**	-
Tax related services	**5**	36	**-**	2
Other non-audit services	**51**	43	**-**	-

Other non-audit services consist of regulatory advisory services in respect of the Group's compliance with elements of the regulatory framework it is exposed to or which the Group will be exposed to in the future. These non-audit services have no linkage whatsoever to the audited financial statements.

29. Change in expected credit losses and other credit impairment charges

	Group	
	2021 €000	2020 €000
Change in expected credit losses		
Loans and advances to customers, including credit-related commitments		
- International Corporate Lending portfolio (including accrued income)	**(35,206)**	33,373
- Dutch Mortgage portfolio	**(13)**	156
- Local Business Lending portfolio	**(307)**	188
- Maltese Mortgage portfolio	**77**	-
Balances with central banks	**-**	1
Investments measured at amortised cost		
- Treasury portfolio	**(107)**	(6)
- Securitisation portfolio	**(11)**	132
Investments measured at fair value through other comprehensive income		
- Treasury portfolio	**(156)**	39
- Securitisation portfolio	**32**	-
Other credit impairment charges		
Amounts written off on loans and advances to customers		
- International Corporate Lending portfolio	**38,017**	31,341
- Local Business Lending portfolio	**-**	29
	2,326	65,253

30. Tax expense

	Group		Company	
	2021 **€000**	2020 €000	**2021** **€000**	2020 €000
Current tax expense				
- current year tax charge	**420**	309	**-**	-
Deferred tax expense (Note 13)				
- current year tax charge	**904**	6,011	**-**	3,426
Income tax charge	**1,324**	6,320	**-**	3,426

The tax recognised in profit or loss on the Group's and the Company's (loss)/profit before tax differs from the theoretical amount that would arise using the applicable tax rate in Malta, which is the Company's country of incorporation, as follows:

	Group		Company	
	2021 **€000**	2020 €000	**2021** **€000**	2020 €000
(Loss)/profit before tax	**(13,883)**	(75,213)	**6**	(17)
Tax at the applicable rate of 35%	**(4,859)**	(26,325)	**2**	(6)
Tax effect of:				
Non-deductible expenses	**50**	25	**4**	6
Unrecognised deferred tax asset movements (Note 13)	**4,851**	30,093	**-**	3,426
Income not subject to tax	**(1,235)**	(295)	**-**	-
Effect of different tax rates in overseas jurisdictions	**2,633**	2,822	**-**	-
Other	**(116)**	-	**(6)**	-
Income tax charge	**1,324**	6,320	**-**	3,426

31. Cash and cash equivalents

Balances of cash and cash equivalents as shown in the statements of cash flows are analysed below:

	Group		Company	
	2021 €000	2020 €000	**2021 €000**	2020 €000
Analysis of cash and cash equivalents:				
Cash in hand	**1**	1	**-**	-
Call deposits	**129,398**	186,765	**102**	646
Target 2 overnight deposits	**302,709**	467,153	**-**	-
Amounts owed to financial institutions with original maturity of less than 3 months	**(273,349)**	(351,737)	**-**	-
Per Statement of cash flows	**158,759**	302,182	**102**	646
Adjustments to reflect:				
Other balances with central banks	**25,916**	23,526	**-**	-
Deposits with original maturity of over 3 months and encumbered deposits	**69,479**	77,010	**-**	-
Amounts owed to financial institutions with original maturity of over 3 months	**-**	(330)	**-**	-
Per Statement of financial position	**254,154**	402,388	**102**	646

		Group		Company	
	Notes	**2021 €000**	2020 €000	**2021 €000**	2020 €000
Analysed as follows:					
Balances with central banks and cash	4	**328,626**	490,680	**-**	-
Loans and advances to financial institutions	6	**198,877**	263,775	**102**	646
Amounts owed to financial institutions	17	**(273,349)**	(352,067)	**-**	-
		254,154	402,388	**102**	646

32. Contingent liabilities

As at 31 December 2021, the Group had cash secured guarantee obligations amounting to €2.4 million (2020: €8.0 million).

33. Commitments to lend

Commitments to lend

Commitments to lend represent undrawn formal standby facilities, credit facilities and other similar commitments to lend. As at 31 December 2021, the Group had undrawn commitments of €208.4 million (2020: €341.4 million) under revolving credit facilities. In addition, lending commitments in relation to the Group's Dutch Mortgage portfolio amounted to €72.1 million (2020: €335.7 million) and Maltese Mortgage portfolio amounted to €37.5 million (2020: nil). As at 31 December 2021, undrawn facilities on corporate term loans of the Group in Malta amounted to €58.3 million (2020: €58.9 million).

Commitments to purchase

As at 31 December 2021, the Group also had commitments to purchase facilities on term loans amounting to €11.0 million (2020: €22.0 million). The commitments as at 31 December 2020 were subject to back-to-back sale agreements with Grand Harbour CLO 2019-1, that was previously managed by MeDirect Malta.

34. Related parties

Immediate and ultimate parent company

The ultimate controlling party of MDB Group Limited is AnaCap Financial Partners II L.P.

The ultimate parent company of the Company is Medifin Investments Limited, a non-cellular company incorporated and registered in Guernsey.

The immediate parent company of the Company is Medifin Finance Limited, a non-cellular company incorporated and registered in Guernsey.

Related parties of the Group and the Company include subsidiaries, the ultimate controlling party, the ultimate parent company, the immediate parent company, all entities controlled by the ultimate parent company, Key Management Personnel, close family members of Key Management Personnel and entities which are controlled or jointly controlled by Key Management Personnel or their close family members.

Transactions with Key Management Personnel

Key Management Personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Group, being the directors of MDB Group Limited, MeDirect Malta and MeDirect Belgium.

Key Management Personnel compensation consisting of directors' remuneration is disclosed in Note 27. The Group also provides non-cash benefits to Key Management Personnel, including gross rent payable on accommodation based in Malta, presented within 'Personnel expenses', and health and life insurance premiums paid by the Group amounting to €0.1 million in the financial year ended 31 December 2021 (2020: €0.1 million), presented within 'Other administrative expenses'.

Related party balances and transactions

During the course of its activities, the Group conducted business on commercial terms with all related parties.

The following table provides the total amount of Group transactions which have been entered into, and Group balances with, related parties of the Group for the relevant financial year:

	Year ended 31 December 2021		As at 31 December 2021		
Related party	Income from related parties €000	Expenses charged by related parties €000	Amounts owed by related parties €000	Amounts owed to related parties €000	Transaction / balance type
Ultimate controlling party	-	189	-	-	Monitoring fees
	-	86	-	-	Interest expense
	-	-	-	921	Debt securities in issue
Ultimate parent company	5	-	-	-	Service charge fees
	-	-	-	912	Other liabilities
Immediate parent company	5	-	-	-	Service charge fees
	-	-	-	234	Interest expense
Key management personnel	1	-	-	-	Interest income
	-	-	-	235	Amounts owed to customers
	-	-	-	25	Subordinated liabilities

	Year ended 31 December 2020		As at 31 December 2020		
Related party	Income from related parties €000	Expenses charged by related parties €000	Amounts owed by related parties €000	Amounts owed to related parties €000	Transaction / balance type
Ultimate controlling party	-	189	-	-	Monitoring fees
Ultimate parent company	48	-	-	-	Interest income
	1	-	-	-	Service charge fees
	-	-	-	594	Other liabilities
Immediate parent company	1	-	-	-	Service charge fees
	-	-	-	282	Other liabilities
Other group companies	64	-	-	-	Service charge fees
	-	4,009	-	-	IT and other support fees
	-	-	9,849	-	Other assets
	-	-	-	1,401	Other liabilities
Key management personnel	1	-	-	-	Interest income
	-	-	-	137	Amounts owed to customers
	-	-	-	25	Subordinated liabilities

The material transactions of the Group with related parties in the financial year ended 31 December 2020 listed in the preceding table were due to the IT and other support fees charged by Medifin Leasing Limited to MeDirect Malta and MeDirect Belgium. The material balances with related parties consisted of the net amounts due by Medifin Leasing Limited in relation to the acquisition of the assets eventually leased to MeDirect Malta and MeDirect Belgium. In this respect, throughout the financial year ended 31 December 2020, there were payments to Medifin Leasing relating to leases treated in accordance with IFRS 16 requirements amounting to €4.2 million as referred to in Note 23.

In view of the acquisition of Medifin Leasing Limited by the Group from Medifin Investments Limited as described in Note 38 to the financial statements, the level of related party transactions and balances of the Group have decreased significantly in 2021.

As regards the Company at 31 December 2021, the amounts receivable from subsidiary companies comprise a callable loan granted by MDB Group Limited to MeDirect Malta with a carrying amount of €10.1 million which is due on 10 February 2031, the terms of which mirror those of the subordinated notes issued by MDB Group Limited on the Global Exchange Market of Euronext Dublin. As a result, the loan bears a fixed interest rate of 9.75% per annum until 10 February 2026 and thereafter will bear interest at a fixed rate which will be set by an Agent Bank on 10 February 2026. The interest income on such amounts receivable in the financial year ended 31 December 2021 and the accrued interest as at 31 December 2021 were equivalent to €1 million. Other amounts receivable from group companies of €0.2 million (2020: nil) and amounts payable to group companies amounting to €0.3 million (2020: €0.6 million) are unsecured, interest free and repayable on demand.

Also a service level agreement is in place between the Company and MeDirect Malta with an annual charge of €5 thousand by MeDirect Malta.

35. Segmental information

The Group engages primarily in the business of lending conducted from Malta and Belgium and has a lending portfolio consisting of international corporate lending, Malta corporate lending and Dutch and Maltese mortgage lending together with the investment in high credit quality collateralised instruments such as covered bonds, guaranteed senior bank debt, sovereign related debt and investment in AAA tranches of securitisation special purpose entities. Revenues secured through the above-mentioned assets are complemented by the revenues generated by the Group on its wealth management business.

The Group's internal management reporting to the Board of Directors and Senior Management, considered the 'chief decision maker', is mainly analysed by jurisdiction. For each jurisdiction, the Senior Management, reviews internal management reports in order to make decisions about allocating resources and assessing performance. Where applicable, such as in the case of international corporate lending, these internal management reports are also supplemented by reports in respect of the Group's revenue streams on a consolidated basis.

Further information about the products and services and geographical areas is set out in Notes 2, 7, 8, 24 and 25 to the financial statements which provide information about the financial risks, credit concentrations by sector and location, together with revenues from the single reportable segment. The investment portfolio is spread across a large number of exposures diversified in government, financial institutions and other corporates.

	Year ended 31 December 2021			Year ended 31 December 2020		
	Malta €000	**Belgium €000**	**Total €000**	Malta €000	Belgium €000	Total €000
Turnover	**49,429**	**36,547**	**85,976**	54,135	33,729	87,864
Interest expense	**(10,929)**	**(16,179)**	**(27,108)**	(12,523)	(16,274)	(28,797)
Fee expense and other losses	**(2,510)**	**(127)**	**(2,637)**	(7,558)	(95)	(7,653)
Change in expected losses and other credit impairment charges						
- International corporate lending	**(669)**	**(2,142)**	**(2,811)**	(49,651)	(15,063)	(64,714)
- Dutch mortgages	**-**	**13**	**13**	-	(156)	(156)
- Malta corporate lending	**307**	**-**	**307**	(217)	-	(217)
- Malta mortgage lending	**(77)**	**-**	**(77)**	-	-	-
- Other	**140**	**102**	**242**	(26)	(140)	(166)
Total change in expected losses and other credit impairment charges	**(299)**	**(2,027)**	**(2,326)**	(49,894)	(15,359)	(65,253)
Depreciation and amortisation	**(4,827)**	**(2,049)**	**(6,876)**	(4,770)	(2,525)	(7,295)
Other operating expenses	**(23,690)**	**(37,222)**	**(60,912)**	(27,813)	(26,266)	(54,079)
Profit/(loss) before tax	**7,174**	**(21,057)**	**(13,883)**	(48,423)	(26,790)	(75,213)
Taxation	**(1,186)**	**(138)**	**(1,324)**	(10,784)	4,464	(6,320)
Profit/(loss) after tax	**5,988**	**(21,195)**	**(15,207)**	(59,207)	(22,326)	(81,533)
Capital expenditure	**3,851**	**602**	**4,453**	3,421	2,122	5,543

	As at 31 December 2021			As at 31 December 2020		
Total assets (€000)	**1,237**	**3,004**	**4,241**	1,754	2,288	4,042
Total liabilities (€000)	**1,161**	**2,844**	**4,005**	1,320	2,467	3,787
Full time equivalent staff (No)	**278**	**59**	**337**	245	47	292

Total assets allocated to Malta include non-current assets held for sale amounting to €1.8 million.

* Turnover is defined as interest income, fee and commission income and other operating income. The turnover allocated to Belgium in the financial year ended 31 December 2021 includes interest charged to MeDirect Malta amounting to €6.5 million (2020: €16.6 million).

The Group carried out its activities in the countries listed above under the name of MeDirect Malta in Malta and MeDirect Belgium in Belgium. Activities in Malta and Belgium include banking and wealth management.

The preceding table also covers the disclosure required by Article 89 of CRD V whereby the Group must disclose information about turnover, number of employees, profit before tax, tax and public subsidies received by country, taking into account all jurisdictions in which it operates. The Group has not received any public subsidies that relate to the Group's activities as a credit institution

The preceding table also covers the disclosure required by Article 89 of CRD V whereby the Group must disclose information about turnover, number of employees, profit before tax, tax and public subsidies received by country, taking into account all jurisdictions in which it operates. The Group has not received any public subsidies that relate to the Group's activities as a credit institution.

36. Investor compensation scheme

In accordance with the provisions of the Investor Compensation Scheme Regulations, 2003, issued under the Maltese Investment Services Act (Cap. 370), licence holders are required to transfer a variable contribution to an Investor Compensation Scheme Reserve and place the equivalent amount with a bank, pledged in favour of the Scheme. Alternatively, licence holders can elect to pay the amount of variable contribution directly to the Scheme. Throughout the financial years ended 31 December 2021 and 2020, MeDirect Malta was not required to pay any variable contribution to the Scheme.

37. Assets held on a nominee basis

As part of its Wealth Management proposition, the Group acts as a nominee holder of financial instruments on behalf of customers under its Category 2 Investment Services licence. Assets held on a nominee basis are not assets of the Group and are not recognised in the statements of financial position. Accordingly, the Group is not exposed to any credit risk relating to such placements, as it does not guarantee these investments.

At 31 December 2021, the total assets held by the Group on behalf of customers amounted to €1,546.4 million (2020: €1,189.8 million).

38. Acquisition of subsidiary

On 4 January 2021, MeDirect Malta acquired all the share capital of Medifin Leasing from the ultimate parent company Medifin Investments Limited, representing 99.9% of the voting rights in Medifin Leasing, after receiving full regulatory approval, with the intention of consolidating the entity within the Group. Medifin Leasing Limited was set up with the object of acquiring immovable or movable property and rights and licences, including in particular software solutions and hardware, which such entity leases to MeDirect Malta and MeDirect Belgium.

MeDirect Malta paid a cash consideration of €0.5 million for this acquisition, which, as denoted in the following table, approximates the recognised fair values of the acquired assets and liabilities assumed as at the date of acquisition.

	€000
Property and equipment	**1,406**
Intangible assets	**6,574**
Trade and other receivables	**2,873**
Cash and cash equivalents	**9**
Deferred tax liability	**(299)**
Borrowings	**(9,835)**
Trade and other payables	**(198)**
Fair value of identifiable net assets acquired	**530**

The fair value of the acquired assets and liabilities assumed as at the date of acquisition have been determined to approximate the carrying amounts as recognised by Medifin Leasing.

In this respect, the Group has determined that Medifin Leasing is considered to be a 'business' in terms of IFRS 3 as it constitutes 'an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing goods or services to customers' and that it consists of inputs and processes applied to those inputs in the creation of outputs, through the provision of the services provided. In addition, paragraph B12A of Amendments to IFRS 3 issued in October 2018 clarifies that if an acquired set of activities and assets was generating revenue at the acquisition date, it is considered to have outputs at that date, even if subsequently it will no longer generate revenue from external customers, for example because it will be integrated by the acquirer, which is not dissimilar to the situation of Medifin Leasing, given that its only customers are MeDirect Malta and MeDirect Belgium.

As a result, the Group determined that Medifin Leasing satisfies the conditions to be considered a business in terms of IFRS 3 and accordingly considers the transaction as a business combination between entities under common control.

In this respect, the Group elected to apply the predecessor method of accounting prospectively, i.e. with effect from the date of gaining control, without restating comparatives, and as a result, Medifin Leasing's balances were incorporated within the Group's consolidated financial statements at acquisition date. Accordingly, the assets and liabilities of Medifin Leasing were stated at carrying values, with no recognition of goodwill. The difference between the consideration and the aggregate carrying value of the assets and liabilities of Medifin Leasing at the date of the transaction, has been reflected in equity within retained earnings.

Similarly, as disclosed in the table below, the difference between the carrying value of the assets and liabilities of Medifin Leasing and of the net carrying value of the Right-of-Use (ROU) assets and corresponding lease liabilities previously recognised within the Group's consolidated financial statements from its lease arrangements with Medifin Leasing, amounting to €3.3 million, has also been reflected as the adjustment to equity within retained earnings.

	€000
Fair value of identifiable net assets acquired (refer to previous table)	530
Net carrying value of the right-of-use assets and corresponding liabilities:	
- Derecognition of right-of-use assets included in Property, plant and equipment (Note 10)	(2,129)
- Derecognition of right-of-use assets included in Intangible assets (Note 11)	(7,835)
- Derecognition of lease liabilities previously recognised (Note 23)	6,955
- Other	244
	(2,765)
Adjustment to equity	3,295

39. Events after the reporting date

Subsequent to the reporting date, an armed conflict between Russia and Ukraine commenced as a result of which economic sanctions were imposed by the EU, the US and other countries on Russia and Belarus as well as a number of Russian and Belarussian individuals. The war and related sanctions are expected to contribute to global economic dislocation, including potentially, disruption of energy supplies, higher inflation and additional credit and market risk.

The Group performed an initial assessment of the effects the current situation may have on its business. This considered impacts on the valuation of its investments that were deemed immaterial, as well as the effect on the Group's processes and on its borrowers' business environment and supply chains. The Group has virtually no direct exposure to assets in Russia, Belarus or Ukraine and concluded that there should not be material effects on the Group or its businesses. The Group will ensure compliance with any applicable sanctions and will continue to follow closely the developing situation and any potential effects on its business, customers and operations.

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

40. Statutory information

MDB Group Limited is a limited liability company and is incorporated in Malta.

The ultimate controlling party of MDB Group Limited is AnaCap Financial Partners II L.P., a limited partnership registered in Guernsey with its registered address at 2nd Floor, Windsor House, Lower Pollet, St Peter Port, Guernsey, GY1 1WF.

The ultimate parent company of MDB Group Limited is Medifin Investments Limited, a non-cellular company, which is incorporated and registered in Guernsey, with its registered address at 2nd Floor, Windsor House, Lower Pollet, St Peter Port, Guernsey, GY1 1WF.

The immediate parent company of MDB Group Limited is Medifin Finance Limited, a non-cellular company, which is incorporated and registered in Guernsey, with its registered address at 2nd Floor, Windsor House, Lower Pollet, St Peter Port, Guernsey, GY1 1WF.

Independent Auditor's Report

Independent auditor's report

To the Shareholders of MDB Group Limited

Report on the audit of the financial statements

Our opinion

In our opinion:

- The Group financial statements and Parent Company financial statements (the "financial statements") give a true and fair view of the Group and the Parent Company's financial position of MDB Group Limited as at 31 December 2021, and of the Group's and the Parent Company's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the EU; and
- The financial statements have been prepared in accordance with the requirements of the Maltese Companies Act (Cap. 386).

What we have audited

MDB Group Limited's financial statements, set out on pages 77 to 265, comprise:

- the Consolidated and Parent Company statements of financial position as at 31 December 2021;
- the Consolidated and Parent Company statements of comprehensive income for the year then ended;
- the Consolidated and Parent Company statements of changes in equity for the year then ended;
- the Consolidated and Parent Company statements of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

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

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

Independence

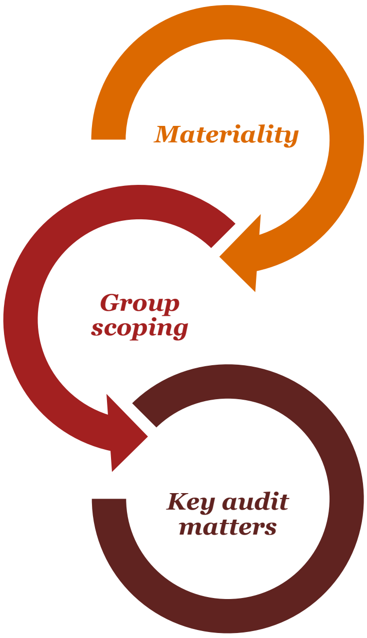
We are independent of the Group and the Parent Company in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code) together with the ethical requirements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

Independent auditor's report - *continued*

To the Shareholders of MDB Group Limited

Our audit approach

Overview



- Overall group materiality: €1,368,000, which represents approximately 5% of absolute three-year/period average profit/loss before tax.

- The audit carried out by the Group engagement team covered the seven components of the Group: the local components as at and for the year ended 31 December 2021 being MDB Group Limited, MeDirect Bank (Malta) plc and Medifin Leasing Limited; Grand Harbour I B.V. ("GH I"), a controlled special purpose entity established to raise funding to cover identified assets; and MeDirect Bank SA, a subsidiary based in Belgium which incorporates Bastion 2020-1 NHG B.V. ("Bastion 2020-1") and Bastion 2021-1 NHG B.V. ("Bastion 2021-1"), two controlled special purpose entities also established to raise funding to cover identified assets..

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

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

Materiality

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

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

Overall group materiality	€1,368,000
How we determined it	Approximately 5% of the absolute three-year/period average profit/loss before tax
Rationale for the materiality benchmark applied	We chose profit/loss before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured by users, and is a generally accepted benchmark. We have applied a three-year/period average to reflect the fluctuations in results in recent years. We chose 5% based on professional judgement, noting that is it also within the range of commonly accepted profit related thresholds.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above €136,000 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Key audit matters

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

Key audit matter	How our audit addressed the Key audit matter
Credit loss allowances in respect of loans and advances to customers of the Group Credit loss allowances in respect of loans and advances to customers represent management's best estimate of expected credit losses ('ECLs') within the loan portfolios at the balance sheet date. The Group has four lending portfolios: • the International Lending portfolio, comprising syndicated senior secured loans to leveraged international large corporates; • the Dutch Mortgage portfolio which comprises national-guaranteed secured residential mortgages offered in the Netherlands; • a Local Lending portfolio predominantly consisting of loans to the real estate activities sector in Malta; and	During our audit of the financial statements for the year ended 31 December 2021, we continued to focus on the key drivers of the estimation of ECL. Apart from assessing the continued appropriateness of management assumptions, we evaluated and tested updates to key parameters and enhancements to the ECL calculation, largely driven by the Covid-19 pandemic. Discussions with the Audit Committee included: • the appropriateness of the staging determined in respect of exposures experiencing credit deterioration during the year as a result of the pandemic, including the stage classification in respect of restructured loans occurring during the year, following an assessment of whether the modification to the contracts was significant or otherwise;

Key audit matter	How our audit addressed the Key audit matter
• a Maltese Residential Mortgage portfolio that has been originated during 2021. The measurement of ECLs in respect of loans and advances to customers, particularly for the International Lending portfolio, requires a considerable level of judgement since the determination of ECLs in respect of this portfolio is subject to a high degree of estimation uncertainty. In this respect, it is considered a key area of focus. The level of estimation uncertainty surrounding the measurement of ECLs in respect of the International Lending portfolio has increased significantly during the preceding financial year due to the outbreak of the Covid-19 pandemic, which has had a severe impact on a significant number of borrowers within this portfolio. This affected a number of components forming part of the ECL calculation, including during the year ended 31 December 2021, ranging from the determination of the stage classification in respect of individual borrowers and the modelling of expected default levels and loss severities, to the determination of forward-looking scenarios during the unprecedented economic conditions being experienced. This resulted in heightened subjectivity requiring a higher level of expert judgement. Credit loss allowances measured in respect of the Dutch Mortgage, Local Lending and Maltese Residential Mortgage portfolios are not considered to be significant for the purposes of our audit. All loans within the Group's International Lending portfolio are considered individually significant. As a result, credit loss allowances relating to all loans and advances within the international portfolio are calculated at an instrument level.	• the reasonableness of management's in-model adjustment to reduce the sensitivity of PiT PDs in respect of international corporate exposures to equity market prices, mainly to contain the pro-cyclical effects from the model's reliance on equity prices of comparable firms; • the reasonableness of forward-looking macroeconomic scenarios applied to the ECL for Stage 1 and 2 exposures in view of management's overlays to align macro-economic projections with the December 2021 ECB staff projections for the euro area; and • impairment allowances in respect of exposures classified as Stage 3. In respect of the Group's ECL models used for estimating credit loss allowances attributable to non-defaulted exposures, the continued appropriateness of the modelling policy and methodology used was independently assessed by reference to the requirements of IFRS 9. In addition, the appropriateness of the key assumptions used in, and the conceptual soundness, of the adapted discounted cash flow model utilised for the estimation of credit loss allowances attributable to defaulted exposures were similarly assessed, particularly the methodology used to determine borrower-specific discount rates applied to forecasted operating cash flows. *ECL calculation for non-defaulted exposures within the International Lending portfolio* We understood and critically assessed the model used by the Group to measure expected credit loss allowances on International Lending portfolio exposures classified within Stages 1 and 2. In this regard, we obtained an understanding of the manner in which the elevated level of economic uncertainty induced by the pandemic was captured and reflected in the model parameters and the algorithmic processes underlying the model, including the model's sensitivity

Key audit matter	How our audit addressed the Key audit matter
Significant judgement is required in the development and / or calibration of the models designed to estimate ECLs on loans measured at amortised cost in accordance with the requirements of IFRS 9, which in the case of the International Lending portfolio has become more pronounced due to the unprecedented economic conditions being experienced and the additional complexities induced in the modelling aspects of the ECL calculation. In general, the Group calculates ECL by using the following key inputs: probability of default (PD), loss given default (LGD) and exposure at default (EAD). The maximum period considered when measuring ECL is the maximum period over which the Group is exposed to credit risk. In this respect, the EAD for exposures within the International Lending portfolio is based on behavioural maturity, largely reflecting management expectations on the exercise of prepayment options driven mainly by the ability of borrowers to refinance their debt obligations. The determination of behavioural maturity in the aftermath of the pandemic requires a significant level of expert judgement since a borrower's refinancing risk is strongly tied to the credit standing of the borrower, which is dependent on an evaluation of the severity of the impact that the pandemic has had on the individual borrower's financial performance and financial condition. Such evaluation considers the expected recovery period by reference to borrower specific information and the industry in which the borrower operates. For non-defaulted (Stages 1 and 2) exposures, the Group uses a model developed by an external vendor in which key risk parameters, including both PDs and LGDs, are estimated using statistical models mainly by benchmarking exposure-specific characteristics against an underlying dataset. Specifically, the PDs and LGDs of the Group's International	to the short-term economic recoveries experienced during 2021 in respect of default levels and loss severities. Accordingly, our audit approach focused specifically on: • obtaining comfort over the accuracy and completeness of model inputs, with the updating process being largely manual; • testing the reasonableness of key parameters driving the measurement of credit loss allowances for such exposures, including the staging logic built into the Group's ECL model, the logic for TTC to PiT conversion and the macroeconomic modelling aspect within the ECL model, especially in view of management's overlays in respect of both the model's TTC to PiT conversion parameters as well as the calibration of forward economic scenarios within the ECL model; • challenging judgemental aspects made by management (such as staging criteria overlays to PDs / implied ratings to ensure the timeliness of the identification of credit deterioration events); and • backtesting the ECL outcome against the Group's historical experience as well as publicly available information on observed default levels in the aftermath of the pandemic and expected default levels in the short-to-medium term. The design and operating effectiveness of certain control activities relevant to the ECL calculation process, specifically in respect of stage classification, were tested. In this respect, we specifically obtained comfort around monitoring of Stage 1 exposures by both the Group's first and second lines of defence through control procedures. We determined that we could rely on such controls for the purpose of our audit. In order to obtain comfort on the credit loss allowances for Stage 1 and 2 exposures within the International Lending portfolio, which is vendor model driven, we carried out the following substantive procedures:

Key audit matter	How our audit addressed the Key audit matter

Lending portfolio are determined on a name by name basis by reference to the default and loss history of comparable borrowers with similar characteristics in terms of size, industry, country of operation and the financial soundness of the borrower.
 	
The Group's ECL model estimates Through-The-Cycle (TTC) PDs at a borrower level based on quantitative (financial statement information) and qualitative (borrower characteristics such as management's ability to create realistic budgets through a comparison of actual to budgeted performance) model inputs, benchmarking these model inputs against those of peers with similar credit risk characteristics and operating in the same industry. TTC PDs are then adjusted using a macroeconomic modelling tool to first reflect current macroeconomic conditions (unconditional Point-in-Time or PiT PD) and then to simulate the PD under multiple macroeconomic forecasts developed by the external vendor (conditional PiT PD).
 	
On the other hand, the LGD is estimated at a facility level to reflect the effect of relative seniority of facilities on expected losses. Similar to PDs, the Group's ECL model estimates the LGD by benchmarking facility-specific model inputs against observed losses for facilities which are similar in nature. In this respect, the model takes into consideration both quantitative and qualitative aspects when developing LGDs. The quantitative aspect is principally driven by the nature of the exposure (term vs. revolver), the relative ranking of the facility in the borrower's capital structure, the country and industry in which the borrower operates, together with the borrower-specific PD. The qualitative aspect, in turn,
	• Tested the completeness and accuracy of the model data inputs used for the purposes of the period end ECL calculation against source data. This included testing of financial statement inputs, qualitative inputs (such as covenant breaches), as well as instrument-specific inputs (such as nature of loan, exposure amount, effective interest rate).
	
	• Performed backtesting to obtain comfort on key variables / parameters such as:
	  ○ Expected maturities – assessed the historical accuracy of management predictions of expected maturities compared to actual maturities and challenged the expected maturities determined by management on an individual basis in respect of Stage 2 exposures captured in our sample for the purposes of credit file reviews, after considering the information available to us in respect of the impact of the pandemic at a borrower level.
	  ○ PDs – assessed the reasonableness of PDs through a comparison of predicted default rates with a) actual defaults observed during the financial year ended 31 December 2021, and b) expected default rate forecasts estimated by an external vendor in the aftermath of the pandemic; and assessed observed trends in movements in PiT PDs across countries; and
	  ○ LGDs – benchmarked the LGDs estimated by the model in the preceding financial year with the Group's loss experience on defaulted exposures during 2021.
	
	• Evaluated the continuing appropriateness of the model calibration of TTC PDs produced by the model.
	
	• Assessed the appropriateness of the Group's SICR criteria used for downgrading exposures to Stage 2, including quantitative SICR staging criteria used in the model. We performed procedures to

Key audit matter	How our audit addressed the Key audit matter
differentiates between exposures in terms of the borrower's covenant violation history as well as the relative creditor friendliness across legal jurisdictions. In the determination of unconditional PiT PDs the ECL model relies significantly on the market equity value of comparable firms and the related volatility in equity prices, amongst other factors. In view of the fact that equity prices are not fully reflective of the credit risk implied within the Group's International Lending portfolio, and in order to take into consideration regulatory guidance to banks to avoid making excessively procyclical assumptions in the determination of ECLs, senior management refined a volatility adjustment parameter within its ECL model to align PiT PDs currently emanating from the model closer to TTC PDs. The same macroeconomic modelling elements used to transform TTC PDs to PiT PDs are then used to convert the TTC LGDs to conditional PiT LGDs. In this regard, macroeconomic conditioning is applied to the LGD term structure through a modelled correlation between PD and LGD term structures. Since the outbreak of the pandemic, uncertainty has manifested itself mostly through the level of subjectivity and expert judgement required to develop macroeconomic forecasts to capture the potential movement in default levels and loss severities under multiple forward-looking scenarios. In this respect, the unprecedented economic conditions currently being experienced induce additional elements of complexity in determining the severity and likelihood of macroeconomic forecasts used in the Group's ECL calculation across different countries and the extent to which these potential scenarios will impact PiT PD and LGD parameters. At the same time, senior management concluded that there is reduced	obtain comfort on the manual model overrides through examination of related factual information and circumstances attributable to a risk-based sample of exposures. • Tested the application of the in-model volatility adjustment parameter within the ECL model for the International Lending portfolio to contain its sensitivity to equity market prices. • Assessed the reasonableness of the movements in credit loss allowances for Stage 1 and 2 exposures during the year to ensure that these were in line with expectations. • Tested the multiple macroeconomic scenarios and variables to assess their reasonableness. Specifically, we challenged the reasonableness of the severity of the multiple forward-looking macroeconomic scenarios used in the ECL calculation in light of the impact of the pandemic across economies, as well as the appropriateness of the assigned probability weightings, particularly in view of management's decision to align the scenarios with the December 2021 ECB staff macroeconomic projections for the euro area. Based on the evidence obtained, we found the model assumptions, data used within the model, the model staging overrides and the ECL calculation logic to be reasonable. Meanwhile, we formed a different view from that of management on the manner in which the probability weights were assigned to the scenarios in order to align them with the December 2021 ECB staff macroeconomic projections for the euro area, but in our view the estimated ECLs, post impacts of these changes, were within a reasonable range of outcomes. In respect of staging classification of exposures within the International Lending portfolio, principally in relation to Stage 2 and Stage 3 categorisation, we reviewed the internal processes for identifying Unlikeliness-to-Pay (UTP) trigger events used to classify exposures into Stage 3 and also performed a credit file review for a sample of Stage 2 exposures to

Key audit matter	How our audit addressed the Key audit matter
uncertainty around the macroeconomic environment and the path of economic recovery, and as a result aligned the Group's forward looking scenarios for the Eurozone with those of the December 2021 ECB staff macroeconomic projections for the euro area. Additionally, senior management concluded that such conservatism in the forward looking scenarios provided by the ECL model external vendor is likely to be present across all jurisdictions and not limited solely to the euro area. In this respect, senior management has overridden the standard calibration parameters within the ECL vendor model for the International Lending portfolio in relation to severity of scenarios and the respective probability weights assigned to these scenarios. Staging is determined based on a combination of quantitative and qualitative criteria. Quantitative criteria are based on a comparison of model-calculated PDs/implied ratings as at reporting date with the calculated PDs/implied ratings on origination. During the financial year ended 31 December 2020, in the context of the speed at which the pandemic has impacted borrowers, the effectiveness of the quantitative staging criteria displayed signs of limitations. This was mainly attributable to the fact that quantitative staging is driven by changes in PDs / implied ratings, which are primarily determined by reference to historical information, typically, borrower-specific audited financial information, and to forwarding looking macroeconomic scenarios specific to the industry and country in which borrowers operate. These model limitations were addressed through the use of overlays targeted towards ensuring that the modelled PDs / implied ratings adequately captured the risks experienced by borrowers following the outbreak of the pandemic.	ensure that these are appropriately classified as non-defaulted exposures. In particular, we obtained a detailed understanding of the potential impact that the pandemic may have on borrowers' financial performance and financial condition, including the impact on the industry and country in which these borrowers operate, and formed our views as to whether financial difficulties are likely to be temporary or permanent. Similarly, a credit file review was also performed in respect of a risk-based sample of exposures classified as Stage 1 exposures to form an independent view as to whether a SICR since initial recognition has been experienced, thereby ensuring that these are appropriately classified as Stage 1 exposures. In this regard, our audit procedures provided us with sufficient comfort on the appropriateness of the Group's exposure staging classification. *ECL calculation for defaulted exposures within the International lending portfolio* For Stage 3 exposures within the International Lending portfolio, the appropriateness of provisioning methodologies and policies was independently assessed. A substantive testing approach has been adopted in this respect. For Stage 3 loans, we performed tests of detail to review and challenge the Group's estimate of credit loss allowances, in light of the latest developments at the level of the borrower, together with the appropriateness of key parameters used. We also considered whether key judgements were appropriate given the borrowers' circumstances. An independent view was formed on the level of credit loss allowances recorded based on the detailed loan and customer information available. In particular, we formed our view on key inputs to the ECL calculation including: • the expected operating cash flows under multiple scenarios, taking into

Key audit matter	How our audit addressed the Key audit matter
During the current financial year, the borrower-specific audited financial information reflective of the performance of borrowers following the outbreak of the pandemic was obtained in the normal course of business. However, the Group effected certain adjustments to the implied ratings assigned to specific borrowers within the International Lending portfolio, particularly in respect of those that have undergone significant restructuring, to reflect an increased level of credit risk since origination. For borrowers that would have undergone re-structuring, judgement is also required to determine whether a substantial modification to the original loan terms has occurred, and if so, to determine whether the new loans should be classified as purchased or originated credit-impaired (POCI) or alternatively as Stage 1 exposures. Qualitative criteria for staging purposes are based on aspects such as the regular monitoring of the financial performance of borrowers against forecasts, compliance with covenants, as well as strategic developments affecting the borrowers' future repayment abilities. In this regard, the Group applies a set of Significant Increase in Credit Risk (SICR) and Unlikeliness-to-Pay (UTP) criteria in order to determine staging on a qualitative basis, which require a significant element of judgement. For those loans which are classified as Stage 3 (defaulted) exposures, judgement is required to estimate the expected future cash flows related to that loan. In this regard, the ECL calculation for defaulted exposures is manually driven, based on an internally developed discounted cash flow methodology. The measurement of ECLs for Stage 3 exposures is therefore dependent on parameters and assumptions including the	consideration the developments resulting from the outbreak of the pandemic in respect of borrower-specific financial performance, and the potential impact that it may have on these borrowers' financial condition and on the industry and country in which the borrowers operate over the short-to-medium term; and • the discount rate used to determine the present value of discounted cash flows. We engaged our valuation experts to review and critique the discount rates applied by management. In fact, our valuation experts performed procedures to provide comfort on the reasonableness and appropriateness of discount rates used by the Group to estimate the respective borrower's enterprise value. During the financial year ended 31 December 2021, further debt restructuring transactions were negotiated in respect of borrowers experiencing financial difficulties, mostly triggered by the outbreak of the pandemic. In this regard, we: • reviewed the renegotiated contractual agreements in order to understand the underlying facts and circumstances of the debt restructuring; • performed an assessment in order to determine whether substantial modifications were effected to contractual terms as a result of the debt restructuring, which would require the derecognition of the old financial instrument(s) and the recognition of the new financial instrument(s); • performed a credit file review in respect of each borrower subject to restructuring at that point, in order to determine the appropriateness of the staging classification where derecognition criteria were met (either Stage 1 or Purchased or Originated Credit Impaired (POCI)); and • assessed the appropriateness of estimated credit loss allowances in respect of debt that was restructured where derecognition criteria were not met, with the debt retaining Stage 3 classification.

Key audit matter	How our audit addressed the Key audit matter
estimation of borrowers' operating cash flows under multiple scenarios, the determination of borrower-specific discount rates, and the probability weighting assigned to each scenario. Depending on particular circumstances of the borrower in question, the Group typically develops scenarios to reflect the borrower's financial performance under different growth assumptions taking into consideration different paths towards economic recovery from the impact of the Covid-19 pandemic. The outbreak of the pandemic has exacerbated the estimation risk involved in both forecasting operating cash flows under different scenarios as well as in determining the rates at which such cash flows should be discounted. In view of the above, the risk of misstatement in the estimation of ECLs in respect of the International Lending portfolio, which is subjective in nature and inherently judgemental in respect of both timing of recognition of impairment and the estimation of the size of any such impairment, remains high in the aftermath of the pandemic. Hence, the Group's application of the IFRS 9 impairment requirements in respect of this portfolio is deemed to be an area of focus. Accordingly, summarising the key areas relevant to the Group's measurement of ECLs, especially in view of the pandemic, would include: • Allocation of international corporate loans to stage 1, 2, or 3 using criteria in accordance with IFRS 9; • Accounting interpretations and modelling assumptions used to build the models that calculate the ECL; • Completeness and accuracy of data used to calculate the ECL;	Based on the evidence obtained, we formed a different view from that of management on the level of credit loss allowances recorded by management in respect of a limited number of exposures, but in our view the differences were within a reasonable range of outcomes.

Key audit matter	How our audit addressed the Key audit matter
• Inputs and assumptions used to estimate the impact of multiple macroeconomic scenarios; • Measurements of individually assessed provisions including the assessment of multiple scenarios; and • The appropriateness of overlays. Relevant references in the Annual Report and Financial Statements: • Accounting policy: Note 1.5; • Credit risk: Note 2.2; • Accounting estimates and judgements: Note 3.3; • Note on Loans and advances to customers: Note 7; and • Note on Change in expected credit losses and other credit impairment charges: Note 29.	
Recognition of interest income on loans and advances utilising the effective interest rate method Interest income on loans and advances to customers is recognised using the effective interest rate method. Measuring interest income on loans and advances to customers under the effective interest rate method requires management to apply judgement, particularly in the case of the Group's senior secured loans to international borrowers, constituting the International Lending portfolio. A model is utilised by the Group to compute the impact of application of the effective interest rate method on an individual loan basis, by discounting estimated future cash flows through the expected life of the instrument to the net carrying amount, including all fees paid or received that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. A key judgement in respect of the	Our audit procedures in respect of the application of the effective interest rate method to loans and advances within the International Lending portfolio, in particular relating to the assumptions on loan expected lives and to the determination of which fees are considered to form an integral part of the effective interest rate, included the following: • We assessed the historical accuracy of management predictions of expected maturities by comparing with actual maturities. • We challenged the expected maturities determined by management in respect of Stage 2 exposures, which were deemed to be subject to higher levels of judgement due to the SICR of the borrower in comparison to Stage 1 exposures, captured within our sample for the purposes of the credit file reviews, taking into consideration all available information in relation to the impact of the pandemic on the borrowers' financial condition and the resulting effect on the borrowers' repayment capacity.

Key audit matter	How our audit addressed the Key audit matter
application of the effective interest rate method to the International Lending portfolio is the assumed expected life for the loans, effectively determining the period over which interest income is recognised utilising the effective interest rate method, and accordingly determining the pattern of recognition of income throughout different accounting periods. The determination as to which fees are considered an integral part of the effective interest rate and hence included within the effective interest rate calculations is also judgemental for the International Lending portfolio. Management determines an assumed expected life for each individual loan within its International Lending portfolio. The sensitivity to a change in assumed expected life can vary significantly between different loans, depending on the characteristics, terms and conditions of the underlying lending transaction and parameters included within the respective effective interest rate calculation such as fee income and discounts or premiums identified at inception. The Group has historical experience in respect of the International Lending portfolio, for the purposes of supporting the expected life assumption applied to each loan. Consequently, the Group determines loan expected life assumptions on the basis of its forecasting process, which takes into account historical data but also the Group's expertise and experience in this specialised lending sector. Any changes in the expected loan life assumptions are based on management's assessment of emerging market trends (for instance changes in market interest rates and the ability of the borrower to re-finance in the circumstances) and borrower specific information that indicates changes to	• We assessed the accuracy of the model used for the recognition of interest income and for the measurement of loans and receivables at amortised cost using the effective interest rate method by re- performing a sample of effective interest rate calculations at individual loan level. Our audit procedures comprised performing tests of detail on the selected sample of lending arrangements by agreeing transaction details within the respective model to loan agreements and other supporting documentation • We ensured that the changes to expected maturity are appropriately reflected within the amortisation computation applied to loans by performing tests of detail on a selected sample of lending arrangements with revised expected maturity. We inspected the assessment and approval of the modification and ensured that the loan accounting system was updated accordingly. • We assessed the accuracy of the modification gain or loss recognised in profit or loss which resulted from the changes in assumed expected lives by re-performing a sample of modification gain or loss recomputations. Our audit procedures comprised recalculating the present value of the modified cash flows, discounted at the loan's original effective interest rate, and comparing the recomputed carrying amount with the actual carrying amount as at modification date. We also typically assess whether all the appropriate fees for a selected sample of loans are reflected within the effective interest rate calculations based on the requirements within the relevant accounting pronouncements. However, this procedure was not performed in respect of the year ended 31 December 2021, given the limited origination of loans during the year and accordingly the immateriality of fees upon origination. Based on the results of our audit procedures we concluded that the assumptions used by management

Key audit matter	How our audit addressed the Key audit matter
repayment profiles and the extent of such changes. In this respect, the outbreak of the Covid-19 pandemic elevated the estimation uncertainty surrounding the determination of expected maturities, requiring an assessment of the borrowers' repayment capacity by reference to: • the severity of the impact of the pandemic on the borrower's financial performance and financial condition; • the general economic impact of the pandemic on the industry in which the borrower operates; and • the efficacy and effectiveness of government support schemes and regulatory relief measures in shortening the expected duration of the recovery period. Relevant references in the Annual Report and Financial Statements: • Accounting policy: Note 1.5; and • Accounting estimates and judgements: Note 3.2.	were reasonable and that the model gives rise to accurate calculations.

How we tailored our group audit scope

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

The Group is composed of seven components: MDB Group Limited (the parent company), its financially significant subsidiaries MeDirect Bank (Malta) plc and MeDirect Bank SA, together with Grand Harbour I B.V. ('GH I'), Bastion 2020-1 NHG B.V. ('Bastion 2020-1') and Bastion 2021-1 NHG B.V. ('Bastion 2021-1'), which are controlled special purpose entities established to raise funding to cover identified assets, as well as Medifin Leasing Limited.

MeDirect Bank (Malta) plc has retained substantially all risks and rewards pertaining to the activities of GH I, while MeDirect Bank SA has retained substantially all risks and rewards pertaining to the activities of Bastion 2020-1 and Bastion 2021-1. Hence, all assets, liabilities and related income and expenditure related to these special purpose entities have been reflected within the stand-alone financial statements of MeDirect Bank (Malta) plc and MeDirect Bank SA respectively.

The audit team of the Group performed all the work implied in a full scope audit on MDB Group Limited, MeDirect Bank (Malta) plc and Medifin Leasing Limited. In relation to MeDirect Bank SA, we received reporting from PwC Brussels office on limited scope procedures in respect of specific balances and transactions that are managed directly in Belgium, including specific balances and transactions of Bastion 2020-1 and Bastion 2021-1. MeDirect Bank SA has retained substantially all risks and rewards pertaining to the activities of Bastion 2020-1 and Bastion 2021-1 and hence pertaining to assets, liabilities, income and expenditure attributable to these two controlled special purpose entities, and as such, all assets, liabilities and related income and expenditure have been reflected within the MeDirect Bank SA's stand-alone financial statements. A full scope audit was carried out in respect of this entity.

These procedures are performed by applying the overall materiality at the level of the Group's consolidated financial statements, together with additional procedures performed on the consolidation. This gave us sufficient appropriate audit evidence for our opinion on the Group financial statements as a whole.

Other information

The directors are responsible for the other information. The other information comprises all of the information presented in the *Annual Report and Financial Statements 2021* (but does not include the financial statements and our auditor's report thereon).

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

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

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

Independent auditor's report - continued

To the Shareholders of MDB Group Limited

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

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Parent Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's or the Parent Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's and the Parent Company's ability to continue as a going concern. In particular, it is difficult to evaluate all of the potential implications that COVID-19 will have on the Group's and the Parent Company's operations, assets and liabilities, and the disruption to its business and the overall economy.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Independent auditor's report - *continued*

To the Shareholders of MDB Group Limited

Report on other legal and regulatory requirements

The *Annual Report and Financial Statements 2021* contains other areas required by legislation or regulation on which we are required to report. The Directors are responsible for these other areas.

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

Area of the *Annual Report and Financial Statements 2021* and the related Directors' responsibilities	**Our responsibilities**	**Our reporting**
Directors' report (on pages 13 to 24) The Maltese Companies Act (Cap. 386) requires the directors to prepare a Directors' report, which includes the contents required by Article 177 of the Act and the Sixth Schedule to the Act.	We are required to consider whether the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements. We are also required to express an opinion as to whether the Directors' report has been prepared in accordance with the applicable legal requirements. In addition, we are required to state whether, in the light of the knowledge and understanding of the Company and its environment obtained in the course of our audit, we have identified any material misstatements in the Directors' report, and if so to give an indication of the nature of any such misstatements.	In our opinion: • the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and • the Directors' report has been prepared in accordance with the Maltese Companies Act (Cap. 386). We have nothing to report to you in respect of the other responsibilities, as explicitly stated within the *Other information* section.
	Other matters on which we are required to report by exception We also have responsibilities under the Maltese Companies Act (Cap.	We have nothing to report to you in respect of these responsibilities.

Independent auditor's report - *continued*

To the Shareholders of MDB Group Limited

***Area of the Annual Report and Financial Statements 2021* and the related Directors' responsibilities**	**Our responsibilities**	**Our reporting**
	386) to report to you if, in our opinion: • adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us. • the financial statements are not in agreement with the accounting records and returns. • we have not received all the information and explanations which, to the best of our knowledge and belief, we require for our audit.	

Other matter – use of this report

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

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Fabio Axisa
Partner

7 April 2022