medirect

MDB Group Limited

Annual Report and Financial Statements

2023

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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 2023.[1] These results reflect the consolidated position of the Company and its principal subsidiaries.[2]

Chair and CEO introduction

2023 was a year of consolidation and continued profitability for MeDirect. The Group consolidated the gains delivered through the successful execution of its business transformation, which enabled it to return to profitability following the extreme disruptions caused by the COVID-19 pandemic.

MeDirect recorded profit after tax of €11.9 million in 2023, by focusing on delivering sustainable growth and taking advantage of a synergistic model which combines diversified retail lending, a highly attractive digital wealth platform, cutting-edge proprietary technology and careful risk management.

MeDirect further strengthened its position in its core Belgian and Maltese markets as a profitable pan-European digital bank with a highly scalable platform and infrastructure designed to enable it to deliver increased profitability.

Delivering structural profitability organically

Notwithstanding the large COVID-19-related credit impairments incurred in 2020, MeDirect was able to grow its operating income at a 20% constant annual growth rate from 2020 to 2023, while successfully reshaping its operating model, investing selectively in technology to create scalability and returning to structural profitability.

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

2 Consisting of MeDirect Bank (Malta) plc ("MeDirect Malta"), MeDirect Bank SA ("MeDirect Belgium"), MeDirect Tech Limited (formerly Medifin Leasing Limited), all entities where MeDirect Malta and MeDirect Belgium retained all the underlying risks and rewards consisting of Grand Harbour I B.V. (currently in liquidation), Bastion 2020-1 NHG B.V., Bastion 2021-1 NHG B.V. and Bastion 2022-1 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.

MeDirect's Tier 1 Capital Ratio was also strengthened from 14.8% in 2020 to 16.7% in 2023 without additional external capital (refer to the MeDirect Business Transformation 2020-2023 section in this chapter).

Thanks to the careful implementation of its strategic roadmap, MeDirect doubled its profit before impairment and tax to €15.3 million in 2023, compared with €7.1 million for 2022.

MeDirect continued to grow its balance sheet at a controlled pace during 2023 (an increase of 7% to €5.0 billion), while continuing to de-risk, with the International Corporate Lending ("ICL") portfolio reduced to €328.5 million at 31 December 2023. The ICL portfolio now represents less than 7% of the Group's total assets and 12% of its lending book.

During the same period, MeDirect's mortgage portfolio increased by a healthy 22% at Group level, from €2.0 billion to almost €2.5 billion, leveraging on diversified origination engines: Dutch government guaranteed (NHG) mortgages, Dutch professional buy-to-let mortgages, Belgian mortgages and Maltese mortgages.

MeDirect Malta also developed its domestic corporate services and lending platform, that has supported the Maltese economy, with a loan book reaching €140 million and an average loan-to-value of 54% as at December 2023. For all categories of lending, MeDirect applies a robust risk selection process which has resulted in high-quality portfolios with low arrears and defaults.

As a systemic bank in Malta, MeDirect is regulated by the European Central Bank as part of the Single Supervisory Mechanism. Being part of the Single Supervisory Mechanism ensures that MeDirect is regulated at the standard of the largest banks in Europe. MeDirect continues to operate with adequate capital ratios, even while growing its balance sheet to build sustainable net interest income and investing in its wealth platform to generate further fee income. At year-end, MeDirect's Total Capital Ratio stood at 20.3%, and its Liquidity Coverage Ratio stood at 209%. Such ratios exceed all regulatory requirements, recommendations and management buffers.

Growing the customer franchise steadily with an attractive value proposition

MeDirect increased its retail customer base by 23% at Group level in 2023, acquiring 27,000 new customers for a total of 133,000 at year-end. Client acquisition was particularly strong in the larger Belgian market, where MeDirect Belgium reached the 100,000 clients mark in December 2023. MeDirect Malta reached the 30,000 clients mark and opened a new location for growth by establishing a Dutch cross-border presence, targeting retail customers in May 2023.

Retail clients continued to use MeDirect as a one-stop shop digital platform for everyday banking, savings and wealth solutions, ranging from brokerage to model portfolios and discretionary management. Wealth product penetration of the total retail customer base was 33%, increasing to close to 50% for customers who have been with MeDirect for three years or more. This platform – and in particular the MeDirect Wealth SuperApp – is designed to meet the needs of the underserved affluent market segment for wealth services.

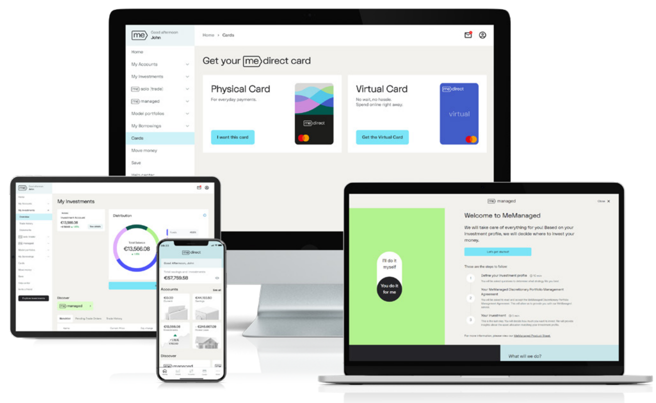
Customers who join MeDirect are extremely loyal – 94% of customers who opened an account five years ago remain customers of the Group. The high quality of MeDirect service is reflected by strong levels of customer satisfaction – a high Net Promoter Score (NPS) of 47 and call centre satisfaction of 87% by the end of 2023.

Group client financial assets (retail + corporate) increased by approximately 18% in 2023, reaching €5.0 billion at year end, of which €1.7 billion were assets under custody with MeDirect, an increase of 18% from year-end 2022.

Launching new services and transforming into a fully-fledged digital bank

MeDirect continued to broaden its retail product suite, further establishing itself as a modern digital bank offering clients an attractive alternative to incumbent banks, with superior user experience, high quality of service and competitive pricing.

In July 2023, MeDirect launched card services in Malta. This new product enhanced MeDirect's appeal in the retail sector, broadening significantly its pool of potential customers. MeDirect has integrated both physical and virtual card services into its platform and regularly rolls out additional features to enhance the online card management experience. This product was also launched in Belgium in January 2024.



MeManaged, MeDirect's digital discretionary portfolio management service, originally launched in Malta in 2022, was extended to Belgium and the Netherlands during 2023. The launch of MeManaged marked an important step in democratising wealth management by providing discretionary management services previously limited to high-net-worth individuals to a wider range of customers.

In Malta, MeDirect broadened its mortgage offering to add property investment loans as well as an 18-month interest only feature. As a competitive advantage, MeDirect continued to reduce the time required to issue sanction letters and to complete home loan contracts. MeDirect is working to provide a smooth, digital, client-focused and fast process for all stages in the mortgage process.

Leveraging on a state-of-the art proprietary technology platform to support scalability

Over the last four years, MeDirect successfully built a cutting-edge proprietary technology platform which is today at the core its competitive advantage. This platform allows MeDirect to innovate continuously, scale at low marginal cost and deliver highly reliable services across products and geographies, while reducing third-party vendor dependency.

MeDirect's Technology team, with approximately 125 engineers based mostly in Malta, developed a high quality software code repository (with over 30 million lines of code, the intellectual property rights of which are owned by MeDirect) and maintains a complex ecosystem deployed flexibly in multiple locations.

This platform has allowed MeDirect not only to operate with contained and stable technology costs since 2020 but also to fuel agile product innovation, process efficiency improvement and robust control and risk management systems.

The Group's cost-to-income ratio, which was very negatively affected by the loss of revenues resulting from the ICL de-risking strategy, improved to 83% in 2023. This improvement in operational efficiency was achieved through top-line revenue growth (20% operating income CAGR) but also with fixed OpEx held substantially flat during the period 2020-2023. Appropriate technology investments, together with focus on cost control, have been major drivers behind such improvement.

ESG and Social responsibility

MeDirect has continued to integrate Environmental, Social and Governance ("ESG") principles into its business and to raise ESG awareness throughout the organisation. During 2023, MeDirect increased its offering of green funds and green bonds, more than doubled the number of eco-friendly mortgage loans since 2022 and initiated a project to reduce its carbon footprint by 5% between 2022 and 2026 and to become carbon neutral by 2032. MeDirect continued to improve its EcoVadis rating, retaining its silver medal status in 2023 and placing MeDirect in the top 7% of corporates evaluated by EcoVadis.

In 2023, MeDirect had employees from over 30 nationalities, with 61% of the workforce being male and 39% female. MeDirect Malta was re-certified in June 2023 and granted again the Equality Mark by the National Commission for the Promotion of Equality. MeDirect prides itself on developing its employees and promoting from within. 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

In 2023, MeDirect consolidated the gains made over the previous three years as it continued to execute its business transformation and delivered stable profitability. Notwithstanding the scalability of the platform, careful consideration was given to balancing the speed of growth with selective investments, prudent risk management and organic capital creation goals, in an environment that remains extremely volatile.

Both management and the Board remain committed to continue growing MeDirect profitably, with the ambition of disrupting the markets in which it operates, while delivering on its brand promise of "helping consumers grow their wealth with confidence and autonomy".

MeDirect is committed to exploring further ways to reinforce its capital base and facilitate shareholder transition, which would enable MeDirect to accelerate the growth of its platform.

Board of Directors

According to the Bank's Articles of Association, at every annual general meeting of the Bank all the directors shall retire from office and shall be eligible for re-election.

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

Mr. Michael Bussey – Chair – appointed on 20 February 2017
Mr. Arnaud Denis – Chief Executive Officer – appointed on 15 October 2019
Mr. Philip English – appointed on 21 August 2023
Mrs. Lisa Fergus – appointed on 14 December 2023
Mr. Jamal Ismayilov - resigned on 2 November 2023
Mr. Radoslaw Ksiezopolski – appointed on 10 October 2019
Mrs. Dina Quraishi – appointed on 6 July 2023
Mr. John Zarb – appointed on 12 July 2017

Focus on financial key performance indicators

The evaluation of management's implementation of MeDirect's corporate and financial strategy is based on the use of key performance indicators ("KPIs"). 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 and monthly management reports. In addition, the Group's management and Board evaluate non-financial metrics such as customer satisfaction, employee engagement and sustainability.

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

Key performance indicators	**2023**	**2022**
Business performance management		
Annualised return on equity	**4.7%**	3.7%
Overall net interest margin	**1.8%**	1.4%
Capital management		
Common Equity Tier 1 ("CET 1") Ratio	**16.7%**	15.2%
Leverage Ratio	**4.4%**	4.7%
Solvency management		
Liquidity Coverage Ratio ("LCR")	**209%**	221%
Net Stable Funding Ratio ("NSFR")	**126%**	119%
Credit management		
Non-Performing Loans Ratio	**2.5%**	2.2%

Dividends and reserves

The retained earnings of the Group amounted to €51.9 million (2022: €36.7 million) and of the Company amounted to €49.6 million (2022: €34.3 million). After consideration of the financial results of the Group, the Directors of the Company do not recommend the payment of a final dividend. The Board has determined that the Group should conserve its capital to maximise its ability to support its customers, to continue to strengthen its balance sheet and to invest selectively in its Wealth platform.

Confirmation of MeDirect's going concern assessment

MeDirect remains well positioned to achieve further business growth whilst remaining adequately capitalised, with the Total Capital Ratio at 20.3% compared to the total SREP[1] capital requirement of 11% and soundly funded with access to the required levels of liquidity with the Liquidity Coverage Ratio being more than two times the minimum requirement.

After due consideration of MeDirect's business, profitability projections, funding and capital plans, robust risk and internal control processes and taking into account the broader macroeconomic outlook, the Directors declare that MeDirect is in a position to continue operating as a going concern for the foreseeable future.[2] 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.

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. MeDirect's risk management approach focuses on ensuring continued financial soundness and safeguarding the interests of its stakeholders while retaining the ability to pursue value-creating business opportunities in a fast-changing environment. This is achieved through high standards of corporate governance and sound risk management principles.

MeDirect has a well-established risk governance structure, with an active and engaged Board of Directors supported by an experienced senior management team and a centralised risk management function that is independent of the business lines. Decision making is primarily conducted through the Board of Directors with oversight from a Board level Risk Management Committee and delegated authority within Executive level Committees. The responsibilities of the Group's Risk Management Team are to protect and enable the Group to deliver sustainable income through facilitating and monitoring the implementation of effective risk management practices and assisting risk owners in defining and controlling risk exposures.

The Group has established a comprehensive and robust risk management framework which sets forth the steps necessary to assess, manage, monitor and report current and emerging risks, whilst continually seeking to improve and evolve its risk management practices to ensure that it can proactively manage its risk environment.

MeDirect has designed its risk management framework to support and enable its transformation strategy. This risk management framework ensures that new and proposed business lines, areas of growth, changes in technology and management decisions are well governed and sustainable.

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1 Supervisory Review and Evaluation Process

2 Statement pursuant to MFSA Capital Market Rule 5.62.

Risks are monitored through regular and timely risk reporting, 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 policies, management authorities and limits across the Group. 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.

In addition, all critical risk appetite limits are subjected to stress testing analysis at a risk type and portfolio level to ensure MeDirect remains financially healthy during and after severe risk events. Stress testing is an important part of the Group's risk management framework and addresses a range of idiosyncratic and market-wide scenarios. The results from stress testing allow senior management to assess any potential vulnerability to exceptional but plausible adverse events. Stress testing enables MeDirect to assess its capital adequacy and liquidity risks and to identify potentially risky segments in its business model as well as inherent systematic risks. This enables the Group to develop appropriate risk controls, contingency plans and mitigating actions to address relevant risks before adverse events occur.

MeDirect's Board regularly discuss and monitor any threats or emerging risks which could potentially have an adverse effect on the operations or financial condition of the Group, including maintaining an adequate and diversified funding base; interest rate hedging aimed at protecting its balance sheet; continuing reduction of credit risk and diversification of the balance sheet into lower-risk mortgage assets; and robust operational risk controls, particularly in view of the Group's increasing reliance on technology to improve the efficiency of its operations.

Related parties

During the year ended 31 December 2023, other than the transactions described under note 34 to the financial statements, there were no material changes in related party transactions as compared with those detailed in the financial statements for the year ended 31 December 2022. In addition, no related party transactions materially affected the financial position or liquidity of MeDirect.

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.[1]

Events after the reporting date

There were no events after the reporting date that would have a material effect on the financial statements of the Company or the Group.

Pillar 3 disclosures

MeDirect is required to publish Pillar 3 quantitative and qualitative disclosure requirements.[2] The Group publishes its full Pillar 3 disclosures on an annual basis as a separate document that is available on MeDirect's website.

1 Statement pursuant to Capital Market Rule 5.70.1.
2 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.

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.[1]

Statement of Directors' responsibilities for the financial statements

MeDirect is required by the Maltese Banking Act (Cap. 371) and 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 Company 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 2023 are included in the Annual Report 2023, 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 Capital Market 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 (Chair) and Arnaud Denis (Chief Executive Officer) on 27 March 2024.

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

MeDirect Group at a glance in 2023

Dynamic Franchise Growth

133k	171%	€5.0bn	+€253m
Retail clients - 23% increase from 2022	Increase in new retail clients compared to 2022	Group retail and corporate client financial assets[1]	18% increase in assets held under custody

Mortgage lending portfolios expanding with an overall 30% increase in their carrying amount

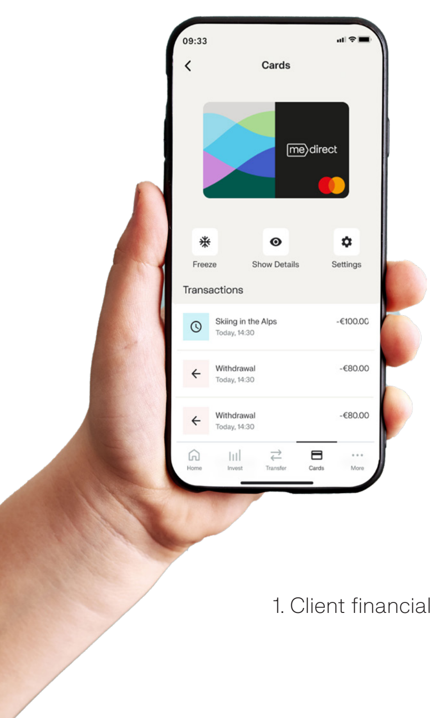
€2.1bn	€255m	€99m	+49%
Dutch mortgage book - a 16% increase in 2023	Belgian mortgage book - almost doubled in 2023	Malta mortgage book - a 46% increase in 2023	Increase in interest income on mortgage lending

Capital and liquidity ratios well above minimum legal requirements

20.3%	>200%	126%
Total Capital Ratio	Liquidity Coverage Ratio	Net Stable Funding Ratio

Increase in operating revenues supported by business growth and impact of higher interest rates

€14.3m	+43%	2.5%
Profit before tax representing 56% increase from prior year	Increase in net interest income	Non-performing loans ratio



Positive business developments

New business initiatives that will contribute to further growth

» Launch of physical and virtual cards in Malta
» Online Discretionary Portfolio Management in partnership with Blackrock in Belgium
» Entry into the Dutch retail wealth market

MeDirect Belgium market recognition

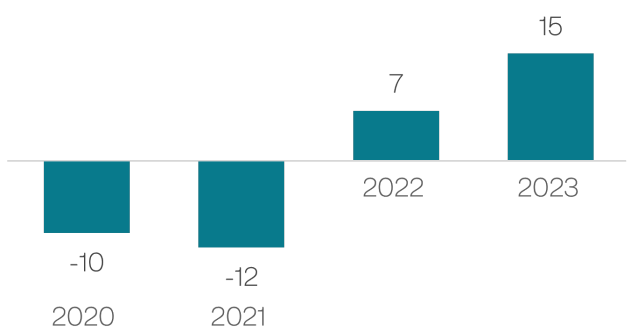
2nd	2nd	3rd
Best Investment Bank award by Spaargids.be	Best Savings Bank award by Guide-Epargne.be	Best Bank in Belgium by Forbes global survey

1. Client financial assets = deposits + assets under custody (assets held under nominee basis)

MeDirect Business Transformation 2020-2023

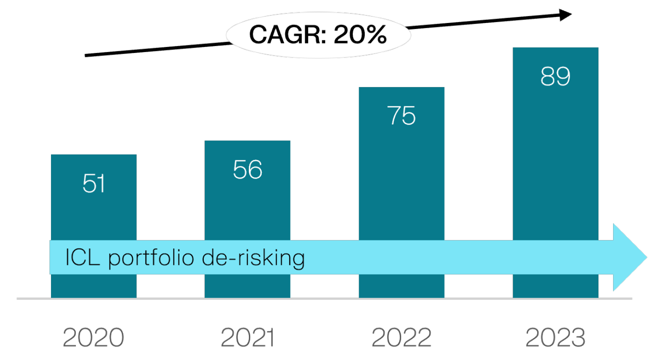
MeDirect restored structural profitability ...

Profit before impairment and taxes



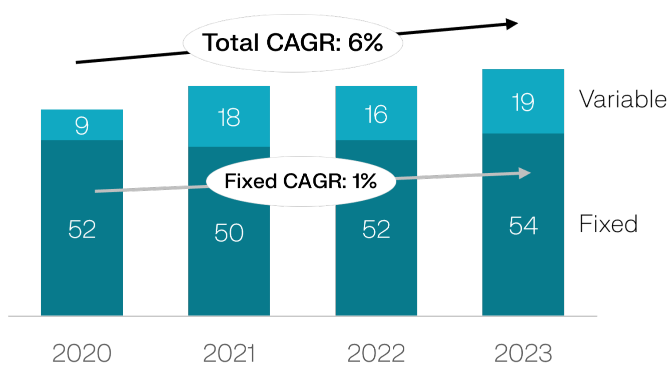
... by growing operating income ...

Operating income



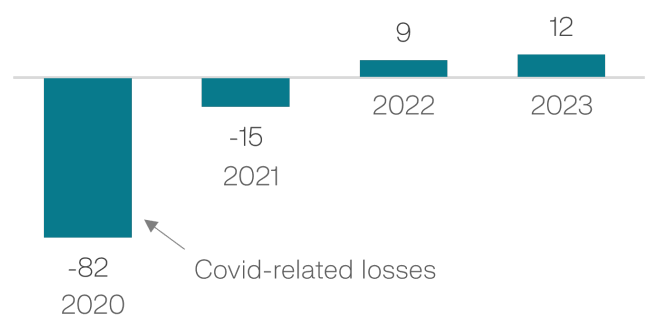
... maintaining cost discipline while investing in platform and technology ...

Operating expenses



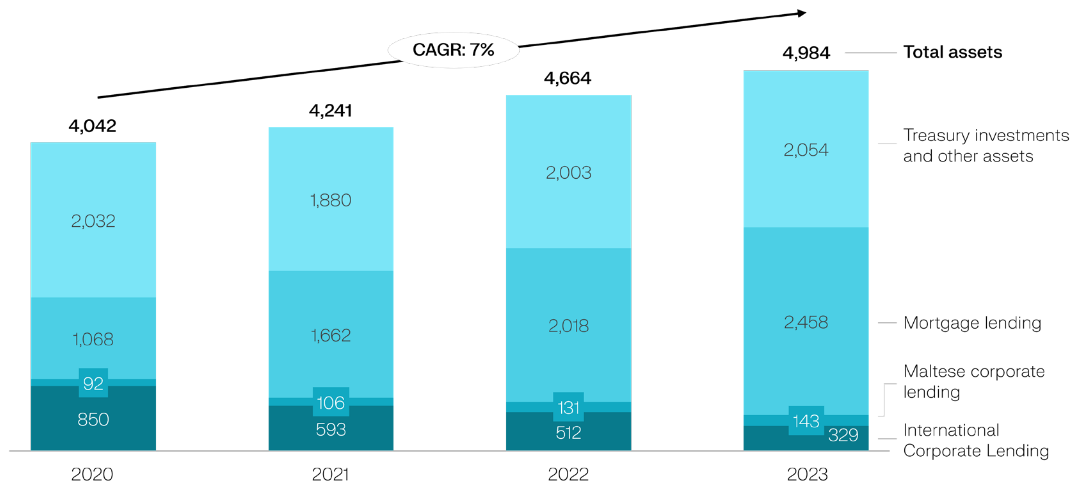
... and achieving positive results over the past two years

Profit after tax (PAT)



Note: All figures expressed as € millions

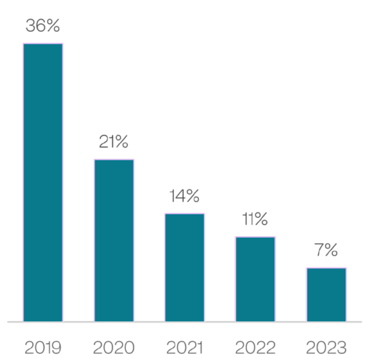
Diversifying asset portfolios ...



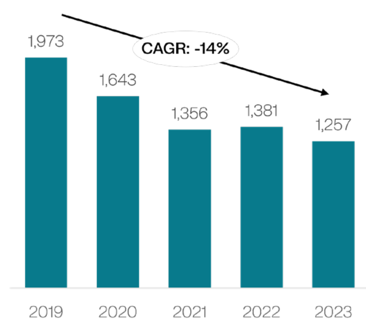
Note: Figures expressed as € millions

... de-risking the balance sheet and achieving lower NPL ratios ...

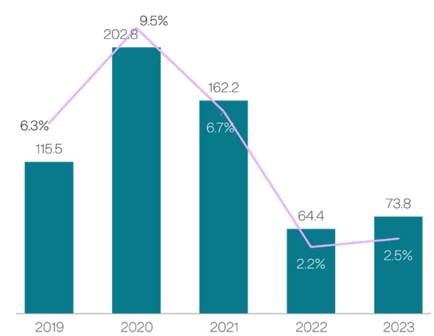
ICL portfolio as a percentage of total assets



RWA

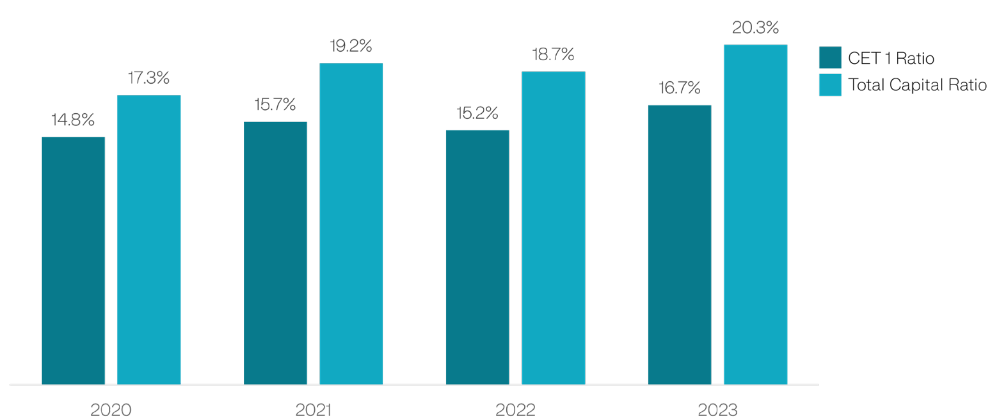


NPL ratio



Note: Non-percentage figures expressed as € millions

... and improving capital ratios



Market recognition and high client satisfaction ...

2nd best

Belgian platform for investments and savings

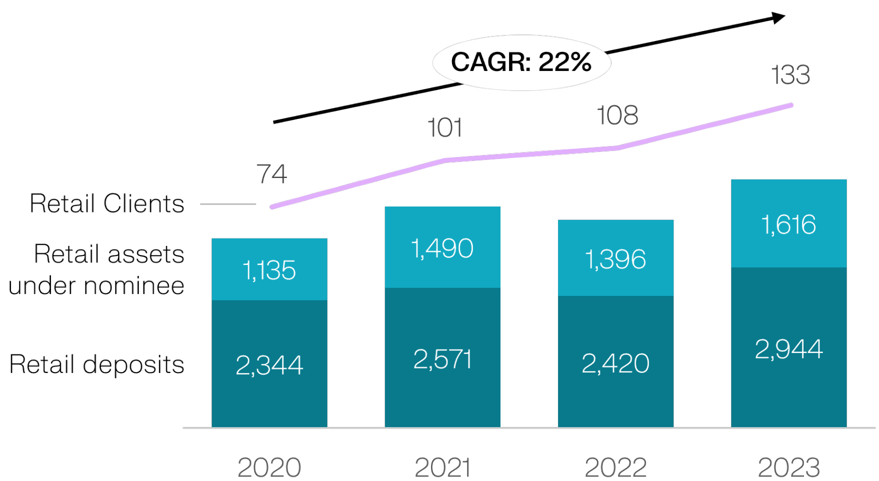
Belgium market: 2023 Spaargids independent market survey amongst consumers

47

Group Net Promoter Score (NPS)

As of Dec 2023

... support dynamic retail franchise growth



Note: Retail deposits and retail assets under nominee figures expressed as € millions. Retail Clients figures expressed in thousands.

In 2023, MeDirect achieved 4.7% ROE and 83% cost income ratio and is

ready to be scaled

Who we are

Purpose, Mission and Core Values

Our purpose is exciting:

To empower people to manage their wealth with confidence and autonomy.

To achieve this goal, we have built our Wealth SuperApp, a one-stop shop that offers in a single app a broad and growing portfolio of digital wealth and banking services. Our vision for our customers is embodied in our "My Money, My Choices" branding, which speaks to the freedom and flexibility provided by our platform to customers in managing their finances.

We target the underserved affluent customer segment; people who want to retain control of their finances but who often want to be guided in their investment journeys. Our solution addresses the needs of a large potential universe, ranging from first time to active investors looking for a wide choice of investment products and a highly convenient platform that enables them to achieve their financial goals.

Users of our platform may include:

- customers unsatisfied with the offline journey provided by their current bank or investment advisor;
- people who do not have the time nor the willingness to manage their money and want to delegate or be guided;
- tech-savvy investors who want to access a highly functional trading platform with real-time capabilities and rich information; and
- customers who do not qualify for private banking, which typically caters only to customers with significant investible wealth.

MeDirect aims to address these problems with cutting-edge technology and customer-centric solutions with the ambition of disrupting the retail digital investment space. To achieve this, we offer, on a single multi-channel platform with open architecture, a broad range of online investment solutions combined with superior UX and attractive pricing. Our app addresses in one place a wide range of investor needs including trading, advisory and discretionary management services, coupled with daily banking facilitated by our physical and virtual card capabilities launched in 2023.

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

Our strategic priorities reflect our **core values:**

Autonomy: We empower our customers to navigate the financial world and give them the choice of how to manage their money, their way. We encourage our employees to take ownership of their work and grow their skills.
Innovation: We do not rest on our laurels. We are results driven and constantly review how we go about delivering on our vision and improving our value proposition.
Transparency: The financial world isn't simple, but the MeDirect app is. We communicate clearly with our clients and our colleagues and offer clear and understandable reporting of customer portfolios.
Responsibility: We take seriously our responsibilities to all our stakeholders: customers, employees, regulators, shareholders and our community.

How our vision ties into our core strategy

Our core strategy is based on four main pillars:

1. Scaling up our innovative WealthTech platform

MeDirect focuses on the affluent customer segment (typically with €30,000-€300,000 in wealth) that values convenience, transparency and choice. MeDirect aims to provide a full range of investment services from brokerage to investment advice to discretionary portfolio management, combined with high-quality daily banking functions, including physical and virtual cards. We bring to market innovative solutions combining our proprietary software with seamlessly aggregated services from selected partners to create intuitive customer journeys.

Since 2018, we have invested over €33 million in our technology platform.

2. Growing a low risk and capital efficient mortgage lending platform

We have built from scratch mortgage offerings in the Netherlands, Belgium and Malta and have developed a lending platform that is both scalable and competitive. In Belgium and the Netherlands, MeDirect operates a B2B2C approach, by working with top notch servicing and origination partners and focusing on niche market segments, while still maintaining an appropriate risk-reward balance. Looking forward, we aim to use this business line to complement our disruptive wealth offering and to build a platform which maximises the full range of synergies between the two business lines, including cross-selling mortgages to wealth customers or vice-versa.

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

3. MeDirect Tech Proprietary platform

MeDirect's technology strategy is a testament to the power of modern software architecture in driving business growth and maintaining a competitive edge. MeDirect's cloud-agnostic approach allows for the seamless integration of services from various third-party providers, enhancing its digital offerings. This strategic selection of partners contributes to a robust and flexible modular ecosystem, capable of supporting the platform's scalability.

The transition from a monolithic setup to a containerized platform is a pivotal move in MeDirect's tech strategy. This shift not only facilitates scaling up to accommodate higher volumes and broader geographies but also ensures cost-efficiency. The adoption of a modular microservices architecture underlines MeDirect's commitment to continuous innovation and its ability to adapt to evolving business and customer needs.

Furthermore, MeDirect proprietary platform's design revolves around six core elements that prioritize user experience and interfaces, client experience management, order orchestration, payment execution, and transaction management. These elements are underpinned by key design principles that ensure a seamless and efficient operation. MeDirect's in-house software development team, recognized for its excellence, plays a crucial role in the ongoing development and refinement of this cutting-edge technology.

MeDirect proprietary platform's design revolves around six core elements that prioritize user experience and interfaces, client experience management, order orchestration, payment execution, and transaction management.

Overall, MeDirect's tech architecture is a strategic asset that enables it to offer a comprehensive and multi-channel customer experience while optimizing operational efficiency and scalability. This positions MeDirect well to respond swiftly to market demands and to continue its trajectory of innovation and growth.

4. Efficient operating model

MeDirect operates a high-quality service centre in Malta consisting of technology, digital channels, operations and other support teams. These teams drive MeDirect's vision to be simpler, better and faster for our customers and workforce. The role of these teams include:

- the development of software and applications to improve customer experience;
- the management of the IT 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 of our banks. This international set-up enables MeDirect to scale up efficiently while remaining flexible and close to local market customer and regulatory requirements.

Group History

2009-2018

Acquired by AnaCap Financial Partners II L.P.
Launch of online deposits and wealth in Malta
Established syndicated ICL portfolio
Belgian branch obtains banking licence, becomes subsidiary of Maltese bank in 2015
MDB Group regulated under the Single Supervisory Mechanism in 2016
Group Client Financial Assets above €3.0 billion as at December 2018

2019

New management team joined to transform MeDirect and develop the WealthTech franchise
Collateralised Loan Obligation transaction executed to de-risk ICL portfolio
Launch of Dutch NHG mortgage business line

2020

Milestone of 75,000 affluent retail clients reached
NHG mortgage book exceeds €1 billion
Launch of business transformation programme by new management team
Launch of retail mobile app
Ranked top 5 for mobile app, investment products and savings by spaargids.be
Successful completion of first Residential Mortgage-Backed Security (“RMBS”) transaction
Navigated through Covid crisis

2021

Milestone of 100,000 affluent retail clients with €4.5 billion financial assets reached
NHG mortgage book exceeds €1.6 billion
Launch of revamped online brokerage platform
Again ranked top 5 for mobile app, investment products and savings by spaargids.be
Awarded “Best Use of Technology in Business Transformation” by Tech.MT for MeDirect’s digital onboarding platform
New mortgage platform launch in Malta and Belgium
Issuance of €11 million Tier 2 capital in international markets
Second RMBS transaction completed

2022

Operating as a software house: 28 million lines of quality code deployed
New MeDirect branding and logo and UX enhancements
Launch of Discretionary Portfolio Management offer with top asset manager in Malta
Launch of professional buy-to-let mortgage product in the Netherlands
Third RMBS transaction completed
New eco-friendly home loans introduced
Top 15% in Ecovadis Silver sustainability rating

2023

Launch of physical and virtual cards in Malta contributing to growth in our customer base
Launch of Discretionary Portfolio Management offer with top asset manager in Belgium
Geographical expansion of digital wealth products and deposits into the Netherlands
Launch of property investment loans and 18-month interest only mortgage product in Malta
Launch of revamped e-banking platform for corporate customers
Milestone of 100,000 retail clients in Belgium reached
MeDirect Belgium awarded “2nd Best Investment Bank” and “2nd Best Savings Bank” by Spaargids.be and Guide-epargne.be respectively
MeDirect Belgium rated 3rd best bank in Belgium by Forbes global survey
Retaining Ecovadis Silver sustainability rating (top 7% of all rated corporates)
MeDirect Malta participated in the Hope guarantee scheme in collaboration with the Government of Malta

Group Board

Michael Bussey

Independent Chair and Non-Executive Director

» Joined MeDirect Board on 20 February 2017
» 45 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 - Schroder & Co Ltd
» CEO - Private Banking and Trust at NM Rothschild & Sons Ltd
» CEO - Arbuthnot Latham & Co.
» Non-Executive Chair - Credit Suisse (U.K.) Limited (2012-2020)

External appointments:

» Non-Executive Chair - DB UK Bank Limited

Dina Quraishi

Independent Non-Executive Director

» Joined MeDirect Board on 6 July 2023 and is the Chair of the Risk Committee
» 20+ years of experience in risk management covering various sectors including payments, FinTech, engineering and financial services.

Former key positions held:

» Chief Risk Officer – SWIFT (Belgium)
» Global Head of Enterprise Risk Management – Sandvik (Sweden)
» Head of Operational Risk – Zurich Insurance

John Zarb

Independent Non-Executive Director

» Joined MeDirect Group's Board on 12 July 2017 and is the Chair of the Audit Committee
» 40 years of experience with PwC in Malta, retiring from his role as Partner in 2014

Former key positions held:

» 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:

» Chair - PG plc
» Director - Foster Clark Products Ltd
» Board member and Chair of the Audit committee of Tumas Investments plc and board member and Chair of the Remuneration Committee of its parent company, Tumas Group Company Limited

Philip English

Non-Executive Director

» Joined MDB Group's Board on 21 August 2023
» 30+ years of experience focusing on portfolio management, security valuation, financial markets and institutions and commercial banking.

Former key positions held:

» Served on the Board of Directors of the CFA Society Washington, DC
» Served on the Investment Management Committee for Raffa Wealth Management

External appointments:

» Research Associate Professor of Finance at the Fox School of Business, Temple University
» Executive Director of the Fischer-Shain Centre for Financial Services and executive member of its Board

Arnaud Denis

Director and Group Chief Executive Officer

- Joined MDB Group 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 - Eurobank SA - Polish subsidiary of Société Générale
- MD - Société Générale's Fixed Income division based in New York
- Held various non-executive directorships in banking

Lisa Fergus

Director and Group Chief Risk Officer

- Joined MDB Group as Group CRO in December 2023 and formally on MeDirect's Board on 14 December 2023
- Experienced banking professional with over 30 years in depth experience across enterprise risk management, compliance, financial crime, internal audit and corporate governance

Former key positions held:

- CRO - Ashman Finance, UK
- CRO - Monzo, UK
- CRO - Clear Bank, UK
- CRO - Masthaven Bank, UK
- Leading an audit quality assurance and professional practices programme globally at Barclays Bank

Radoslaw Ksiezopolski

Director and Group Chief Financial Officer

- Joined MDB Group 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 - Eurobank SA - Polish subsidiary of Société Générale
- CFO - Credit Agricole Bank Poland
- Consultant - McKinsey & Co.
- Worked on the transformation of Polish subsidiary of UniCredit

From left

John Zarb - Independent Non-Executive Drector, MeDirect Group

Radoslaw Ksiezopolski - Group Chief Financial Officer, MeDirect Group

Lisa Fergus - Group Chief Risk Officer, MeDirect Group

Dean Eaves - Senior Technology Advisor, MeDirect Group

Michael Bussey - Chair and Independent Non-Executive Director, MeDirect Group

Philip English - Non-Executive Director, MeDirect Group

Marcia De Wachter - Chair and Independent Non-Executive Director, MeDirect Belgium

Alain Moreau - Chief Executive Officer, MeDirect Belgium

Arnaud Denis - Group Chief Executive Officer, MeDirect Group

Dina Quraishi - Independent Non-Executive Director, MeDirect Group

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 Capital Markets Rules of the Malta Financial Services 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 Capital Markets 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 2023, the MeDirect Malta Board consisted of four non-executive members and three executive members, satisfying the rule that one third of the Directors should be Non-Executive Directors, with the majority of the Non-Executive Directors being independent. 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.

The Board of MeDirect Malta cooperates closely with the Board of its direct subsidiary, MeDirect Belgium, to ensure consistent application of Group standards and coordination of activities, whilst at the same time respecting the independence of each Board and their respective needs to meet all applicable statutory and regulatory obligations in the jurisdictions in which they are organised and do business.

Principle 2: Chair and Chief Executive Officer
The offices of MeDirect Malta's Chair 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 running MeDirect Malta's business.

MeDirect Malta's Chair is responsible for (i) leading MeDirect Malta's Board, (ii) ensuring that MeDirect Malta's Board receives precise, timely and objective information to enable them to take sound decisions and monitor effectively the performance of the company, (iii) ensure effective communication with shareholders and (iv) encourage active engagement by all Directors in discussions about key issues.

MeDirect Malta's Chief Executive Officer ("CEO") leads the MeDirect Malta Executive Committee, which is responsible for the execution of the strategy approved by the Board. The MeDirect Malta CEO coordinates closely with the CEO of MeDirect Belgium and its Executive Committee. To ensure appropriate coordination, members of the Executive Committees of each of MeDirect Malta and MeDirect Belgium form part of a Group Steering Committee, the purpose of which is to coordinate the activities and the strategies of the two banks.

Principles 4, 5 and 8: Responsibilities of the Board, Board Meetings and Committees
The MeDirect Malta Board has the first level responsibility for executing the four basic roles of corporate governance: 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 CEO, who acts in coordination with the CEO of MeDirect Belgium, 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 have a material impact on the Group;
- Overall risk strategy, including the risk appetite and risk management framework;
- Corporate governance structure, including the proper functioning of Board committees;
- An internal controls framework for the Group, setting forth the responsibilities of the Board and of management 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 with the aim of ensuring adequate coverage of the risks of the Group;
- Targets for liquidity management of the Group;
- Dividend policy, including recommendation for payment of any dividend;
- Approval of large exposures that are 20% or more of own funds;
- Remuneration practices, 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;
- Assessment and evaluation of key function holders;
- Arrangements at ensuring the integrity of the accounting and financial reporting systems, including financial and operational controls designed to ensure compliance with law and regulation as well as 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 a code of conduct in which the stated 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 sustainable strategic decisions that have a significant 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 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 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 arrange their commitments in order to be able to participate. Twenty-three meetings of the Board of MeDirect Malta were held during the financial year.

As soon as practicable after each Board meeting, minutes that faithfully record attendance, deliberations and decisions of MeDirect Malta's Board are prepared and circulated to all Directors.

Where common issues are being discussed, certain Board meetings are held jointly with the Board of MeDirect Belgium.

The following section sets forth details of the members of MeDirect Malta's Board of Directors and of each of the committees of MeDirect Malta's Board.

Board of Directors

The following table sets forth the percentage of meetings attended by each director during the financial year:

		Meetings attended
		%
Michael Bussey	Independent Chair and Non-Executive Director	100
John Zarb	Independent Non-Executive Director	100
Dina Quraishi	Independent Non-Executive Director	100
Jamal Ismayilov *	Non-Executive Director	65
Philip English**	Non-Executive Director	100
Arnaud Denis	Executive Director - Chief Executive Officer	100
Radoslaw Ksiezopolski	Executive Director - Chief Finance Officer	100
Lisa Fergus***	Executive Director - Chief Risk Officer	100

* As from 2 November 2023, Mr Jamal Ismayilov no longer served in a non-executive capacity with MeDirect Malta.
** Dr Philip English was appointed as a non-executive director on 21 August 2023 and the percentage relates to meetings held during the time he served as a director.
*** Ms Lisa Fergus was appointed as an executive director on 19 December 2023 and the percentage relates to meetings held during the time she served as a director.

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 Chairs of the Board Committees are included as a standing agenda item in all routine Board meetings.

The Committees coordinate their activities with the equivalent committees of MeDirect Belgium, and where common issues are being addressed, certain meetings are held jointly with the equivalent committees of MeDirect Belgium.

Board Committees

A. Audit Committee

The purpose of the Audit Committee are to oversee the quality and integrity of the Group's financial reports, particularly the key financial judgments, and review the accounting policies. The primary responsibilities of the Group Audit Committee are 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 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 Chair and Independent Non-Executive Director
Michael Bussey	Member and Independent Non-Executive Director
Dina Quraishi	Member and Independent Non-Executive Director

In terms of Capital Markets 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 PricewaterhouseCoopers at the end of 2014 after a career spanning over 40 years in 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 Chair of PG plc, a Director and Chair of the audit committee of Tumas Investments plc and director and Chair of the remuneration committee of Tumas Group Company Limited. He also serves as a Director of Foster Clark Products Limited.

During the year ended 31 December 2023, nine 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 officers or employees may be asked to join the meeting as required.

The Audit Committee coordinates its activities with the Audit Committee of MeDirect Belgium, and where common issues are being addressed, certain meetings are held jointly by the committees.

B. Nominations and Remuneration Committee

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

MeDirect Malta's Nominations and Remuneration Committee is composed of Non-Executive Directors with no personal financial interest in the Group and include Michael Bussey (Chair), John Zarb and Philip English.

C. Board Risk and Compliance Committee

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

Amongst the primary responsibilities of the Board Risk and Compliance 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 Capital Market Rule 5.138.

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

The Board Risk and Compliance Committee coordinates its activities with the Board Risk and Compliance Committee of MeDirect Belgium, and where common issues are being addressed, certain meetings are held jointly by the committees.

The current members of the Board Risk and Compliance Committee are:

Dina Quraishi	Committee Chair and Independent Non-Executive Director
John Zarb	Member and Independent Non-Executive Director
Philip English	Member and Non-Executive Director
Lisa Fergus	Member and Executive Director

The Group Chief Executive Officer, the Group Chief Risk Officer, MeDirect Malta's Chief Compliance Officer and the MeDirect Malta Money Laundering Reporting Officer attend the Board Risk and Compliance Committee meetings by invitation. The Group's and MeDirect Belgium's Board Chairs attend Board Risk and Compliance Committee meetings as observers.

The Chair 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 Group Board it deems necessary. The Board Risk and Compliance Committee met eleven times during the financial year.

Principal Management Committees

A. Group Steering Committee ("Group Steerco")

The Group Steerco provides a forum for the three Executive Directors of MeDirect Malta 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 a unified culture and promote a holistic approach toward 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 to manage 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 Malta ExCo is chaired by the Group CEO and includes the Group Chief Financial Officer and the Group Chief Risk Officer. The Group Chief Technology Officer, Group Head of Channels and Customer Experience, Head of Legal and Commercial Strategy and the Chief Internal Audit Officer (as an observer) are standing invitees of the Malta ExCo.

MeDirect Belgium has a similar Executive Committee comprising the MeDirect Belgium CEO, Chief Financial Officer, Chief Risk Officer and Chief Operating Officer.

C. Management Credit Committee ("MCC")

The Group Management Credit Committee is responsible for making credit decisions under its delegated authority including:

- whether to extend credit to a borrower and under what conditions;
- the classification of individual credits for risk and performance monitoring purposes;
- whether to recommend Board approval for credit decisions beyond its delegated authority;
- consideration of hedging strategies and whether to recommend them for Board approval;
- review and recommendations relating to impairments and provisioning; and
- oversight of the risk performance of the portfolio.

The Group MCC covers all asset classes of the Group, including all loans and receivables portfolios, all securitised transactions, and treasury investments.

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

The MCC is scheduled twice weekly and meets as required for the proper fulfilment of its duties. It also meets at least quarterly to review the Group's lending portfolios and to make decisions on internal credit ratings and recommendations on potential impairments.

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 in the Group and its subsidiaries. The MRC oversees, monitors, assesses and drives risk management activities across the Group under the supervision of the 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 that the Group and its subsidiaries remain adequately capitalised and funded whilst ensuring that a strong risk culture is embedded across the organisation.

The main responsibilities of the MRC are to:

- Oversee and advise ExCo and the Board Risk and Compliance Committee on non-financial risk-related matters, in particular resilience risk (incorporating information technology, cyber security and third-party and outsourcing risk), financial crime, fraud risk, regulatory compliance risk, people risk, legal risk, model risk and financial reporting and tax risk;
- Monitor and oversee compliance with risk appetite limits and risk strategy and advise on and escalate to the Board Risk and Compliance Committee risk appetite and risk tolerance-related matters were necessary;
- Review internal control systems to ensure their effectiveness and report to the Board Risk and Compliance Committee on the effectiveness of risk management and internal controls;
- Discuss operational risk issues, events and actions and act as the management point of escalation for all portfolio and process risk-related decisions;
- Assess the impact of regulatory developments on the risk management framework and risk policies, recommending changes to the Board Risk and Compliance Committee as appropriate;
- Steer the development and implementation of risk frameworks, projects and strategic initiatives;
- Drive and oversee major deliverables such as ICAAP/ ILAAP and the Recovery Plan;
- Oversee risk related action plans, regulatory and audit findings; and
- Promote risk awareness and a strong risk culture within the organisation.

The membership of this committee consists of the Group Chief Risk Officer (Chair), MeDirect Belgium Chief Risk Officer (Deputy Chair), Chief Information Security Officer, Manager – Operational Risk, Group Head of Data Protection, Chief Compliance Officer, MeDirect Belgium Head of Compliance, Chief Internal Audit officer and MeDirect Belgium Head of Internal Audit

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 risk position. Group ALCO applies Group strategies across each business line and legal entity and across risk types and products. Group ALCO oversees and as appropriate approves Group policies and objectives for asset 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 and dealing and trading activities in each case in accordance with the risk appetite statement set by the Group Board. The Group ALCO’s authority covers MDB Group Limited and MeDirect Bank (Malta) plc. MeDirect Belgium has a similar ALCO, addressing the same matters for MeDirect Belgium. Group ALCO coordinates the activities of both ALCOs and ensures that decisions taken at Belgium ALCO are aligned with the interests of the Group. Group ALCO is a sub-committee of the Group ExCo.

The members of ALCO include MeDirect Malta’s Head – ALM (Committee Chair), Group CEO, Group Chief Financial Officer, Group Chief Risk Officer, the MeDirect Belgium – Chief Financial Officer and MeDirect Belgium – Chief Risk Officer. ALCO convenes meetings monthly or as required.

F. Operations Committee

The purpose of the Group Operations Committee is to ensure that the Group has in place and operates effectively and appropriately robust change management, project management, outsourcing and vendor management processes and procedures. The Group Operations Committee also has oversight of the ICT strategy implementation and monitoring, status of operational and cyber security risks and data governance initiatives and ensures that arrangements related to Business Continuity and Disaster Recovery are in place. The Group’s Operations Committee is a sub-committee of the Malta ExCo and the MeDirect Belgium ExCo and is the decision-making body for matters described above under the delegated authority from the Malta ExCo and the MeDirect Belgium ExCo.

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 onboarding 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 (Chair), MeDirect Belgium Chief Operating Officer, Group Head of Channels and Customer Experience, Chief Information Security Officer, Head of Dutch Retail Market, Group Chief Risk Officer, MeDirect Belgium Chief Risk Officer, Group Chief Financial Officer, MeDirect Belgium Chief Financial Officer, 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 evaluate and review periodically new and existing clients across the retail and corporate business lines from a reputational and financial crime compliance perspective. The CCAC also oversees and if appropriate recommends approval of financial crime compliance-related policies, action plans, risk assessments and methodologies. The CCAC operates within the authority delegated from the Board Risk and Compliance Committee and is comprised of representatives of key units within the Group.

The permanent voting members of this committee are Head of Commercial Strategy and Legal (Chair), Chief Compliance Officer (Deputy Chair), Head of Operations and Manager - Operational Risk.

Code Provision 4.2.7 - Succession planning

MeDirect Malta has established a list of Key Personnel Substitutes to cover instances in which Executive Directors, key personnel and managers are temporarily incapacitated or otherwise unable to complete their duties for a significant period of time.

If such individuals 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 and MeDirect Belgium's Boards and the CEO ensure that MeDirect 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's Malta's personnel and identify high performing employees with the potential to take on more responsibilities.

The succession plan ensures that MeDirect is constantly empowering and developing existing employees, guaranteeing that there is a pool of talent ready and waiting for advancement and promotion into increasingly challenging roles when they arise.

Principle 6: Information and professional development

In addition to the responsibilities of MeDirect Malta's and Belgium's Boards described above, these boards actively participate in the appointment of senior management. Board members receive regular updates on MeDirect's strategic, operational, corporate governance, compliance, risk management and financial plans and objectives.

MeDirect Malta's and MeDirect Belgium's Boards appoint the respective CEOs taking into account the view of the ultimate controlling shareholder and MeDirect Malta respectively. The Board's training programmes aim to improve the Board's awareness of risk, regulation and compliance developments in the financial services sector, with topics to be covered ranging from Environmental, Social and Governance and sustainable finance to information technology and cyber security.

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

These Directors also have access to the advice and services of the Company Secretary who is responsible for adherence to the Board procedures as well as effective information flows amongst 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 Chair, an independent non-executive director, and all Directors participate in the process. Feedback from the evaluation is presented to the Nominations and Remuneration Committee. An external evaluation took place during the financial year ended 31 December 2023.

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

MeDirect Malta and MeDirect Belgium maintain ongoing communication with the shareholders and the market in respect of its strategy and performance. During the year under review, MeDirect Malta issued various company announcements and media releases to explain ongoing corporate developments, material events and transactions which took place and their impact on MeDirect Malta's financial position. Through public announcements, MeDirect Malta's website, financial reports and interaction with the 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 shareholder is represented on its Board of Directors and actively monitors its investment in MeDirect Malta.

The Chairs of MeDirect Malta's and MeDirect Belgium's Audit, Nominations and Remuneration and Board Risk and Compliance Committees are available to answer questions at the Annual General Meeting. MeDirect Malta's Articles of Association provide that Directors shall, at the request of members of the company holding not less than one-tenth of the paid-up share capital, convene an Extraordinary General Meeting of MeDirect Malta.

Principle 11: Conflicts of interest

MeDirect Malta's Articles of Association and the Belgian Code of Companies provide that any director of MeDirect Malta and MeDirect Belgium respectively who is in any way, whether directly or indirectly, interested in a transaction or proposed transaction with MeDirect must (i) declare to the other Directors the nature of such interest, (ii) unless otherwise determined by the unconflicted Directors, not participate in or be present for any discussion of any such transaction or proposed transaction and (iii) not vote on any such transaction or proposed transaction.

On joining the MeDirect Malta Board and regularly thereafter, Directors are informed and reminded of their obligations relating to dealing in MeDirect Malta's securities under applicable law and regulation, including the Capital Markets Rules.

Principle 12: Corporate social responsibility
MeDirect Malta continued to play an important role in the community, supporting cultural, sporting and charitable organisations as well as educational initiatives throughout the financial year ended 31 December 2023.

Through several collaborations and sponsorship agreements, MeDirect Malta continued to focus on helping local talent to develop. The Malta Philharmonic Orchestra, the ŻfinMalta National Dance Company and the Soċjetà Filarmonika La Stella A. D. 1863 were amongst the major beneficiaries of MeDirect Malta support during the year. This support contributed to the successful production of various musical theatre and dance performances, which strengthened the cultural calendar in both Malta and Gozo. MeDirect's commitment to developing musical talent in Malta was further evidenced by the Group's support of Malta's Got Talent and X Factor.

The importance of developing talent in Malta was also illustrated by the support given by MeDirect Malta to various educational activities such as Code.SprintMT, Malta's national coding championship, which is divided into various categories open to secondary and post-secondary students as well as established software developers. MeDirect also continues to strengthen its collaborations with MCAST and the University of Malta's Faculty of Economics, Management and Accountancy as it works to ensure that Malta has the right talent to support the financial services industry in a future based on technology and digital solutions. Improving standards and personal development also provided the motivation for MeDirect's support to the Malta Association of Gastroenterology Nurses and Associates.

The financial year also saw MeDirect Malta and its employees provide support to numerous charities, through financial donations, the provision of equipment and staff volunteering. These included organisations focused on supporting children, adults and their families suffering from serious illness such as Puttinu Cares, Hospice Malta, the Alive Foundation and Beating Hearts Foundation. MeDirect, as an organisation which values diversity and inclusion also supported organisations like Spark 15 which helps migrants to acquire skills needed to integrate into Maltese society and events like EuroPride, which took place in Malta in September 2023.

MeDirect Malta's concern for the less fortunate also resulted in support for Angela House and St Rita Home, two residential homes for children who are unable to live with their families. The homes are run by the Ursuline Sisters of St Angela Merici. Further initiatives included support for Dar Hosea which aids women who are, or are at risk of becoming, victims of prostitution. MeDirect Malta also kept its annual Boxing Day appointment and presented a donation to L-Istrina, the Malta Community Chest Fund Foundation's nationwide charity campaign.

The issue of mental health and wellbeing is also important to MeDirect Malta. The Group continues to provide support to employees who may need support through collaborations with the Richmond Foundation and the Service Dogs Foundation, also helping these organisations to continue providing their services to the broader community.

Animal charities such as the MSPCA also received assistance from MeDirect Malta, not only through financial donations but also the delivery of food and the practical support of employees in activities such as dog walking.

Finally, MeDirect Malta also continued to play an active role in the sporting life of Malta, particularly through its renewed support for Otters Water Polo Club/Aquatic club, the only water polo club in Gozo, which also provides swimming coaching to hundreds of Gozitan children every summer.

In 2023 MeDirect Belgium participated in "Clean Brussels" where the staff took to cleaning the streets around the office, contributing to a cleaner and healthier environment.

MeDirect Belgium cooperated with Visioboutique (operated by the Red Cross) in a clothing donation event organised on Youth Day whereby donated clothing could be bought at heavily discounted prices by people from a socially fragile background.

MeDirect Belgium also gave a donation to the Cancer Institute to sustain their ongoing effort in combatting cancer in society.

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 and MeDirect Belgium's Boards are responsible for ensuring that 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 operates a system of internal controls that provides reasonable assurance of effective and efficient operations, including controls relating to financial and operational matters and compliance with laws and regulations. Processes are in place for identifying, evaluating and managing the significant risks facing MeDirect Malta and the Group.

The management of MeDirect 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 and the MeDirect Belgium 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 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;
- providing reasonable assurances that transactions are recorded as necessary to permit preparation of financial statements in accordance with IFRS as adopted by the EU;
- ensuring that receipts and expenditures are made only in accordance with authorisations of management and the relevant Directors; and
- 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 (Chair) and Arnaud Denis (Chief Executive Officer) on 27 March 2024.

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. List of Material Risk Takers is revised and approved at least on an annual basis.

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 Chair/Independent Non-Executive Board Chair
John Zarb	Independent Non-Executive Director
Philip Campbell English	Non-Executive Director and Shareholder representative

The Group's Chief Administration Officer acts as a secretary to the Committee, whilst the Chief People Officer was invited as an attendee throughout the year, as was the Chief Executive Officer.

During the year ended 31 December 2023, the Group's NRC met on eight occasions of which six were joint NRCs with the Belgian NRC committee. These meetings were attended by all members of the Group's NRC.

Remuneration policy statement

The Remuneration Policy is owned by the Chair 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 MeDirect Malta and MeDirect Belgium, 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 ongoing basis. The NRCs and the Boards monitor the ongoing 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 Directors, 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 member authorised to approve or veto the introduction of new products;
- Staff member 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 member that has 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 experienced 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 function carries out an independent annual review on the design adequacy, control effectiveness and sound monitoring of the Remuneration Policy related internal control framework. In parallel to reporting on the latter assurance activities the Internal Audit function also informs the NRC of any specific facts, events or observations, pointing at knowingly negligent or unacceptable behaviour of key staff and management members, to be considered during the review of remuneration levels and approval of performance-related and other variable bonus awards.

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 retention bonus was awarded.

Variable remuneration, including the deferred portion, is paid or vests only if it is sustainable according to the financial and regulatory capital situation of the Group as a whole. Without prejudice to the general principles of national contract and labour law, the total variable remuneration 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 2022 the Group revised the remuneration policy to reflect the ESMA guidance on MIFID II, whereas in 2023 it was reviewed together with the Deferred Bonus plan but there were no material changes.

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 maintain 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.

Home loan subsidy

Home loans are offered to staff in-house at beneficial interest rates.

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 represent 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 bonuses are not determined in advance. Besides the annual performance bonus the Group may also award ad hoc bonuses that are linked to pre set KPIs in relation to specific projects.

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. 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 as well as interest rate risk. The amount of variable remuneration will vary depending on the performance of the staff member, as well as of the staff member's business unit and the institution as a whole.

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

- Objective setting at the beginning of the year
  - » Goals are set that revolve around the development of the employee allowing for progression. Objectives may be technical (related to area of expertise and day-to-day role) or behavioural (related to a desired change in personal development).
- End of year appraisal
  - » As above employees would do a self-review followed with a manager review together with a one-to-one meeting to discuss overall performance and rating. The employee rating is based on a 5-point rating scale.

(c) Individual allocation of the variable remuneration

i. All staff (including material risk takers)

The Chief People Officer initiates the process of gathering recommendations for salary revisions, bonuses and promotions from Heads of departments. 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 (or instruments if over the de minimis), though this is discretionary 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 Chief Risk Officer'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 together with the Chief People Officer ensure that recommendations for salary revisions and bonuses do not exceed the allocated pool. The Group Chief Risk Officer and the Chief Risk Officer of MeDirect Belgium confirm that the bonus allocation is consistent with sound and effective risk management practices and does not impact the capital adequacy of both entities. Recommendations are then discussed with the Group Chief Executive Officer and the Chief Executive Officer of MeDirect Belgium for approval before presenting to the Nominations and Remuneration Committee of the relevant entity.

Internal control functions

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

The methods used for determining the variable remuneration of control functions are designed to encourage staff not to compromise their objectivity and independence. When 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

In accordance with applicable remuneration regulations, 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 and MeDirect Belgium employees or in certain other circumstances, a portion of the variable remuneration will be deferred and/or payable in the form of instruments. During the financial year, no variable remuneration paid exceeded 100% of fixed remuneration (or 50% in the case of MeDirect Belgium).

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 material risk takers.

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 (Chair) and Arnaud Denis (Chief Executive Officer) on 27 March 2024.

Financial Statements

Statements of financial position

		Group		Company	
		2023	2022	2023	2022
	Notes	€000	€000	€000	€000
ASSETS					
Balances with central banks and cash	4	**265,401**	149,929	**-**	-
Derivative financial instruments	5	**207,950**	363,382	**-**	-
Loans and advances to financial institutions	6	**352,957**	403,145	**164**	158
Loans and advances to customers	7	**2,746,271**	2,389,293	**-**	-
Investments					
- Securities portfolio	8	**705,910**	694,038	**-**	-
- Securitisation portfolio	8	**605,340**	574,001	**-**	-
- Subsidiaries	9	**-**	-	**254,538**	242,557
Property and equipment	10	**6,091**	7,574	**-**	-
Intangible assets	11	**16,416**	13,767	**-**	-
Non-current assets classified held for sale	12	**1,785**	1,785	**-**	-
Current tax assets		**207**	591	**2**	2
Deferred tax assets	13	**17,525**	17,524	**-**	-
Prepayments and accrued income	14	**27,763**	18,473	**-**	-
Other assets	15	**30,554**	30,501	**12,864**	13,328
Total assets		**4,984,170**	4,664,003	**267,568**	256,045
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	**-**	3,798
Other reserves	16	**(558)**	(1,050)	**716**	224
Retained earnings	16	**51,877**	36,668	**49,554**	34,311
Total equity		**257,113**	245,210	**256,064**	244,127
LIABILITIES					
Derivative financial instruments	5	**25,464**	5,306	**-**	-
Amounts owed to financial institutions	17	**373,102**	545,135	**-**	-
Amounts owed to customers	18	**3,281,213**	2,787,600	**-**	-
Debt securities in issue	19	**910,848**	969,569	**-**	-
Subordinated liabilities	20	**65,485**	65,141	**10,503**	10,310
Current tax liabilities		**980**	2	**-**	-
Deferred tax liabilities	13	**342**	358	**-**	-
Provisions for liabilities and other charges	21	**298**	1,263	**-**	-
Accruals and deferred income	22	**48,328**	25,265	**964**	962
Other liabilities	23	**20,997**	19,154	**37**	646
Total liabilities		**4,727,057**	4,418,793	**11,504**	11,918
Total equity and liabilities		**4,984,170**	4,664,003	**267,568**	256,045
Memorandum items					
Commitments to extend credit, guarantees and other commitments	32-33	**260,017**	342,233	**-**	-

The notes on pages 48 to 210 are an integral part of these financial statements. The financial statements on pages 41 to 210 were signed by Michael Bussey (Chair) and Arnaud Denis (Chief Executive Officer) on 27 March 2024.

Statements of profit or loss

		Group		Company	
		2023	2022	2023	2022
	Notes	€000	€000	€000	€000
Interest income		**173,755**	80,687	**1,267**	1,227
Interest expense		**(91,434)**	(22,949)	**(1,267)**	(1,227)
Net interest income	24	**82,321**	57,738	**-**	-
Fee and commission income		**9,694**	9,216	**-**	-
Fee and commission expense		**(4,594)**	(3,088)	**(1)**	(1)
Net fee and commission income	25	**5,100**	6,128	**(1)**	(1)
Net trading income	26	**547**	1,408	**-**	-
Net gain from financial instruments at fair value through profit or loss		**447**	4,728	**-**	-
Share of results of subsidiary undertaking	9	**-**	-	**11,981**	8,624
Other operating income					
– Realised losses on disposal of other investments	26.2	**(30)**	-	**-**	-
– Realised gains on disposal of loans and advances		**82**	4,579	**-**	-
– Other income		**77**	170	**-**	-
Total operating income		**88,543**	74,751	**11,980**	8,623
Personnel expenses	27	**(24,291)**	(24,296)	**-**	-
Depreciation and amortisation	10-11	**(5,572)**	(6,156)	**-**	-
Other administrative expenses	28	**(43,425)**	(37,172)	**(43)**	(41)
Total operating expenses		**(73,288)**	(67,624)	**(43)**	(41)
Net operating profit before changes in expected credit losses		**15,256**	7,127	**11,937**	8,582
Change in expected credit losses and other credit impairment charges	29	**(945)**	2,041	–	**-**
Profit before tax		**14,311**	9,168	11,937	8,582
Tax expense		**(2,408)**	(460)	**-**	-
Profit for the year		**11,903**	8,708	**11,937**	8,582
- Attributable to equity holders of the parent					

The notes on pages 48 to 210 are an integral part of these financial statements.

Statements of comprehensive income

	Group		Company	
	2023	2022	2023	2022
	€000	€000	€000	€000
Profit for the year	**11,903**	8,708	**11,937**	8,582
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	-	(31,421)	-	-
- Reversal due to reclassification to amortised cost	-	32,823	-	-
Income tax relating to these items	-	(393)	-	-
	-	1,009	-	-
Share of other comprehensive income of subsidiary undertaking				
Fair valuation of financial investments measured at fair value through other comprehensive income:				
- Net change in fair value	-	-	-	1,009
Other comprehensive income, net of tax	-	1,009	-	1,009
Total comprehensive income, net of tax	**11,903**	9,717	**11,937**	9,591

The notes on pages 48 to 210 are an integral part of these financial statements.

Statements of changes in equity

Group	Share capital	Share premium	Shareholders' contributions	Reserve for general banking risks	Other reserves	Retained earnings	Total
	€000	€000	€000	€000	€000	€000	€000
Balance at 1 January 2022	55,738	13,756	136,300	3,798	(2,059)	27,960	235,493
Total comprehensive income							
Profit for the year	-	-	-	-	-	8,708	8,708
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	-	-	-	-	(22,743)	-	(22,743)
- Reclassification adjustments - net amounts reclassified to profit or loss, net of tax	-	-	-	-	23,752	-	23,752
	-	-	-	-	1,009	-	1,009
Total comprehensive income, net of tax	-	-	-	-	1,009	8,708	9,717
Balance at 31 December 2022	55,738	13,756	136,300	3,798	(1,050)	36,668	245,210
Balance at 1 January 2023	**55,738**	**13,756**	**136,300**	**3,798**	**(1,050)**	**36,668**	**245,210**
Total comprehensive income							
Profit for the year	**-**	**-**	**-**	**-**	**-**	**11,903**	**11,903**
Total comprehensive income, net of tax	**-**	**-**	**-**	**-**	**-**	**11,903**	**11,903**
Transfer to legal reserve (Note 16)	**-**	**-**	**-**	**-**	**492**	**(492)**	**-**
Release of reserve (Note 16)	**-**	**-**	**-**	**(3,798)**	**-**	**3,798**	**-**
Balance at 31 December 2023	**55,738**	**13,756**	**136,300**	**-**	**(558)**	**51,877**	**257,113**

The notes on pages 48 to 210 are an integral part of these financial statements.

Company	Share capital	Share premium	Shareholders' contributions	Reserve for general banking risks	Other reserves	Retained earnings	Total
	€000	€000	€000	€000	€000	€000	€000
Balance at 1 January 2022	55,738	13,756	136,300	3,798	(785)	25,729	234,536
Total comprehensive income							
Profit for the year	-	-	-	-	-	8,582	8,582
Other comprehensive income, net of tax:							
Share of other comprehensive income of subsidiary undertaking (Note 9)	-	-	-	-	1,009	-	1,009
	-	-	-	-	1,009	-	1,009
Total comprehensive income, net of tax	-	-	-	-	1,009	8,582	9,591
Balance at 31 December 2022	55,738	13,756	136,300	3,798	224	34,311	244,127
Balance at 1 January 2023	**55,738**	**13,756**	**136,300**	**3,798**	**224**	**34,311**	**244,127**
Total comprehensive income							
Profit for the year	-	-	-	-	-	**11,937**	**11,937**
Total comprehensive income, net of tax	-	-	-	-	-	**11,937**	**11,937**
Transfer to legal reserve (Note 16)	-	-	-	-	**492**	**(492)**	-
Release of reserve (Note 16)	-	-	-	**(3,798)**	-	**3,798**	-
Balance at 31 December 2023	**55,738**	**13,756**	**136,300**	-	**716**	**49,554**	**256,064**

The notes on pages 48 to 210 are an integral part of these financial statements.

Statements of cash flows

		Group		Company	
		2023	2022	2023	2022
		€000	€000	€000	€000
Cash flows from operating activities					
Interest and commission receipts		**167,396**	93,797	**1,267**	1,227
Interest and commission payments		**(62,031)**	(21,642)	**(1,267)**	(1,227)
Payments to employees and suppliers		**(68,704)**	(65,680)	**-**	-
Operating cash flows before changes in operating assets/liabilities		**36,661**	6,475	**-**	-
(Increase)/decrease in operating assets:					
- Reserve deposit with central banks		**(1,804)**	(561)	**-**	-
- Loans and advances to financial institutions and customers		**(192,894)**	(621,510)	**-**	-
Increase/(decrease) in operating liabilities:					
- Amounts owed to financial institutions and customers		**401,388**	(16,079)	**-**	-
- Other payables		**2,657**	1,426	**(612)**	370
Tax refunded		**517**	261	**1,578**	4
Net cash from/(used in) operating activities		**246,525**	(629,988)	**966**	374
Cash flows from investing activities					
Acquisition of property and equipment	10	**(242)**	(1,455)	**-**	-
Acquisition and development of intangible assets	11	**(6,257)**	(4,304)	**-**	-
Acquisition of investments measured at amortised cost	8	**(231,750)**	(271,819)	**-**	-
Redemption of investments measured at amortised cost	8	**183,606**	35,000	**-**	-
Redemption of investments measured at fair value through other comprehensive income	8	**-**	240,653	**-**	-
Redemption of investments measured at fair value through profit and loss	8	**5,292**	-	**-**	-
Net advances to subsidiary		**-**	-	**(960)**	(318)
Net cash used in investing activities		**(49,351)**	(1,925)	**(960)**	(318)
Cash flows from financing activities					
Issuance of debt securities	19 - 20	**-**	366,437	**-**	-
Redemption of debt securities	19	**(58,688)**	(55,161)	**-**	-
Principal element of lease payments	23	**(1,177)**	(1,148)	**-**	-
Net advances to immediate parent company		**(34)**	(37)	**-**	-
Net advances to ultimate parent company		**(49)**	(107)	**-**	-
Net cash (used in)/from financing activities		**(59,948)**	309,984	**-**	-
Net increase/(decrease) in cash and cash equivalents		**137,226**	(321,929)	**6**	56
Cash and cash equivalents at beginning of year		**(163,170)**	158,759	**158**	102
Cash and cash equivalents at end of year	31	**(25,944)**	(163,170)	**164**	158

The notes on pages 48 to 210 are an integral part of these financial statements.

Notes to the Financial Statements

1. Summary of material accounting policy information

1.1 Reporting entity

MDB Group Limited (the "Company") is a limited liability company domiciled in Malta 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 2023 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 2023, including the financial results of MeDirect Bank (Malta) plc ("MeDirect Malta"); its principal subsidiary, namely MeDirect Bank SA ("MeDirect Belgium"); Bastion 2020-1 NHG B.V. ("Bastion 2020-1"), Bastion 2021-1 NHG B.V. ("Bastion 2021-1") and Bastion 2022-1 NHG B.V. ("Bastion 2022-1"), three controlled special purpose entities utilised as part of the Group's funding strategy in respect of the Dutch Mortgage business; Grand Harbour I B.V. ("GH I"), a controlled special purpose entity that used to be utilised as part of the Group's funding strategy in respect of the International Corporate Lending portfolio and is in the process of being liquidated; MeDirect Tech Limited ("MeDirect Tech " - formerly Medifin Leasing Limited) that leases computer hardware and software to MeDirect Malta and MeDirect Belgium; and Medifin Estates, a property leasing partnership.

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

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 through digital channels and attractive and innovative savings products in Malta and Belgium. In 2023 MeDirect Malta started offering similar products in the Netherlands.

MeDirect Belgium invests in Dutch residential mortgages via an established third-party mortgage originator in the Netherlands and in Belgian residential mortgage loan products in partnership with Allianz Benelux S.A/N.V.. This offering is underpinned by a robust credit risk framework and will continue to diversify the asset base of MeDirect Belgium into the residential mortgage sector. MeDirect Belgium also invests in Dutch buy-to-let mortgage business whereas MeDirect Malta offers 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 projects and to small and medium-sized enterprises through fully collateralised lending facilities.

Following the Group's diversification strategy, both MeDirect Malta and MeDirect Belgium still hold a modest portfolio of senior secured loans and revolving credit facilities to finance the business of European corporates.

The Group has retained substantially all risks and rewards pertaining to the activities of GH I, Bastion 2020-1, Bastion 2021-1 and Bastion 2022-1 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, 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 Bastion 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.

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

MeDirect Tech 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.

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 profit or loss;
- derivative financial instruments which are measured at fair value;
- 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; and
- investment in subsidiary in the Company's separate financial statements that are measured using the equity method.

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).

Standards, interpretations and amendments to published standards effective in 2023

During the financial year ended 31 December 2023, the Group adopted the following amendments to existing standards but 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.

- IFRS 17 Insurance Contracts;
- Definition of Accounting Estimates – Amendments to IAS 8;
- Disclosure of Accounting Policies – Amendments to IAS 1 and IFRS Practice Statement 2;
- Deferred Tax related to Assets and Liabilities arising from a Single Transaction – Amendments to IAS 12; and
- International Tax Reform—Pillar Two Model Rules – Amendments to IAS 12

The amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

The Group adopted Disclosure of Accounting Policies – Amendments to IAS 1 and IFRS Practice Statement 2 from 1 January 2023. The amendments require the disclosure of 'material' rather than 'significant' accounting policies.

Although the amendments did not result in any changes to the accounting policies themselves, they impacted the accounting policy information disclosed within this note to the financial statements.

Standards, interpretations and amendments to published standards issued but not yet effective

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these standards and interpretations, if applicable, when they become effective. These standards and interpretations are not expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

- Amendments to IFRS 16: Lease Liability in a Sale and Leaseback, effective 1 January 2024;
- Amendments to IAS 1: Classification of Liabilities as Current or Non-current, effective 1 January 2024;
- Amendments to IAS 21: Lack of exchangeability, effective 1 January 2025; and
- Supplier Finance Arrangements – Amendments to IAS 7 and IFRS 7, effective 1 January 2024.

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

The Group remains well positioned to achieve business growth through diversification, and is adequately 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 an adequate 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.

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.

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 separate financial statements of the Company, the investment in subsidiary is accounted for using the equity method.

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).

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.

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.

The Group has identified seven 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 (including the buy-to-let mortgages portfolio); (iii) the Belgian Mortgage portfolio; (iv) the Maltese Business Lending portfolio; (v) the Maltese Mortgage portfolio; (vi) the Securities Investment portfolio; and (vii) 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 Belgian Mortgage portfolio, the Maltese Business Lending portfolio and the Maltese Mortgage portfolio, and a portfolio of debt securities classified under the Securities 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.

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"). On 1 July 2022, as a result of the change in the business model those investments classified within this category were reclassified into the amortised cost measurement category.

Financial instruments designated at fair value through profit or loss

Financial instruments, other than those held for trading, are classified in this category. As at 31 December 2023, 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.

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
  Significant change in the operating performance of the borrower
  Significant change in the viability of the borrowers business model
  Quality and timeliness of reporting
  Project delays or overruns
  Significant adverse macroeconomic or market conditions
  Significant increase in refinancing risk
  Pricing of debt and equity (relative to market)
  Forbearance
  Bankruptcy, acceleration, legal enforcement and insolvency
  Sponsor support
  Troubled debt restructuring
  Covenant waivers or forecast breach of covenant
  Adherence to internal shadow financial covenants
  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 sufficient 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, when 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 days past due ("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.

Belgian Mortgage portfolio

Staging for the Belgian 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.

Maltese Business Lending portfolio

For Maltese 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 Maltese 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 Maltese 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.

Securities Investment portfolio

In order to monitor SICR in relation to its Securities 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 Securities 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 Securities 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.

IFRS 9 introduces a rebuttable presumption that default does not occur later than when a contractual repayment relating to a financial asset is 90 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 Maltese Business Lending portfolio and the Dutch, Belgian 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 Maltese 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, Belgian 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 CLOs 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 Securities 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 to 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 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 Maltese 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 Maltese 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 Maltese 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 Maltese Business Lending portfolio.

With respect to the Dutch Mortgages, Securitisation Investment and Securities Investment portfolios, the ECLs on all assets (irrespective of staging) are modelled using statistical models developed by an external vendor. For the Belgian and Maltese Mortgage Lending portfolios, the ECL for the mortgage portfolios is determined using internally developed statistical models.

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 (for the Dutch Mortgages, Securitisation Investment and Securities Investment portfolios) and internally developed models (for the Belgian and Maltese Mortgages).

Probability of Default

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).

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, Maltese Business Lending, Securitisation Investment and Securities 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 Maltese 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 Securities 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 Belgium and 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 Securities 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 Maltese 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 Belgium and Malta Residential Mortgages portfolios, as the Group 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.

Belgian Mortgage portfolio

The EAD for the Belgian Residential Mortgage portfolio is based on the outstanding exposure amount as at reporting date. To measure the EAD of off-balance sheet assets (commitments to lend), the Group applies an 80% CCF.

Maltese Business Lending portfolio

For the Maltese 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 the outstanding exposure amount as at reporting date. To measure the EAD of off-balance sheet assets (commitments to lend), the Group applies a 90% CCF.

Securities Investment portfolio

For the Group's Securities 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 Maltese 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 Maltese 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 Maltese 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 Securities Investment portfolio, recoverable amounts are assessed on a mark-to-market basis, using observable market prices for the instruments held.

For the Dutch, Belgian 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, Maltese Business Lending and Securities 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, Belgian 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 Maltese 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, Belgian 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.

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

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.

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. 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 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 using the effective interest method.

These 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. 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 International 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 Group 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; and
- 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.

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.

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; 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.

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.

Share-based compensation is recognised as an employee benefit expense from grant date over the relative vesting period, 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.

In the ordinary course of business, the Group gives financial guarantees, consisting of guarantees and acceptances. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers.

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.

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, Belgian and Maltese markets, the granting of buy-to-let mortgages in the Dutch market and the relative securitisation of sub-portfolios of such Dutch residential mortgage loans through RMBS transactions.

The Group also provides basic retail services such as money transfer and spot currency exchange and its retail customers may also use the MeDirect debit card that may be used globally, wherever Mastercard is accepted. 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 do securitisations of Dutch mortgages portfolios and 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 Dutch buy-to-let mortgage portfolio; the Belgian Mortgage portfolio, comprising residential mortgage lending to Belgian customers, the Maltese 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 Securities Investment portfolio principally comprising investment-grade debt securities; and the Securitisation Investment portfolio, comprising acquired positions in CLO transactions managed by third party entities, as well as 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").

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 2021, the proceeds of which were 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 that is an integral part of the Group's strategic planning and management processes and has therefore adopted a comprehensive enterprise risk management approach that provides a balance between growth and maximising profitability while managing the associated risks. The Risk Management Function is actively involved in all material strategic and business as usual 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") provides a comprehensive definition of the Group's risk management processes to enable informed risk-based decision-making. This framework provides a detailed structure as to how the Group identifies, manages, measures and monitors material risks, including policies, procedures, risk limits and risk controls. This ensures adequate, timely and continuous identification, measurement, 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.

*On occasions, the Legal team also performs duties within the first line of defence

Figure 1: Three Lines of Defence Model

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

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

2.2 Credit risk

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

2.2.1 Management of credit risk

The Group's Credit Policy establishes the principles, credit standards, monitoring and reporting requirements and escalation and approval processes that govern the ongoing management of the Group's credit risk exposure. The policy applies to all subsidiaries of the Group and governs the associated credit frameworks for each asset class.

The Group's Board of Directors has defined risk appetite limits based on the Capital Requirements Regulation ("CRR"), Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012, governing large exposures as well as prudential requirements. Exposure limits are monitored on a regular basis by the Risk, Corporate Credit and Treasury teams. Amongst other things, the Credit Policy for each asset class 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 Management Risk Committee ("MRC") 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 with 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 manage its credit portfolios maintaining a sound and prudent credit risk profile, whilst optimising returns for the Group. 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 36% over the last financial year.

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

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 so called NHG mortgages); the growth of the Belgian retail mortgages and Dutch buy-to-let mortgages and the growth in the Maltese Mortgage business and corporate lending businesses; 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, considering correlations between asset classes. The Group diversifies its exposures to avoid excessive concentration in particular countries, industries or types of financial institutions through its risk appetite framework and statement.

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 includes scenario analysis on investments 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 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 Maltese 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 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 detail.

As referred to previously, the Group also has a Dutch and Belgian mortgage business line. The Dutch national-guaranteed mortgage business line benefits from a private non-profit fund guarantee and government guarantee (indirectly), credit risk is deemed to be low. 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. 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.

Credit risk involved in both the Dutch buy-to-let activity as well as the Belgian mortgage activity differs from Dutch mortgages as they do not benefit from a third-party guarantee. Every application undergoes a thorough screening based on a predefined set of criteria. If one or more requirements is not met, credit files are reviewed by a Joint Credit Committee, comprised of a MeDirect Belgium's Business and Risk delegation. To check the exhaustive and correct application of predefined criteria, regular sample checks are organised on both data collected as well as assessments performed. Moreover, regular controls are put in place to confirm the adequacy of processes, staffing, systems and controls by 2nd and 3rd line of defence.

The Treasury function is responsible for managing the Securities investment portfolio, overseen by the risk function, under the oversight of the Management Credit Committee ("MCC") and the Board Risk and Compliance Committee. The Group focuses on acquiring debt securities meeting the criteria of high-quality liquid assets ("HQLA"). Permitted assets in this portfolio include covered bonds issued by governments (including regional governments), agencies and supranational institutions, as well as securities issued by financial institutions (some of which may carry a government guarantee).

The Group focuses on the quality and timeliness of the data used to inform management decisions. In particular, enhanced credit risk monitoring is applied within the International Corporate Loan portfolio.

The Group adopts 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 base and downside scenarios. 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	
	2023	2022
	€000	€000
Net exposure: **Financial assets measured at amortised cost**		
Balances with central banks	**265,398**	149,925
Loans and advances to financial institutions	**352,793**	402,987
Loans and advances to customers	**2,746,271**	2,389,293
- International Corporate Lending portfolio	**328,506**	512,114
- Dutch Mortgage portfolio	**2,104,568**	1,818,002
- Belgian Mortgage portfolio	**254,937**	132,000
- IFRS basis adjustment: International Mortgage portfolio	**(183,180)**	(271,273)
- Maltese Business Lending portfolio	**142,841**	130,852
- Maltese Mortgage portfolio	**98,599**	67,598
Investments measured at amortised cost	**1,310,232**	1,262,175
- Securities portfolio	**705,910**	688,746
- Securitisation portfolio	**604,322**	573,429
Accrued income	**23,930**	14,097
Loans to related parties (included in other assets)	**41**	652
Other receivables (included in other assets)	**1,024**	1,712
Other assets (included in other assets)	**28,342**	25,968
	4,728,031	4,246,809
Instruments mandatorily measured at fair value through profit or loss	**208,968**	369,246
- Held for trading derivative financial instruments	**511**	2,014
- Held for risk management derivative financial instruments	**207,439**	361,368
- Investments - Securities portfolio	**-**	5,292
- Investments - Securitisation portfolio	**1,018**	572
	4,936,999	4,616,055
Commitments to extend credit, guarantees and other commitments	**260,017**	342,233

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	2023		2022	
	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	265,400	(2)	149,927	(2)
Loans and advances to financial institutions	352,794	(1)	402,988	(1)
Loans and advances to customers	2,760,290	(14,019)	2,404,714	(15,421)
- International Corporate Lending portfolio	340,950	(12,444)	526,813	(14,699)
- Dutch Mortgage portfolio	2,104,853	(285)	1,818,186	(184)
- Belgian Mortgage portfolio	255,290	(353)	132,130	(130)
- IFRS basis adjustment: International Mortgage portfolio	(183,180)	-	(271,273)	-
- Maltese Business Lending portfolio	143,399	(558)	131,065	(213)
- Maltese Mortgage portfolio	98,978	(379)	67,793	(195)
Investments measured at amortised cost	1,310,480	(248)	1,262,550	(375)
- Securities portfolio	705,976	(66)	688,942	(196)
- Securitisation portfolio	604,504	(182)	573,608	(179)
Accrued income	24,228	(298)	14,392	(295)
Loans to related parties (included in other assets)	41	-	652	-
Other receivables (included in other assets)	1,024	-	1,712	-
Other assets (included in other assets)	28,342	-	25,968	-
	4,742,599	(14,568)	4,262,903	(16,094)
Commitments to extend credit, guarantees and other commitments	260,315	(298)	343,496	(1,263)
Total	5,002,914	(14,866)	4,606,399	(17,357)

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

	MeDirect Malta Group	
	2023	2022
	€000	€000
Instruments mandatorily measured at fair value through profit or loss		
- Held for trading derivative financial instruments	**511**	2,014
- Held for risk management derivative financial instruments	**207,439**	361,368
- Investments - Securities portfolio	**-**	5,292
- Investments - Securitisation portfolio	**1,018**	572
Total	**208,968**	369,246

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 the EBA publication "Guidelines on management of non-performing and forborne exposures" EBA/GL/2018/06 which specify sound risk management practices for credit institutions for managing non-performing exposures (NPEs), forborne exposures ("FBEs") and foreclosed assets.

According to the EBA International Technical Standards on supervisory reporting, "nonperforming 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".

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.

The impact on borrowers' financial performance of post COVID-19 pandemic headwinds and the macroeconomic impacts of the Ukraine-Russia and Israel-Gaza conflicts, seeing increased cost inflation, energy inflation and interest rate rises on the financial performance of borrowers within the Group's lending portfolios, 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.

The Group exercises 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 lending portfolio that have undergone significant re-structuring 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.

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 are 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 macroeconomic scenarios which are revised to reflect the elevated level of economic uncertainty driven by the military conflict between Russia and Ukraine and between Israel and Hamas, and the high interest rates, 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 these conflicts on the credit risk profile of the Dutch Mortgage portfolio being captured in the modelling of PDs. Through climate-adjusted scenarios and a statistical model sourced from an external vendor the Group estimates the climate-adjusted credit loss allowances of its exposures classified within Dutch Mortgages portfolio.

Exposures within the Securities 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 Group to which the impairment requirements in IFRS 9 are applied:

MeDirect Malta Group

	Performing		Under performing	Non-performing		
	Regular	Focus	Under surveillance	Doubtful	POCI	Total
As at 31 December 2023	€000	€000	€000	€000	€000	€000
On balance sheet at amortised cost:						
Balances with central banks	265,398	-	-	-	-	265,398
Gross	265,400	-	-	-	-	265,400
Credit loss allowances	(2)	-	-	-	-	(2)
Loans and advances to financial institutions	352,793	-	-	-	-	352,793
Gross	352,794	-	-	-	-	352,794
Credit loss allowances	(1)	-	-	-	-	(1)
Loans and advances to customers	2,492,970	146,106	43,996	62,985	214	2,746,271
- International Corporate Lending portfolio	151,094	112,016	20,279	44,903	214	328,506
Gross	152,692	112,995	20,982	53,855	426	340,950
Credit loss allowances	(1,598)	(979)	(703)	(8,952)	(212)	(12,444)
- Dutch Mortgage portfolio	2,091,229	3,080	9,962	297	-	2,104,568
Gross	2,091,365	3,080	10,107	301	-	2,104,853
Credit loss allowances	(136)	-	(145)	(4)	-	(285)
- Belgian Mortgage portfolio	221,539	28,843	4,059	496	-	254,937
Gross	221,761	28,870	4,105	554	-	255,290
Credit loss allowances	(222)	(27)	(46)	(58)	-	(353)
- IFRS basis adjustment: International Mortgage portfolio	(183,180)	-	-	-	-	(183,180)
- Maltese Business Lending portfolio	113,810	2,167	9,696	17,168	-	142,841
Gross	114,162	2,173	9,696	17,368	-	143,399
Credit loss allowances	(352)	(6)	-	(200)	-	(558)
- Maltese Mortgage portfolio	98,478	-	-	121	-	98,599
Gross	98,834	-	-	144	-	98,978
Credit loss allowances	(356)	-	-	(23)	-	(379)
Investments measured at amortised cost	1,309,822	-	410	-	-	1,310,232
- Securities portfolio	705,910	-	-	-	-	705,910
Gross	705,976	-	-	-	-	705,976
Credit loss allowances	(66)	-	-	-	-	(66)
- Securitisation portfolio	603,912	-	410	-	-	604,322
Gross	603,973	-	531	-	-	604,504
Credit loss allowances	(61)	-	(121)	-	-	(182)
Accrued income	20,369	2,308	241	1,012	-	23,930
Gross	20,388	2,321	247	1,272	-	24,228
Credit loss allowances	(19)	(13)	(6)	(260)	-	(298)
Loans to related parties (included in other assets)	41	-	-	-	-	41
Other receivables (included in other assets)	1,024	-	-	-	-	1,024
Other assets (included in other assets)	28,342	-	-	-	-	28,342
	4,470,759	148,414	44,647	63,997	214	4,728,031
Off balance sheet at nominal amount:						
Commitments to extend credit, guarantees and other commitments						
Nominal amount	249,158	8,074	1,587	1,496	-	260,315
Credit loss allowances	(122)	(61)	(3)	(112)	-	(298)
	249,036	8,013	1,584	1,384	-	260,017

MeDirect Malta Group	Performing		Under performing	Non-performing		
	Regular	Focus	Under surveillance	Doubtful	POCI	Total
As at 31 December 2022	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**
On balance sheet at amortised cost:						
Balances with central banks	149,925	-	-	-	-	149,925
Gross	149,927	-	-	-	-	149,927
Credit loss allowances	(2)	-	-	-	-	(2)
Loans and advances to financial institutions	402,987	-	-	-	-	402,987
Gross	402,988	-	-	-	-	402,988
Credit loss allowances	(1)	-	-	-	-	(1)
Loans and advances to customers	2,083,930	156,626	94,854	53,672	211	2,389,293
- International Corporate Lending portfolio	272,553	127,688	74,649	37,013	211	512,114
Gross	275,644	129,762	77,591	43,381	435	526,813
Credit loss allowances	(3,091)	(2,074)	(2,942)	(6,368)	(224)	(14,699)
- Dutch Mortgage portfolio	1,809,918	810	6,775	499	-	1,818,002
Gross	1,810,024	810	6,846	506	-	1,818,186
Credit loss allowances	(106)	-	(71)	(7)	-	(184)
- Belgian Mortgage portfolio	107,191	23,037	1,772	-	-	132,000
Gross	107,286	23,056	1,788	-	-	132,130
Credit loss allowances	(95)	(19)	(16)	-	-	(130)
- IFRS basis adjustment: International Mortgage portfolio	(271,273)	-	-	-	-	(271,273)
- Maltese Business Lending portfolio	97,943	5,091	11,658	16,160	-	130,852
Gross	98,146	5,096	11,662	16,161	-	131,065
Credit loss allowances	(203)	(5)	(4)	(1)	-	(213)
- Maltese Mortgage portfolio	67,598	-	-	-	-	67,598
Gross	67,793	-	-	-	-	67,793
Credit loss allowances	(195)	-	-	-	-	(195)
Investments measured at amortised cost	1,249,738	-	12,437	-	-	1,262,175
- Securities portfolio	676,711	-	12,035	-	-	688,746
Gross	676,805	-	12,137	-	-	688,942
Credit loss allowances	(94)	-	(102)	-	-	(196)
- Securitisation portfolio	573,027	-	402	-	-	573,429
Gross	573,085	-	523	-	-	573,608
Credit loss allowances	(58)	-	(121)	-	-	(179)
Accrued income	12,126	1,480	438	48	5	14,097
Gross	12,146	1,504	454	283	5	14,392
Credit loss allowances	(20)	(24)	(16)	(235)	-	(295)
Loans to related parties (included in other assets)	652	-	-	-	-	652
Other receivables (included in other assets)	1,712	-	-	-	-	1,712
Other assets (included in other assets)	25,968	-	-	-	-	25,968
	3,927,038	158,106	107,729	53,720	216	4,246,809
Off balance sheet at nominal amount:						
Commitments to extend credit, guarantees and other commitments						
Nominal amount	294,892	35,214	7,781	5,609	-	343,496
Credit loss allowances	(393)	(167)	(63)	(640)	-	(1,263)
	294,499	35,047	7,718	4,969	-	342,233

For securities within both the Securities 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:

	Measured at amortised cost	
	Group	
	2023	2022
	€000	€000
Securities Investment portfolio		
National and regional government securities, supranationals and agencies		
AAA	**355,859**	348,689
AA+ to AA-	**300,319**	303,760
A- to BBB-	**49,732**	24,262
Other securities		
Not rated	**-**	12,035
	705,910	688,746
Securitisation Investment portfolio		
AAA	**598,427**	567,553
AA+ to AA-	**2,950**	2,950
A- to BBB-	**-**	1,399
BB+ to B-	**2,945**	1,527
	604,322	573,429
Total	**1,310,232**	1,262,175

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 the Management Credit Committee.

As at 31 December 2023 and 2022, all the investments in the Securities 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+ (2022: 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

	Gross carrying/nominal amount					Credit loss allowance					ECL coverage %				
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
MeDirect Malta Group	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	%	%	%	%	%
As at 31 December 2023															
On balance sheet at amortised cost:															
Balances with central banks	265,400	-	-	-	265,400	(2)	-	-	-	(2)	-	-	-	-	-
Loans and advances to financial institutions	352,794	-	-	-	352,794	(1)	-	-	-	(1)	-	-	-	-	-
Loans and advances to customers															
- International Corporate Lending portfolio	265,687	20,982	53,855	426	340,950	(2,577)	(703)	(8,952)	(212)	(12,444)	1.0	3.4	16.6	49.8	3.6
- Dutch Mortgage portfolio	2,094,445	10,107	301	-	2,104,853	(136)	(145)	(4)	-	(285)	-	1.4	1.3	-	-
- Belgian Mortgage portfolio	250,631	4,105	554	-	255,290	(249)	(46)	(58)	-	(353)	0.1	1.1	10.5	-	0.1
- IFRS basis adjustment: International Mortgage portfolio	(183,180)	-	-	-	(183,180)	-	-	-	-	-	-	-	-	-	-
- Maltese Business Lending portfolio	116,335	9,696	17,368	-	143,399	(358)	-	(200)	-	(558)	0.3	-	1.2	-	0.4
- Maltese Mortgage portfolio	98,834	-	144	-	98,978	(356)	-	(23)	-	(379)	0.4	-	16.0	-	0.4
Investments measured at amortised cost															
- Securities portfolio	705,976	-	-	-	705,976	(66)	-	-	-	(66)	-	-	-	-	-
- Securitisation portfolio	603,973	531	-	-	604,504	(61)	(121)	-	-	(182)	-	22.8	-	-	-
Accrued income	22,709	247	1,272	-	24,228	(32)	(6)	(260)	-	(298)	0.1	2.4	20.4	-	1.2
Loans to related parties (included in other assets)	41	-	-	-	41	-	-	-	-	-	-	-	-	-	-
Other receivables (included in other assets)	1,024	-	-	-	1,024	-	-	-	-	-	-	-	-	-	-
Other assets (included in other assets	28,342	-	-	-	28,342	-	-	-	-	-	-	-	-	-	-
Off balance sheet at nominal amount:															
Commitments to extend credit, financial guarantees and other commitments	257,232	1,587	1,496	-	260,315	(183)	(3)	(112)	-	(298)	0.1	0.2	7.5	-	0.1
	4,880,243	47,255	74,990	426	5,002,914	(4,021)	(1,024)	(9,609)	(212)	(14,866)	0.1	2.2	12.8	49.8	0.3

	Gross carrying/nominal amount					Credit loss allowance					ECL coverage %				
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
MeDirect Malta Group	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	%	%	%	%	%
As at 31 December 2022															
On balance sheet at amortised cost:															
Balances with central banks	149,927	-	-	-	149,927	(2)	-	-	-	(2)	-	-	-	-	-
Loans and advances to financial institutions	402,988	-	-	-	402,988	(1)	-	-	-	(1)	-	-	-	-	-
Loans and advances to customers															
- International Corporate Lending portfolio	405,406	77,591	43,381	435	526,813	(5,165)	(2,942)	(6,368)	(224)	(14,699)	1.3	3.8	14.7	51.5	2.8
- Dutch Mortgage portfolio	1,810,834	6,846	506	-	1,818,186	(106)	(71)	(7)	-	(184)	-	1.0	1.4	-	-
- Belgian Mortgage portfolio	130,342	1,788	-	-	132,130	(114)	(16)	-	-	(130)	0.1	0.9	-	-	0.1
- IFRS basis adjustment: International Mortgage portfolio	(271,273)	-	-	-	(271,273)	-	-	-	-	-	-	-	-	-	-
- Maltese Business Lending portfolio	103,242	11,662	16,161	-	131,065	(208)	(4)	(1)	-	(213)	0.2	-	-	-	0.2
- Maltese Mortgage portfolio	67,793	-	-	-	67,793	(195)	-	-	-	(195)	0.3	-	-	-	0.3
Investments measured at amortised cost															
- Securities portfolio	676,805	12,137	-	-	688,942	(94)	(102)	-	-	(196)	-	0.8	-	-	-
- Securitisation portfolio	573,085	523	-	-	573,608	(58)	(121)	-	-	(179)	-	23.1	-	-	-
Accrued income	13,650	454	283	5	14,392	(44)	(16)	(235)	-	(295)	0.3	3.5	83.0	-	2.0
Loans to related parties (included in other assets)	652	-	-	-	652	-	-	-	-	-	-	-	-	-	-
Other receivables (included in other assets)	1,712	-	-	-	1,712	-	-	-	-	-	-	-	-	-	-
Other assets (included in other assets	25,968	-	-	-	25,968	-	-	-	-	-	-	-	-	-	-
Off balance sheet at nominal amount:															
Commitments to extend credit, financial guarantees and other commitments	330,106	7,781	5,609	-	343,496	(560)	(63)	(640)	-	(1,263)	0.2	0.8	11.4	-	0.4
	4,421,237	118,782	65,940	440	4,606,399	(6,547)	(3,335)	(7,251)	(224)	(17,357)	0.1	2.8	11.0	50.9	0.4

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, Securities Investment and Securitisation Investment portfolios which are past due but not credit impaired. Past due but not credit-impaired facilities are attributable to the Maltese 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, the Belgian Mortgage portfolio, representing residential mortgage exposures to households and individuals domiciled in Belgium, as well as a small portfolio of professional lending exposures held for rental purposes 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 2023 and 2022, no exposures within the Maltese Mortgage portfolio, Securities Investment and Securitisation Investment portfolios were classified as Stage 2, with the exception of the Group's investment in the most junior GH1-2019 tranche measured at amortised cost, which was not past due but classified as "Under Surveillance" as at 31 December 2023 and 2022. None of the Stage 2 exposures within the International Corporate Lending portfolio were past due as at 31 December 2023 and 2022.

In this regard, the following disclosure only presents the ageing of Stage 2 financial assets in the Maltese Business Lending and Dutch and Belgian 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 2023, Stage 1 exposures with a gross carrying amount of €3.1 million (2022: €0.7 million) and €28.9 million (2022: €23.1 million) classified within the Dutch Mortgage and Belgian Mortgage portfolios were classified as past due but not credit-impaired.

	Gross exposure			Credit loss allowance		
	Stage 2	Of which up to 30 DPD	Of which more than 30 DPD	Stage 2	Of which up to 30 DPD	Of which more than 30 DPD
MeDirect Malta Group	€000	€000	€000	€000	€000	€000
As at 31 December 2023						
Dutch Mortgage portfolio						
- Loans and advances to customers	10,107	7,387	2,720	(145)	(48)	(97)
Maltese Business Lending portfolio						
- Loans and advances to customers	9,696	9,696	-	-	-	-
- Accrued income	44	44	-	-	-	-
Belgian Mortgage portfolio						
- Loans and advances to customers	4,105	896	3,209	(46)	(11)	(35)
	23,952	18,023	5,929	(191)	(59)	(132)

	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
MeDirect Malta Group	€000	€000	€000	€000	€000	€000
As at 31 December 2022						
Dutch Mortgage portfolio						
- Loans and advances to customers	6,846	5,667	1,179	(71)	(1)	(70)
Maltese Business Lending portfolio						
- Loans and advances to customers	11,662	11,662	-	(4)	(4)	-
- Accrued income	44	44	-	-	-	-
Belgian Mortgage portfolio						
- Loans and advances to customers	1,788	352	1,436	(16)	(8)	(8)
	20,340	17,725	2,615	(91)	(13)	(78)

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

MeDirect Malta Group	Gross carrying amount/nominal amount Regular	Focus	Under surveillance	Doubtful	POCI	Total	Credit loss allowance	Net
As at 31 December 2023	€000	€000	€000	€000	€000	€000	€000	€000
On balance sheet at amortised cost:								
Balances with central banks	265,400	-	-	-	-	265,400	(2)	265,398
Loans and advances to financial institutions	352,794	-	-	-	-	352,794	(1)	352,793
Loans and advances to customers								
- International Corporate Lending portfolio								
Stage 1	152,692	112,995	-	-	-	265,687	(2,577)	263,110
Stage 2	-	-	20,982	-	-	20,982	(703)	20,279
Stage 3	-	-	-	53,855	-	53,855	(8,952)	44,903
POCI	-	-	-	-	426	426	(212)	214
- Dutch Mortgage portfolio								
Stage 1	2,091,365	3,080	-	-	-	2,094,445	(136)	2,094,309
Stage 2	-	-	10,107	-	-	10,107	(145)	9,962
Stage 3	-	-	-	301	-	301	(4)	297
- Belgian Mortgage portfolio								
Stage 1	221,761	28,870	-	-	-	250,631	(249)	250,382
Stage 2	-	-	4,105	-	-	4,105	(46)	4,059
Stage 3	-	-	-	554	-	554	(58)	496
- IFRS basis adjustment: International Mortgage portfolio	(183,180)	-	-	-	-	(183,180)	-	(183,180)
- Maltese Business Lending portfolio								
Stage 1	114,162	2,173	-	-	-	116,335	(358)	115,977
Stage 2	-	-	9,696	-	-	9,696	-	9,696
Stage 3	-	-	-	17,368	-	17,368	(200)	17,168
- Maltese Mortgage portfolio								
Stage 1	98,834	-	-	-	-	98,834	(356)	98,478
Stage 3	-	-	-	144	-	144	(23)	121
Investments measured at amortised cost								
- Securities portfolio								
Stage 1	705,976	-	-	-	-	705,976	(66)	705,910
- Securitisation portfolio								
Stage 1	603,973	-	-	-	-	603,973	(61)	603,912
Stage 2	-	-	531	-	-	531	(121)	410
- Accrued income								
Stage 1	20,388	2,321	-	-	-	22,709	(32)	22,677
Stage 2	-	-	247	-	-	247	(6)	241
Stage 3	-	-	-	1,272	-	1,272	(260)	1,012
Loans to related parties (included in other assets)								
Stage 1	41	-	-	-	-	41	-	41
Other receivables (included in other assets)								
Stage 1	1,024	-	-	-	-	1,024	-	1,024
Other assets (included in other assets)								
Stage 1	28,342	-	-	-	-	28,342	-	28,342
Off balance sheet at nominal amount:								
Commitments to extend credit, financial guarantees and other commitments								
Stage 1	249,158	8,074	-	-	-	257,232	(183)	257,049
Stage 2	-	-	1,587	-	-	1,587	(3)	1,584
Stage 3	-	-	-	1,496	-	1,496	(112)	1,384
	4,722,730	157,513	47,255	74,990	426	5,002,914	(14,866)	4,988,048

	Gross carrying amount/nominal amount							
MeDirect Malta Group	Regular	Focus	Under surveillance	Doubtful	POCI	Total	Credit loss allowance	Net
As at 31 December 2022	€000	€000	€000	€000	€000	€000	€000	€000
On balance sheet at amortised cost:								
Balances with central banks	149,927	-	-	-	-	149,927	(2)	149,925
Loans and advances to financial institutions	402,988	-	-	-	-	402,988	(1)	402,987
Loans and advances to customers								
- International Corporate Lending portfolio								
Stage 1	275,644	129,762	-	-	-	405,406	(5,165)	400,241
Stage 2	-	-	77,591	-	-	77,591	(2,942)	74,649
Stage 3	-	-	-	43,381	-	43,381	(6,368)	37,013
POCI	-	-	-	-	435	435	(224)	211
- Dutch Mortgage portfolio								
Stage 1	1,810,024	810	-	-	-	1,810,834	(106)	1,810,728
Stage 2	-	-	6,846	-	-	6,846	(71)	6,775
Stage 3	-	-	-	506	-	506	(7)	499
- Belgian Mortgage portfolio								
Stage 1	107,286	23,056	-	-	-	130,342	(114)	130,228
Stage 2	-	-	1,788	-	-	1,788	(16)	1,772
- IFRS basis adjustment: International Mortgage portfolio	(271,273)	-	-	-	-	(271,273)	-	(271,273)
- Maltese Business Lending portfolio								
Stage 1	98,146	5,096	-	-	-	103,242	(208)	103,034
Stage 2	-	-	11,662	-	-	11,662	(4)	11,658
Stage 3	-	-	-	16,161	-	16,161	(1)	16,160
- Maltese Mortgage portfolio								
Stage 1	67,793	-	-	-	-	67,793	(195)	67,598
Investments measured at amortised cost								
- Securities portfolio								
Stage 1	676,805	-	-	-	-	676,805	(94)	676,711
Stage 2	-	-	12,137	-	-	12,137	(102)	12,035
- Securitisation portfolio								
Stage 1	573,085	-	-	-	-	573,085	(58)	573,027
Stage 2	-	-	523	-	-	523	(121)	402
- Accrued income								
Stage 1	12,146	1,504	-	-	-	13,650	(44)	13,606
Stage 2	-	-	454	-	-	454	(16)	438
Stage 3	-	-	-	283	-	283	(235)	48
POCI	-	-	-	-	5	5	-	5
Loans to related parties (included in other assets)								
Stage 1	652	-	-	-	-	652	-	652
Other receivables (included in other assets)								
Stage 1	1,712	-	-	-	-	1,712	-	1,712
Other assets (included in other assets)								
Stage 1	25,968	-	-	-	-	25,968	-	25,968
Off balance sheet at nominal amount:								
Commitments to extend credit, financial guarantees and other commitments								
Stage 1	294,892	35,214	-	-	-	330,106	(560)	329,546
Stage 2	-	-	7,781	-	-	7,781	(63)	7,718
Stage 3	-	-	-	5,609	-	5,609	(640)	4,969
	4,225,795	195,442	118,782	65,940	440	4,606,399	(17,357)	4,589,042

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 remeasurement of ECL arising from stage transfers and changes in risk parameters, including climate risk" 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.

The decrease in credit loss allowances in the financial year ended 31 December 2023 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 €3.2 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 amounting to €3.4 million as disclosed in the line item "Assets written off".

The decrease in credit loss allowances in the financial year ended 31 December 2022 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 €6.5 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 amounting to €7.7 million as disclosed in the line item "Assets written off".

As per the table below, net exposures amounting to €14.7 million were transferred out of Stage 1 into Stages 2 or 3 during the year (2022: nil), with net transfers to Stage 3 amounting to €26.5 million (2022: €22 million). The net remeasurement of ECLs reflects in the decrease in PDs and LGDs driven by point-in-time economic adjustments and more pessimistic forward-looking macroeconomic scenarios being forecasted in the modelling of ECLs. As explained in more detail in Note 2.2.7 – 'Current Conditions and Forward-looking information incorporated in the ECL model', the Group deemed that forward-looking macroeconomic scenarios now appropriately reflected the uncertainty within the wider economy and reflects this increase in PDs and LGDs.

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.

MeDirect Malta Group	Non-credit impaired				Credit impaired				Total	
	Stage 1		Stage 2		Stage 3		POCI			
	Gross carrying/ nominal amount	Credit loss allowance	Gross carrying/ nominal amount	Credit loss allowance	Gross carrying/ nominal amount	Credit loss allowance	Gross carrying/ nominal amount	Credit loss allowance	Gross carrying/ nominal amount	Credit loss allowance
Year ended 31 December 2023	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**
International Corporate Lending portfolio										
At beginning of year	522,548	(5,731)	83,716	(3,021)	49,068	(7,243)	435	(224)	655,767	(16,219)
Repayments and disposals	(204,464)	1,396	(50,405)	906	(13,747)	1,988	(9)	-	(268,625)	4,290
Transfers of financial instruments										
- Transfers to Stage 3	(14,673)	635	(11,852)	807	26,525	(1,442)	-	-	-	-
Net remeasurement of ECL arising from stage transfers and changes in risk parameters, including climate risk	-	924	-	597	-	(8,386)	-	8	-	(6,857)
Realisation of ECL through restructuring and disposals	-	-	-	-	(5,764)	5,764	-	-	(5,764)	5,764
At end of year	303,411	(2,776)	21,459	(711)	56,082	(9,319)	426	(216)	381,378	(13,022)
ECL released for the year										3,197
Assets written off										(3,428)
Other										(8)
Change in expected credit losses and other credit impairment charges for the year										(239)

MeDirect Malta Group	As at 31 December 2023		Year ended 31 December 2023
	Gross carrying/ nominal amount	Credit loss allowance	ECL (charge)/release
	€000	€000	€000
As per preceding table	381,378	(13,022)	(239)
Balances at central banks	265,400	(2)	-
Loans and advances to financial institutions	352,794	(1)	-
Loans and advances to customers			
- Dutch Mortgage portfolio: drawn exposures	2,104,853	(285)	(101)
- Dutch Mortgage portfolio: undrawn commitments	94,503	(3)	1
- Belgian Mortgage portfolio: drawn exposures	255,290	(353)	(223)
- Belgian Mortgage portfolio: undrawn commitments	28,722	(15)	19
- Maltese Business Lending portfolio: drawn exposures	143,399	(558)	(345)
- Maltese Business Lending portfolio: undrawn commitments	54,654	-	-
- Maltese Mortgage portfolio: drawn exposures	98,978	(379)	(184)
- Maltese Mortgage portfolio: undrawn commitments	26,964	-	-
Investments measured at amortised cost			
- Securities portfolio	705,976	(66)	130
- Securitisation portfolio	604,504	(182)	(3)
Other accrued income (excl. International Corporate Lending portfolio)	19,109	-	-
Summary of financial instruments to which the impairment requirements in IFRS 9 are applied through profit or loss	5,136,524	(14,866)	(945)
Total credit loss allowance/total income statement ECL charge for the year		(14,866)	(945)

Expected credit losses measured in respect of exposures within the Maltese Business Lending portfolio classified as Stage 1 and Stage 2 exposures, resulted in an increase from €0.2 million to €0.4 million during the year (2022: remained constant at €0.2 million). The impact of the pandemic on the Group's Maltese Business Lending portfolio has been limited since the majority of exposures within the Maltese 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 Securities 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 2022:

MeDirect Malta Group	**Non-credit impaired**				**Credit impaired**				**Total**	
	Stage 1		**Stage 2**		**Stage 3**		**POCI**			
	Gross carrying/ nominal amount	**Credit loss allowance**	**Gross carrying/ nominal amount**	**Credit loss allowance**	**Gross carrying/ nominal amount**	**Credit loss allowance**	**Gross carrying/ nominal amount**	**Credit loss allowance**	**Gross carrying/ nominal amount**	**Credit loss allowance**
Year ended 31 December 2022	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**
International Corporate Lending portfolio										
At beginning of year	522,117	(2,455)	215,631	(4,226)	101,296	(16,038)	-	-	839,044	(22,719)
New business	99,903	(1,510)	1,759	(62)	-	-	435	(224)	102,097	(1,796)
Repayments and disposals	(198,913)	918	(55,757)	1,319	(30,704)	11,291	-	-	(285,374)	13,528
Transfers of financial instruments										
- Transfers from Stage 2 to Stage 1	88,881	(1,232)	(88,881)	1,232	-	-	-	-	-	-
- Transfers to Stage 3	-	-	(22,319)	86	22,319	(86)	-	-	-	-
- Transfers from Stage 3	10,560	(1,460)	33,283	(4,926)	(43,843)	6,386	-	-	-	-
Net remeasurement of ECL arising from stage transfers and changes in risk parameters	-	8	-	3,556	-	(8,796)	-		-	(5,232)
At end of year	522,548	(5,731)	83,716	(3,021)	49,068	(7,243)	435	(224)	655,767	(16,219)
ECL released for the year										6,502
Assets written off										(7,673)
Other										(112)
Change in expected credit losses and other credit impairment charges for the year										(1,283)

MeDirect Malta Group	As at 31 December 2022	Year ended 31 December 2022	
	Gross carrying/ nominal amount	Credit loss allowance	ECL (charge)/ release
	€000	€000	€000
As per preceding table	655,767	(16,219)	(1,283)
Balances at central banks	149,927	(2)	-
Loans and advances to financial institutions	402,988	(1)	-
Loans and advances to customers			
- Dutch Mortgage portfolio: drawn exposures	1,818,186	(184)	(35)
- Dutch Mortgage portfolio: undrawn commitments	92,420	(4)	(2)
- Belgian Mortgage portfolio: drawn exposures	132,130	(130)	(130)
- Belgian Mortgage portfolio: undrawn commitments	63,808	(34)	(34)
- Maltese Business Lending portfolio: drawn exposures	131,065	(213)	3,691
- Maltese Business Lending portfolio: undrawn commitments	13,370	-	-
- Maltese Mortgage portfolio: drawn exposures	67,793	(195)	(92)
- Maltese Mortgage portfolio: undrawn commitments	33,248	-	-
Investments measured at amortised cost			
- Securities portfolio	688,942	(196)	(65)
- Securitisation portfolio	573,608	(179)	(7)
Other accrued income (excl. International Corporate Lending portfolio)	10,531	-	(2)
Summary of financial instruments to which the impairment requirements in IFRS 9 are applied through profit or loss	4,833,783	(17,357)	2,041
Total credit loss allowance/total income statement ECL release for the year		(17,357)	2,041

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 and Bank's balance sheets as at 31 December 2023 and 2022, excluding credit loss allowances on accrued interest and other credit-related commitments, analysed by stage distribution.

	MeDirect Malta Group				
	Stage 1	Stage 2	Stage 3	POCI	Total
	€000	€000	€000	€000	€000
As at 31 December 2023					
International Corporate Lending portfolio	2,577	703	8,952	212	12,444
Dutch Mortgage portfolio	136	145	4	-	285
Belgian Mortgage portfolio	249	46	58	-	353
Maltese Business Lending portfolio	358	-	200	-	558
Maltese mortgage portfolio	356	-	23	-	379
	3,676	894	9,237	212	14,019

	MeDirect Malta Group				
	Stage 1	Stage 2	Stage 3	POCI	Total
	€000	€000	€000	€000	€000
As at 31 December 2022					
International Corporate Lending portfolio	5,165	2,942	6,368	224	14,699
Dutch Mortgage portfolio	106	71	7	-	184
Belgian Mortgage portfolio	114	16	-	-	130
Maltese Business Lending portfolio	208	4	1	-	213
Maltese mortgage portfolio	195	-	-	-	195
	5,788	3,033	6,376	224	15,421

The movement in credit loss allowances and the ECL charge for the financial year ended 31 December 2023 and 2022 are analysed in detail in the tables presented in the previous section.

During the financial year ended 31 December 2023, interest income amounting to €5.0 million (2022: €4.2 million) of the Group 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 “nonperforming 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.

As at 31 December 2023 and 2022, none of the exposures within the Maltese Mortgage portfolio, the Dutch Buy to Let Mortgage portfolio, Securities Investment and Securitisation Investment portfolios were forborne reflecting the fact that both the Securitisation Investment portfolio and the Securities Investment portfolio principally comprise of investment grade exposures and that the Maltese and the Dutch Buy to Let mortgage portfolios are relatively new portfolios. In this regard, any amounts disclosed in this section relate to forbearance activity within the International Corporate Lending, Maltese Business Lending, Dutch and Belgian Mortgage portfolios.

The following table shows the carrying amount of the Group’s loans and advances to customers classified within the International Corporate Lending and Maltese Business Lending portfolios reflecting forbearance activity, by stage and by past due status.

MeDirect Malta Group	**International Corporate Lending Portfolio**		**Maltese Business Lending Portfolio**		
	Non-forborne exposures	**Forborne exposures**	**Non-forborne exposures**	**Forborne exposures**	**Total**
	€000	**€000**	**€000**	**€000**	**€000**
As at 31 December 2023					
Stage 1					
Neither past due nor credit-impaired	**258,190**	**7,497**	**116,335**	**-**	**382,022**
Stage 2					
Neither past due nor credit-impaired	**2,916**	**18,066**	**9,696**	**-**	**30,678**
Stage 3					
Credit-impaired, net of credit loss allowances	**13,790**	**31,113**	**1,030**	**16,138**	**62,071**
POCI					
Credit-impaired, net of credit loss allowances	**-**	**214**	**-**	**-**	**214**
Loans and advances to customers, net of Stage 3 and POCI credit loss allowances	**274,896**	**56,890**	**127,061**	**16,138**	**474,985**
Stage 1 credit loss allowances	**2,341**	**236**	**358**	**-**	**2,935**
Stage 2 credit loss allowances	**19**	**684**	**-**	**-**	**703**
Stage 3 credit loss allowances	**658**	**8,294**	**-**	**200**	**9,152**
POCI credit loss allowances	**-**	**212**	**-**	**-**	**212**

MeDirect Malta Group	International Corporate Lending Portfolio		Maltese Business Lending Portfolio		
	Non-forborne exposures	Forborne exposures	Non-forborne exposures	Forborne exposures	Total
	€000	€000	€000	€000	€000
As at 31 December 2022					
Stage 1					
Neither past due nor credit-impaired	383,078	22,328	101,101	-	506,507
Past due but not credit-impaired					
- by up to 30 days	-	-	2,098	43	2,141
Stage 2					
Neither past due nor credit-impaired	24,321	53,270	8,351	1,272	87,214
Past due but not credit-impaired					
- by up to 30 days	-	-	2,039	-	2,039
Stage 3					
Credit-impaired, net of credit loss allowances	27,548	9,465	960	15,200	53,173
POCI					
Credit-impaired, net of credit loss allowances	-	211	-	-	211
Loans and advances to customers, net of Stage 3 and POCI credit loss allowances	434,947	85,274	114,549	16,515	651,285
Stage 1 credit loss allowances	4,674	491	208	-	5,373
Stage 2 credit loss allowances	655	2,287	1	3	2,946
Stage 3 credit loss allowances	5,059	1,309	-	1	6,369
POCI credit loss allowances	-	224	-	-	224

In May 2020, MeDirect Malta launched the MeAssist lending product to enhance access to bank financing to corporate customers in the Group's Maltese 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 Maltese Business Lending portfolio meeting the criteria of the MeAssist lending product amounted to €1.3 million as at 31 December 2023 (2022: €1.4 million), of which €0.3 million (2022: €0.5 million) was drawn down and classified in Stage 1 and €1.0 million was classified in Stage 3 (2022: €0.9 million).

The following table shows the carrying amount of the Group's loans and advances to customers classified within the Dutch and Belgian Mortgage portfolios reflecting forbearance activity, by stage and by past due status.

MeDirect Malta Group	Dutch Mortgage Portfolio		Belgian Mortgage Portfolio		
	Non-forborne exposures	Forborne exposures	Non-forborne exposures	Forborne exposures	Total
	€000	€000	€000	€000	€000
As at 31 December 2023					
Stage 1					
Neither past due nor credit-impaired	2,091,365	-	221,761	-	2,313,126
Past due but not credit-impaired					
- by up to 30 days	3,080	-	28,870	-	31,950
Stage 2					
Neither past due nor credit-impaired	231	4,619	-	896	5,746
Past due but not credit-impaired					
- by more than 30 days and up to 90 days	4,030	1,227	3,209	-	8,466
Stage 3					
Credit-impaired, net of credit loss allowances	297	-	330	166	793
Loans and advances to customers, net of Stage 3 credit loss allowances	2,099,003	5,846	254,170	1,062	2,360,081
Stage 1 credit loss allowances	136	-	249	-	385
Stage 2 credit loss allowances	106	39	35	11	191
Stage 3 credit loss allowances	4	-	39	19	62

MeDirect Malta Group	Dutch Mortgage Portfolio		Belgian Mortgage Portfolio		
	Non-forborne exposures	Forborne exposures	Non-forborne exposures	Forborne exposures	Total
	€000	€000	€000	€000	€000
As at 31 December 2022					
Stage 1					
Neither past due nor credit-impaired	1,142,563	-	107,286	-	1,249,849
Past due but not credit-impaired					
- by up to 30 days	668,271	-	23,056	-	691,327
Stage 2					
Neither past due nor credit-impaired	1,790	3,877	-	352	6,019
Past due but not credit-impaired					
- by more than 30 days and up to 90 days	1,179	-	1,436	-	2,615
Stage 3					
Credit-impaired, net of credit loss allowances	-	499	-	-	499
Loans and advances to customers, net of Stage 3 credit loss allowances	1,813,803	4,376	131,778	352	1,950,309
Stage 1 credit loss allowances	106	-	114	-	220
Stage 2 credit loss allowances	63	8	8	8	87
Stage 3 credit loss allowances	-	7	-	-	7

As at 31 December 2023 and 2022, 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 2023 and 2022.

As at 31 December 2023, total gross forborne loans and advances to customers as a percentage of total gross loans and advances to customers of the Group were equivalent to 3.2% (2022: 4.5%).

Interest income recognised by the Group during the financial year ended 31 December 2023 in respect of forborne exposures amounted to €6.0 million (2022: €8.9 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	
	2023	2022
	€000	€000
As at 31 December		
At beginning of year	108,058	247,585
Loans to which forbearance measures have been extended during the year/period without derecognition	35,067	12,934
Capitalised interest	987	10,347
Capitalised fees	-	(29)
Repayments or disposals	(52,278)	(65,262)
Loans exiting forborne status during the year without derecognition	(7,666)	(85,742)
Newly recognised loans as a result of forbearance measures	898	-
Write-offs	(301)	(15,341)
Write-backs	2,181	6,338
Amortisation of premium or discount	636	692
Exchange differences	1,079	(3,464)
At end of year	88,661	108,058

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 2023, credit loss allowances in respect of the Group's forborne loans were equivalent to €9.7 million (2022: €4.3 million). Additions to credit loss allowances on forborne loans during the year ended 31 December 2023 amounted to €7.8 million (2022: €1.6 million). Reversals of credit loss allowances on forborne loans during the year ended 31 December 2023 amounted to €2.4 million (2022: €9.6 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				
	Stage 1	Stage 2	Stage 3	POCI	Total
	€000	€000	€000	€000	€000
As at 31 December 2023					
Accommodation and food service activities	-	18,066	-	-	18,066
Administrative and support services	-	-	5,052	-	5,052
Real estate and construction	-	-	16,337	-	16,337
Financial and insurance activities	7,497	-	34,004	426	41,927
Professional, scientific and technical activities	-	-	1	-	1
Households and individuals	-	6,742	185	-	6,927
Wholesale and retail trade; Repair of motor vehicles and motorcycles	-	-	351	-	351
	7,497	24,808	55,930	426	88,661

	MeDirect Malta Group				
	Stage 1	Stage 2	Stage 3	POCI	Total
	€000	€000	€000	€000	€000
As at 31 December 2022					
Accommodation and food service activities	-	17,704	-	-	17,704
Administrative and support services	-	-	9,220	-	9,220
Real estate and construction	43	1,272	15,184	-	16,499
Financial and insurance activities	7,895	23,721	1,220	434	33,270
Information and communication	14,433	-	-	-	14,433
Professional, scientific and technical activities	-	-	1	-	1
Households and individuals	-	4,229	506	-	4,735
Wholesale and retail trade; Repair of motor vehicles and motorcycles	-	11,845	351	-	12,196
	22,371	58,771	26,482	434	108,058

The Group's forborne loans classified within the International Corporate Lending portfolio as at 31 December 2023 consist of corporate exposures based in Europe, amounting to €35.1 million (2022: €74.5 million), and in the United States, amounting to €20.9 million (2022: €8.0 million). The forborne loans classified within the Maltese 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 and Belgian Mortgage portfolios 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 and Belgian Mortgage portfolios 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 2023 amounted to €3.4 million (2022: €7.7 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 Maltese Business Lending and the Dutch, Belgian 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 most 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 Maltese Business Lending, the Maltese mortgage, the Dutch Mortgage portfolios and the Belgian Mortgage portfolios are mainly located in Malta, the Netherlands and Belgium respectively.

Exposures meeting the eligibility criteria of the MeAssist lending product launched by MeDirect Malta to aid Maltese corporate customers classified within the Maltese 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 Maltese 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.

MeDirect Malta Group	Non-forborne		Forborne		Total	
	Gross carrying/ nominal amount	Credit loss allowance	Gross carrying/ nominal amount	Credit loss allowance	Gross carrying/ nominal amount	Credit loss allowance
	€000	€000	€000	€000	€000	€000
As at 31 December 2023						
Stage 1						
a) Not collateralised	399	(1)	-	-	399	(1)
b) Fully collateralised						
- Up to 50% LTV	59,402	(20)	-	-	59,402	(20)
- 51% to 75% LTV	35,234	(139)	-	-	35,234	(139)
- 76% to 90% LTV	20,312	(198)	-	-	20,312	(198)
- 91% to 100% LTV	988	-	-	-	988	-
	116,335	(358)	-	-	116,335	(358)
Stage 2						
a) Not collateralised	7	-	-	-	7	-
b) Fully collateralised						
- Up to 50% LTV	9,689	-	-	-	9,689	-
	9,696	-	-	-	9,696	-
Stage 3						
a) Not collateralised	45	-	79	(1)	124	(1)
b) Fully collateralised						
- Up to 50% LTV	-	-	1,409	-	1,409	-
- 51% to 75% LTV	-	-	14,850	(199)	14,850	(199)
- greater than 100% LTV	985	-	-	-	985	-
	1,030	-	16,338	(200)	17,368	(200)
Total	127,061	(358)	16,338	(200)	143,399	(558)

MeDirect Malta Group	Non-forborne		Forborne		Total	
	Gross carrying/ nominal amount	Credit loss allowance	Gross carrying/ nominal amount	Credit loss allowance	Gross carrying/ nominal amount	Credit loss allowance
	€000	€000	€000	€000	€000	€000
As at 31 December 2022						
Stage 1						
a) Not collateralised	457	(2)	43	-	500	(2)
b) Fully collateralised						
- Up to 50% LTV	52,396	(4)	-	-	52,396	(4)
- 51% to 75% LTV	44,288	(149)	-	-	44,288	(149)
- 76% to 90% LTV	5,073	(50)	-	-	5,073	(50)
- 91% to 100% LTV	985	(3)	-	-	985	(3)
	103,199	(208)	43	-	103,242	(208)
Stage 2						
a) Fully collateralised						
- Up to 50% LTV	5,671	-	-	-	5,671	-
- 51% to 75% LTV	4,719	(1)	1,272	(3)	5,991	(4)
	10,390	(1)	1,272	(3)	11,662	(4)
Stage 3						
a) Not collateralised	-	-	274	(1)	274	(1)
b) Fully collateralised						
- Up to 50% LTV	40	-	1,357	-	1,397	-
- 51% to 75% LTV	-	-	13,570	-	13,570	-
- greater than 100% LTV	920	-	-	-	920	-
	960	-	15,201	(1)	16,161	(1)
Total	114,549	(209)	16,516	(4)	131,065	213

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.

MeDirect Malta Group	Non-forborne		Forborne		Total	
	Gross carrying/ nominal amount	Credit loss allowance	Gross carrying/ nominal amount	Credit loss allowance	Gross carrying/ nominal amount	Credit loss allowance
	€000	€000	€000	€000	€000	€000
As at 31 December 2023						
Stage 1						
a) Fully collateralised						
- Up to 50% LTV	88,235	(2)	-	-	88,235	(2)
- 51% to 75% LTV	396,035	(19)	-	-	396,035	(19)
- 76% to 90% LTV	468,787	(31)	-	-	468,787	(31)
- 91% to 100% LTV	1,141,388	(84)	-	-	1,141,388	(84)
	2,094,445	(136)	-	-	2,094,445	(136)
Stage 2						
a) Fully collateralised						
- Up to 50% LTV	-	-	43	-	43	-
- 51% to 75% LTV	159	-	653	(21)	812	(21)
- 76% to 90% LTV	589	(18)	506	(3)	1,095	(21)
b) Partially collateralised						
- greater than 100%	3,513	(88)	4,644	(15)	8,157	(103)
	4,261	(106)	5,846	(39)	10,107	(145)
Stage 3						
a) Fully collateralised						
- 76% to 90% LTV	133	-	-	-	133	-
- 91% to 100% LTV	168	(4)	-	-	168	(4)
	301	(4)	-	-	301	(4)

MeDirect Malta Group	Non-forborne		Forborne		Total	
	Gross carrying/ nominal amount	Credit loss allowance	Gross carrying/ nominal amount	Credit loss allowance	Gross carrying/ nominal amount	Credit loss allowance
	€000	€000	€000	€000	€000	€000
As at 31 December 2022						
Stage 1						
a) Fully collateralised						
- Up to 50% LTV	52,209	(5)	-	-	52,209	(5)
- 51% to 75% LTV	318,488	(18)	-	-	318,488	(18)
- 76% to 90% LTV	435,147	(24)	-	-	435,147	(24)
- 91% to 100% LTV	890,228	(52)	-	-	890,228	(52)
b) Partially collateralised						
- greater than 100%	114,762	(7)	-	-	114,762	(7)
	1,810,834	(106)	-	-	1,810,834	(106)
Stage 2						
a) Fully collateralised						
- 51% to 75% LTV	384	(6)	465	-	849	(6)
- 76% to 90% LTV	159	-	129	-	288	-
- 91% to 100% LTV	1,902	(48)	2,763	(7)	4,665	(55)
b) Partially collateralised						
- greater than 100%	524	(9)	520	(1)	1,044	(10)
	2,969	(63)	3,877	(8)	6,846	(71)
Stage 3						
a) Fully collateralised						
- 76% to 90% LTV	-	-	506	(7)	506	(7)
	-	-	506	(7)	506	(7)

The following table shows the gross carrying amount (before credit loss allowances) of the loans and advances to customers classified under the Belgian 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/ nominal amount	Credit loss allowance	Gross carrying/ nominal amount	Credit loss allowance	Gross carrying/ nominal amount	Credit loss allowance
	€000	€000	€000	€000	€000	€000
As at 31 December 2023						
Stage 1						
a) Fully collateralised						
- Up to 50% LTV	27,468	(20)	-	-	27,468	(20)
- 51% to 75% LTV	73,272	(67)	-	-	73,272	(67)
- 76% to 90% LTV	120,419	(130)	-	-	120,419	(130)
- 91% to 100% LTV	29,472	(32)	-	-	29,472	(32)
	250,631	(249)	-	-	250,631	(249)
Stage 2						
a) Fully collateralised						
- Up to 50% LTV	473	(4)	-	-	473	(4)
- 51% to 75% LTV	369	(3)	305	(3)	673	(6)
- 76% to 90% LTV	1,623	(19)	591	(8)	2,215	(27)
- 91% to 100% LTV	744	(9)	-	-	744	(9)
	3,209	(35)	896	(11)	4,105	(46)
Stage 3						
a) Fully collateralised						
- 76% to 90% LTV	369	(39)	185	(19)	554	(58)
	369	(39)	185	(19)	554	(58)
	254,209	(323)	1,081	(30)	255,290	(353)

MeDirect Malta Group	Non-forborne		Forborne		Total	
	Gross carrying/ nominal amount	Credit loss allowance	Gross carrying/ nominal amount	Credit loss allowance	Gross carrying/ nominal amount	Credit loss allowance
	€000	€000	€000	€000	€000	€000
As at 31 December 2022						
Stage 1						
a) Fully collateralised						
- Up to 50% LTV	10,855	(7)	-	-	10,855	(7)
- 51% to 75% LTV	32,473	(26)	-	-	32,473	(26)
- 76% to 90% LTV	72,850	(67)	-	-	72,850	(67)
- 91% to 100% LTV	13,307	(13)	-	-	13,307	(13)
b) Partially collateralised						
- greater than 100% LTV	857	(1)	-	-	857	(1)
	130,342	(114)	-	-	130,342	(114)
Stage 2						
a) Fully collateralised						
- Up to 50% LTV	152	-	-	-	152	-
- 76% to 90% LTV	978	-	164	(4)	1,142	(4)
- 91% to 100% LTV	-	(8)	188	(4)	188	(12)
b) Partially collateralised						
- greater than 100% LTV	306	-	-	-	306	-
	1,436	(8)	352	(8)	1,788	(16)
	131,778	(122)	352	(8)	132,130	(130)

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/ nominal amount	Credit loss allowance	Gross carrying/ nominal amount	Credit loss allowance	Gross carrying/ nominal amount	Credit loss allowance
	€000	€000	€000	€000	€000	€000
As at 31 December 2023						
Stage 1						
a) Not collateralised	154	(68)	-	-	154	(68)
b) Fully collateralised						
- Up to 50% LTV	19,826	(44)	-	-	19,826	(44)
- 51% to 75% LTV	32,801	(95)	-	-	32,801	(95)
- 76% to 90% LTV	45,892	(148)	-	-	45,892	(148)
b) Partially collateralised						
- greater than 100% LTV	161	(1)	-	-	161	(1)
	98,834	(356)	-	-	98,834	(356)
Stage 3						
a) Fully collateralised						
- Up to 50% LTV	144	(23)	-	-	144	(23)
	144	(23)	-	-	144	(23)
	98,978	(379)	-	-	98,978	(379)

MeDirect Malta Group	Non-forborne		Forborne		Total	
	Gross carrying/ nominal amount	Credit loss allowance	Gross carrying/ nominal amount	Credit loss allowance	Gross carrying/ nominal amount	Credit loss allowance
	€000	€000	€000	€000	€000	€000
As at 31 December 2022						
Stage 1						
a) Fully collateralised						
- Up to 50% LTV	11,158	(39)	-	-	11,158	(39)
- 51% to 75% LTV	22,377	(40)	-	-	22,377	(40)
- 76% to 90% LTV	34,258	(116)	-	-	34,258	(116)
	67,793	(195)	-	-	67,793	(195)

As at 31 December 2023, the Group held senior secured loans to international borrowers classified under the International Corporate Lending portfolio which amounted to €0.3 billion (2022: €0.5 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 Securities Investment portfolio as at 31 December 2023 and 2022 are unsecured with the exception of a sub-portfolio of covered bonds amounting to €438.1 million (2022: €386.8 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 2023 and 2022 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 International and Maltese Corporate Lending and Securities 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.

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 Securities portfolios do not exist for determining implied ratings of the Maltese Business Lending portfolio, mainly due to existing data limitations within the Maltese 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 Securities 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 based on historical data of proxy NHG loans from RMBS transactions which are adjusted to incorporate current and forward-looking macroeconomic variables and data such as unemployment rates, real GDP growth 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 and the actual quarterly NPL ratio published by the European Banking Authority in its Risk Dashboard Report, adjusted to incorporate forward-looking macroeconomic variables including real GDP growth, house price index, compensation of employees and household disposable income.

For the Belgian mortgages, the PiT PDs are mainly based on the Belgium Mortgage industry level NPL data published by the National Bank of Belgium adjusted to incorporate forward-looking macroeconomic variables including unemployment rates, real GDP growth, house price index, claims on private sector and household disposable income.

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 Maltese 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, Belgian 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 2023, a degree of uncertainty remains as the economy is expected to continue to stagnate due to high interest rates, negative sentiment, weak manufacturing orders and a risk in geopolitical tensions. In this respect, the macroeconomic modeling aspect within the estimation of ECL, and the forecasting of economic conditions is still subject to an inherent level of risk and highly subjective.

This has required an elevated level of review to ensure that the macroeconomic methodology used by the Group, provided by a reputable third party, results in plausible scenarios that adequately captures the uncertainties previously mentioned. This methodology was also compared to regulator issued scenarios, with those used by the Group being more conservative.

Judgment is still required in the determination of macroeconomic forecasts reflecting potential future economic conditions under difference 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 Maltese Business Lending portfolios, as well as in respect of all exposures classified within the Dutch Mortgage, Belgian Mortgage, Maltese Mortgage, Securities 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 Group has chosen three macroeconomic scenarios that include a central, or baseline, scenario and two "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 geopolitical tensions in respect of the conflict between Russia and Ukraine and between Israel and Hamas, assumptions on the energy markets, monetary policy assumptions as the ECB is expected to start cutting rates, as well as epidemiological assumptions in respect of future waves of the pandemic. Moreover, the outlook is that the economy will continue to stagnate mainly due to high interest rates and negative sentiment, therefore, economic forecasts remain subject to a high degree of uncertainty in the current environment.

With the current geopolitical tensions, 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 ("IFRS9 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 2023. In this respect, the Group's forward looking macroeconomic scenarios are deemed to be aligned with the ECB's macroeconomic forecasts for the Euro area.

As at 31 December 2023, management selected to use three scenarios developed and recommended by the external vendor which are deemed to be mostly aligned with the December 2023 ECB Staff projections. As per the preceding year, management selected the Baseline, the Upside, and the Downside 2 scenarios.

The scenarios used for the purposes of determining the ECL as at 31 December 2023 are described below.

Baseline

- Conflict between Russia and Ukraine continues but does not expand beyond Ukraine
- Conflict between Israel and Hamas does not escalate into a broader regional conflict
- Global oil prices remain around current levels for several quarters
- Natural gas prices remain close to current levels and are only slightly higher than their pre-pandemic
- Supply chain bottlenecks continue to ease
- Infections due to new variants of COVID-19 lead to only minimal restrictions on mobility or voluntary social distancing, and correspondingly have little economic impact
- ECB holds rates unchanged at 4% for several quarters. It starts cutting rates in the summer of 2024, and it proceeds relatively rapidly given the softness in inflation. Neutral rate is reached in 2025

Upside

- Conflict between Russia and Ukraine ends, which reduces geopolitical tensions. Supplies of commodities such as oil, gas and food from the region increase
- Vaccinations successfully combat new variants of the virus and render any restrictions to mobility unnecessary
- The supply side of the economy expands strongly, driven by productivity gains, while slack in the economy proves more substantial than initially thought. The global economy picks up robustly, boosting manufacturing output. Productivity gains and the expansion of the supply
- Global energy prices are slightly higher than in the baseline, reflecting stronger demand that is met by robust supply
- ECB feels more confident and proceeds with normalization more slowly than in the baseline. It starts cutting rates later than in the baseline and reaches neutral values significantly later than the baseline

Downside 2

- Conflict between Russia and Ukraine increases steadily, and fears grow that NATO will be dragged into the conflict, which leads to an even sharper decline in confidence
- Worries that conflict between Israel and Hamas will spiral into a broader regional conflict weigh on financial markets and confidence more broadly
- Tensions between the U.S. and China persist and intensify, with barriers to shipping along the Taiwan Strait
- There is a moderate wave of the pandemic, social distancing increases as does the economic effect, but the impact is mild compared with the disruption experienced in 2020-2022
- Business investment declines as does the demand for labour
- After some hesitation, the ECB starts to cut rates, taking the deposit rate below neutral but above zero
- To limit stress in sovereign and interbank markets, the ECB restarts its purchase of government bonds, provides forward guidance about its future policy moves, and further loosens the eligibility criteria for the collateral it accepts from banks

The year-on-year forecasts for 2023 to 2026 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.

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). The Group has assigned the probability weightings 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. Management selected this mid-point approach since it is an approach recommended by the external vendor and, the scenarios and probability weight chosen are deemed to be mostly aligned with the December 2023 ECB Staff projections.

The scenarios selected, 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		30%	40%		30%	

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 2023 and 2022.

For the International Corporate Lending and Securities 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 Maltese 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 Securities 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.

For the Belgian Residential Mortgages portfolio, the key MEVs used for the estimation of ECL are national levels of House Price Index, Unemployment Rate, real GDP growth and Household Disposable Income.

With respect to the Maltese Residential Mortgages portfolio, the key MEVs used for the estimation of ECL are national levels of House Price Index, Unemployment Rate, real GDP growth and Household Disposable Income, and the actual quarter lagged NPL ratio.

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 (2023-2026) for key MEVs

		International Lending and Securities												Maltese Lending				Dutch Mortgages				Belgian Mortgages			
		UK				US				Eurozone				Malta				Netherlands				Belgium			
	ECL Scenario	2023	2024	2025	2026	2023	2024	2025	2026	2023	2024	2025	2026	2023	2024	2025	2026	2023	2024	2025	2026	2023	2024	2025	2026
Real GDP - Growth %	Severe Upside	0.6%	5.4%	2.0%	1.1%	2.6%	6.1%	2.6%	2.8%	0.3%	4.4%	1.9%	1.6%	5.1%	8.2%	3.9%	2.6%	-0.6%	4.9%	2.6%	1.3%	1.5%	4.2%	4.3%	1.9%
	Upside	0.6%	3.9%	1.2%	1.3%	2.6%	3.5%	2.3%	2.5%	0.3%	3.5%	1.5%	1.6%	5.1%	7.1%	3.6%	2.8%	-0.6%	3.6%	2.0%	1.3%	1.5%	3.2%	3.3%	1.9%
	Baseline	0.6%	0.4%	1.0%	1.3%	2.6%	1.3%	1.9%	2.4%	0.3%	1.2%	1.7%	1.8%	5.1%	4.0%	4.0%	3.2%	-0.6%	0.9%	2.0%	1.6%	1.5%	1.7%	1.9%	1.9%
	Downside 1	0.6%	-3.3%	2.5%	1.5%	2.6%	-0.7%	2.9%	2.7%	0.3%	-1.0%	2.6%	1.9%	5.1%	2.5%	4.6%	3.2%	-0.6%	-0.8%	2.2%	2.0%	1.5%	0.3%	2.5%	2.0%
	Downside 2	0.6%	-5.6%	1.3%	2.6%	2.6%	-2.3%	1.6%	3.3%	0.3%	-5.0%	2.2%	3.1%	5.1%	-2.6%	4.7%	4.5%	-0.6%	-5.4%	2.3%	3.8%	1.5%	-4.7%	2.6%	3.2%
	Severe Downside	0.6%	-7.1%	-0.2%	4.2%	2.6%	-4.1%	0.3%	3.4%	0.3%	-7.1%	0.2%	4.5%	5.1%	-4.5%	2.5%	5.9%	-0.6%	-7.3%	0.3%	4.7%	1.5%	-7.1%	0.3%	4.7%
Unemployment Rate - Average %	Severe Upside	4.2%	3.8%	3.5%	3.5%	3.6%	2.8%	2.9%	3.1%	6.5%	6.3%	6.0%	6.1%	2.8%	3.4%	3.6%	3.5%	3.6%	3.6%	3.0%	3.4%	5.6%	6.8%	7.1%	7.0%
	Upside	4.2%	4.1%	3.9%	3.9%	3.6%	3.1%	3.3%	3.4%	6.5%	6.5%	6.3%	6.4%	2.8%	3.5%	3.8%	3.6%	3.6%	3.6%	3.4%	3.7%	5.6%	6.8%	7.1%	7.0%
	Baseline	4.2%	4.5%	4.7%	4.7%	3.6%	4.0%	4.1%	4.0%	6.5%	6.7%	6.7%	6.7%	2.8%	3.6%	3.8%	3.7%	3.6%	3.9%	4.0%	4.1%	5.6%	6.9%	7.1%	7.0%
	Downside 1	4.2%	4.9%	5.0%	4.9%	3.6%	5.7%	5.3%	4.0%	6.5%	7.0%	7.3%	7.1%	2.8%	3.6%	3.9%	3.6%	3.6%	4.0%	4.6%	4.4%	5.6%	7.0%	7.2%	7.1%
	Downside 2	4.2%	5.6%	7.3%	7.5%	3.6%	6.7%	7.4%	6.1%	6.5%	7.7%	8.8%	8.3%	2.8%	3.8%	4.4%	3.9%	3.6%	4.4%	5.9%	5.5%	5.6%	7.2%	8.0%	8.0%
	Severe Downside	4.2%	6.3%	8.5%	8.4%	3.6%	7.2%	8.7%	8.3%	6.5%	8.0%	9.8%	9.6%	2.8%	3.8%	4.7%	4.4%	3.6%	4.5%	6.6%	6.6%	5.6%	7.3%	8.5%	8.7%
Stock Market Index - Growth %	Severe Upside	3.0%	23.3%	-0.3%	2.4%	13.3%	18.1%	2.6%	4.9%	14.0%	20.7%	3.8%	4.5%	0.5%	27.9%	-0.7%	11.2%	-	-	-	-	-	-	-	-
	Upside	3.0%	18.7%	1.2%	2.0%	13.3%	12.9%	2.3%	4.1%	14.0%	16.5%	4.3%	4.6%	0.5%	22.1%	-2.8%	11.9%	-	-	-	-	-	-	-	-
	Baseline	3.0%	7.8%	3.9%	4.8%	13.3%	6.5%	2.8%	5.3%	14.0%	6.1%	4.6%	6.2%	0.5%	9.2%	-0.9%	13.4%	-	-	-	-	-	-	-	-
	Downside 1	3.0%	4.5%	2.5%	5.7%	13.3%	-19.1%	14.3%	14.3%	14.0%	-3.8%	6.9%	8.5%	0.5%	0.4%	-1.1%	15.5%	-	-	-	-	-	-	-	-
	Downside 2	3.0%	-13.2%	12.9%	11.1%	13.3%	-33.8%	11.3%	22.4%	14.0%	-28.2%	26.6%	17.5%	0.5%	-22.3%	0.6%	26.1%	-	-	-	-	-	-	-	-
	Severe Downside	3.0%	-27.5%	8.8%	17.4%	13.3%	-42.9%	4.8%	16.3%	14.0%	-41.5%	20.6%	33.1%	0.5%	-30.8%	10.1%	42.6%	-	-	-	-	-	-	-	-
10Yr Treasury Rate - Average %	Severe Upside	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2.8%	2.7%	2.8%	3.1%	-	-	-	-
	Upside	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2.8%	2.6%	2.7%	2.8%	-	-	-	-
	Baseline	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2.8%	2.6%	2.6%	2.6%	-	-	-	-
	Downside 1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2.8%	2.1%	2.2%	2.6%	-	-	-	-
	Downside 2	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2.8%	1.7%	1.5%	1.7%	-	-	-	-
	Severe Downside	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2.8%	1.2%	0.9%	1.0%	-	-	-	-
House Price Index %	Severe Upside	-	-	-	-	-	-	-	-	-	-	-	-	1.0%	6.1%	8.6%	3.3%	-5.3%	2.4%	3.9%	3.6%	-1.6%	-0.5%	0.9%	2.2%
	Upside	-	-	-	-	-	-	-	-	-	-	-	-	1.0%	4.4%	6.3%	2.9%	-5.3%	1.3%	2.7%	3.6%	-1.6%	-0.9%	0.7%	2.3%
	Baseline	-	-	-	-	-	-	-	-	-	-	-	-	1.0%	2.8%	1.9%	1.9%	-5.3%	-1.5%	2.8%	4.3%	-1.6%	-2.1%	1.0%	2.5%
	Downside 1	-	-	-	-	-	-	-	-	-	-	-	-	1.0%	2.5%	0.6%	-0.3%	-5.3%	-3.9%	2.3%	5.0%	-1.6%	-3.1%	1.0%	2.3%
	Downside 2	-	-	-	-	-	-	-	-	-	-	-	-	1.0%	0.8%	-6.2%	-5.0%	-5.3%	-10.1%	-2.0%	8.6%	-1.6%	-6.3%	0.3%	3.6%
	Severe Downside	-	-	-	-	-	-	-	-	-	-	-	-	1.0%	1.2%	-10.3%	-9.8%	-5.3%	-11.6%	-7.9%	7.7%	-1.6%	-6.3%	-2.5%	3.2%
Household Disposable Income - Growth %	Severe Upside	-	-	-	-	-	-	-	-	-	-	-	-	5.4%	9.0%	2.3%	3.0%	-	-	-	-	5.8%	2.5%	3.5%	2.3%
	Upside	-	-	-	-	-	-	-	-	-	-	-	-	5.4%	6.3%	2.3%	3.1%	-	-	-	-	5.8%	2.0%	2.8%	2.1%
	Baseline	-	-	-	-	-	-	-	-	-	-	-	-	5.4%	5.8%	2.1%	2.7%	-	-	-	-	5.8%	1.4%	1.7%	1.8%
	Downside 1	-	-	-	-	-	-	-	-	-	-	-	-	5.4%	5.8%	1.9%	2.5%	-	-	-	-	5.8%	1.2%	1.6%	1.5%
	Downside 2	-	-	-	-	-	-	-	-	-	-	-	-	5.4%	0.9%	1.6%	2.2%	-	-	-	-	5.8%	0.6%	0.9%	1.0%
	Severe Downside	-	-	-	-	-	-	-	-	-	-	-	-	5.4%	1.1%	-3.2%	2.1%	-	-	-	-	5.8%	1.1%	0.3%	0.5%

Economic Scenarios: Year-on-Year Forecasts (2022-2025) for key MEVs

		International Lending and Treasury												Maltese Lending				Dutch Mortgages				Belgian Mortgages			
		UK				US				Eurozone				Malta				Netherlands				Belgium			
	ECL Scenario	2022	2023	2024	2025	2022	2023	2024	2025	2022	2023	2024	2025	2022	2023	2024	2025	2022	2023	2024	2025	2022	2023	2024	2025
Real GDP - Growth %	Severe Upside	0.3%	3.1%	1.8%	1.0%	0.4%	6.2%	3.2%	2.9%	1.2%	4.5%	2.7%	2.0%	3.2%	10.0%	0.9%	4.1%	2.1%	5.4%	2.7%	1.1%	0.9%	6.2%	1.5%	1.1%
	Upside	0.3%	1.9%	1.2%	1.1%	0.4%	3.5%	2.5%	2.3%	1.2%	3.5%	2.3%	2.0%	3.2%	9.2%	0.6%	4.0%	2.1%	4.1%	2.1%	1.2%	0.9%	4.8%	1.0%	1.2%
	Baseline	0.3%	-0.8%	1.2%	1.4%	0.4%	1.0%	2.6%	2.8%	1.2%	1.2%	2.6%	2.2%	3.2%	7.3%	0.8%	4.1%	2.1%	1.4%	2.1%	1.4%	0.9%	2.1%	1.3%	1.3%
	Downside 1	0.3%	-4.4%	2.7%	1.6%	0.4%	-1.3%	3.1%	3.4%	1.2%	-1.0%	3.4%	2.3%	3.2%	5.8%	1.4%	4.2%	2.1%	-0.3%	2.3%	1.8%	0.9%	0.7%	1.9%	1.4%
	Downside 2	0.3%	-6.9%	1.3%	2.5%	0.4%	-2.3%	1.7%	3.8%	1.2%	-5.0%	3.2%	3.5%	3.2%	0.5%	1.4%	5.5%	2.1%	-5.0%	2.4%	3.6%	0.9%	-4.3%	2.0%	2.6%
	Severe Downside	0.3%	-8.3%	-0.3%	3.5%	0.4%	-4.1%	0.9%	3.9%	1.2%	-7.1%	1.0%	4.9%	3.2%	-1.4%	-0.7%	6.8%	2.1%	-6.9%	0.4%	4.6%	0.9%	-6.7%	-0.3%	4.1%
Unemployment Rate - Average %	Severe Upside	3.7%	3.5%	3.2%	3.3%	3.7%	3.1%	3.1%	3.0%	6.7%	6.7%	6.3%	6.4%	3.0%	3.3%	3.2%	3.4%	3.5%	3.2%	2.6%	3.0%	5.5%	4.7%	4.5%	5.3%
	Upside	3.7%	3.8%	3.7%	3.7%	3.7%	3.5%	3.4%	3.4%	6.7%	6.8%	6.6%	6.6%	3.0%	3.3%	3.3%	3.4%	3.5%	3.3%	2.9%	3.3%	5.5%	4.7%	4.7%	5.5%
	Baseline	3.7%	4.2%	4.4%	4.5%	3.7%	4.0%	4.1%	3.8%	6.7%	7.1%	7.1%	7.0%	3.0%	3.3%	3.4%	3.5%	3.5%	3.5%	3.6%	3.7%	5.5%	5.0%	5.0%	5.5%
	Downside 1	3.7%	4.6%	4.8%	4.7%	3.7%	5.7%	5.4%	3.9%	6.7%	7.4%	7.8%	7.6%	3.0%	3.3%	3.5%	3.6%	3.5%	3.7%	4.1%	4.0%	5.5%	5.2%	5.5%	5.8%
	Downside 2	3.7%	5.3%	7.0%	7.3%	3.7%	6.8%	7.4%	5.9%	6.7%	8.3%	9.5%	8.9%	3.0%	3.5%	4.1%	4.3%	3.5%	4.0%	5.5%	5.1%	5.5%	5.8%	7.7%	8.5%
	Severe Downside	3.7%	6.0%	8.3%	8.2%	3.7%	7.4%	8.9%	8.4%	6.7%	8.6%	10.6%	10.5%	3.0%	3.5%	4.3%	4.9%	3.5%	4.1%	6.2%	6.2%	5.5%	6.1%	9.1%	11.0%
Stock Market Index - Growth %	Severe Upside	-1.3%	20.3%	-1.3%	4.1%	-17.6%	19.6%	0.1%	6.0%	-12.5%	20.0%	0.9%	3.7%	-6.9%	19.7%	-0.5%	6.0%	-	-	-	-	-	-	-	-
	Upside	-1.3%	15.8%	0.2%	3.8%	-17.6%	14.3%	-0.2%	5.2%	-12.5%	15.9%	1.3%	3.7%	-6.9%	14.4%	1.2%	7.6%	-	-	-	-	-	-	-	-
	Baseline	-1.3%	5.1%	2.9%	6.6%	-17.6%	7.9%	0.3%	6.5%	-12.5%	5.7%	1.5%	5.5%	-6.9%	1.5%	3.3%	10.4%	-	-	-	-	-	-	-	-
	Downside 1	-1.3%	2.0%	1.5%	7.5%	-17.6%	-20.8%	12.0%	16.4%	-12.5%	-4.5%	3.7%	8.0%	-6.9%	-6.2%	3.5%	12.0%	-	-	-	-	-	-	-	-
	Downside 2	-1.3%	-15.3%	11.8%	13.0%	-17.6%	-34.7%	7.3%	24.2%	-12.5%	-29.0%	22.8%	16.6%	-6.9%	-27.9%	15.3%	24.0%	-	-	-	-	-	-	-	-
	Severe Downside	-1.3%	-29.3%	7.8%	19.4%	-17.6%	-41.6%	0.5%	17.6%	-12.5%	-42.1%	16.1%	32.1%	-6.9%	-36.1%	22.4%	39.4%	-	-	-	-	-	-	-	-
10Yr Treasury Rate - Average %	Severe Upside	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1.4%	2.5%	2.7%	2.8%	-	-	-	-
	Upside	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1.4%	2.5%	2.6%	2.6%	-	-	-	-
	Baseline	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1.4%	2.4%	2.5%	2.3%	-	-	-	-
	Downside 1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1.4%	1.9%	2.1%	2.2%	-	-	-	-
	Downside 2	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1.4%	1.6%	1.4%	1.3%	-	-	-	-
	Severe Downside	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1.4%	1.3%	1.0%	0.8%	-	-	-	-
House Price Index %	Severe Upside	-	-	-	-	-	-	-	-	-	-	-	-	1.5%	13.3%	6.9%	0.2%	-1.7%	-1.3%	4.6%	2.8%	1.5%	2.1%	6.1%	4.1%
	Upside	-	-	-	-	-	-	-	-	-	-	-	-	1.5%	11.3%	4.6%	0.0%	-1.7%	-4.0%	1.9%	2.1%	1.5%	0.6%	5.0%	3.7%
	Baseline	-	-	-	-	-	-	-	-	-	-	-	-	1.5%	7.6%	1.2%	0.4%	-1.7%	-5.7%	-0.7%	1.8%	1.5%	-1.0%	3.5%	3.6%
	Downside 1	-	-	-	-	-	-	-	-	-	-	-	-	1.5%	8.7%	-0.4%	-1.7%	-1.7%	-6.1%	-1.5%	1.6%	1.5%	-0.5%	3.1%	2.8%
	Downside 2	-	-	-	-	-	-	-	-	-	-	-	-	1.5%	4.5%	-10.2%	-8.4%	-1.7%	-9.4%	-6.7%	1.0%	1.5%	-4.7%	1.5%	2.2%
	Severe Downside	-	-	-	-	-	-	-	-	-	-	-	-	1.5%	9.1%	-16.4%	-12.9%	-1.7%	-7.3%	-13.7%	-3.6%	1.5%	-3.6%	1.6%	0.7%
Household Disposable Income - Growth %	Severe Upside	-	-	-	-	-	-	-	-	-	-	-	-	0.5%	5.0%	4.7%	1.9%	-	-	-	-	2.5%	6.3%	5.6%	1.5%
	Upside	-	-	-	-	-	-	-	-	-	-	-	-	0.5%	8.5%	4.3%	1.8%	-	-	-	-	2.5%	4.8%	5.0%	1.7%
	Baseline	-	-	-	-	-	-	-	-	-	-	-	-	0.5%	0.8%	-0.5%	2.0%	-	-	-	-	2.5%	3.0%	3.7%	2.2%
	Downside 1	-	-	-	-	-	-	-	-	-	-	-	-	0.5%	5.9%	4.4%	2.0%	-	-	-	-	2.5%	3.5%	3.7%	1.5%
	Downside 2	-	-	-	-	-	-	-	-	-	-	-	-	0.5%	5.2%	4.8%	1.5%	-	-	-	-	2.5%	2.5%	1.6%	0.9%
	Severe Downside	-	-	-	-	-	-	-	-	-	-	-	-	0.5%	-0.1%	4.5%	2.0%	-	-	-	-	2.5%	3.9%	-0.2%	-0.7%

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.

To ensure that the Group is adequately capturing the level of credit risk in its International Corporate Lending portfolio, an assessment was performed and the Group 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 movement in equity prices during 2023 can be attributed to being the main variable to the change in PiT PDs within the Group's ECL model for Corporates.

Management is confident that the modelled macroeconomic scenarios from the external vendor include reasonable epidemiological, economic, and geopolitical risk assumptions and the model outputs are appropriately reflecting the current market conditions.

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.

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 2023 and 2022, 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
MeDirect Malta Group						
2023						
Probability Weight 2023	-	30%	40%	-	30%	-
ECL as at 31 December 2023	-	1,392,904	2,467,718	-	6,939,851	-
2022						
Probability Weight 2022	-	30%	40%	-	30%	-
ECL as at 31 December 2022	-	4,008,718	6,420,667	-	16,606,354	-

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 2023, presented in the table above, is not directly comparable with the estimated weighted average ECL under each scenario as at 31 December 2022, since the size of the International Corporate Lending portfolio decreased significantly compared to the prior financial year.

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, Belgian and Maltese Mortgage, Maltese Business Lending, Securities Investment and Securitisation Investment portfolios is not considered to be significant taking cognisance of the level of credit loss allowances estimated at 31 December 2023 and 2022.

The Group has integrated ESG, by catering for climate and environmental risk factors into its existing credit risk processes.

The Group applies climate-adjusted scenarios sourced from an external vendor and utilises a statistical model developed by the external vendor for the estimation of the climate-adjusted credit loss allowances of its exposures classified within the International Corporate Lending, Maltese Business Lending, Dutch Mortgages, and Buy-to-Let portfolios.

The Group applies stresses on the collateral pledged as security for the estimation of the climate-adjusted credit loss allowances of its exposures classified within the Belgian and Maltese mortgage portfolios.

As at 31 December 2023, the increase in expected credit losses recognised in relation to climate risk was not deemed material to warrant further disclosures.

2.2.8 Concentration of credit risk exposures

2.2.8.1 Concentration of investment securities

Securities Investment portfolio

The Group's exposure to sovereign Eurozone government bonds as at 31 December 2023 represented 3% (2022: 22.9%), of the total investment securities within the Securities Investment portfolio.

Credit loss allowances for the Group amounting to €3 thousand were recognised in respect of these exposures as at 31 December 2023 (2022: €23 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 2023 and 2022 is shown below.

MeDirect Malta Group	Measured at amortised cost	
	2023	2022
	€000	€000
Concentration by type		
As at 31 December:		
Carrying amount:		
Covered bonds	**437,656**	387,035
National and regional government	**247,749**	135,590
Supranational and agencies	**20,505**	154,086
Corporations	**-**	12,035
Total	**705,910**	688,746

Securitisation Investment portfolio

The Group's Securitisation Investment portfolio comprises the investment in GH1-2019 structured note tranches, amounting to €19.4 million as at 31 December 2023 (2022: €19.1 million), as well as CLO transactions managed by third-party entities, amounting to €585.9 million (2022: €555.1 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 29 different CLOs, all of which are also collateralised by a pool of leveraged loans.

As at 31 December 2023, credit loss allowances in respect of exposures classified under these two sub-portfolios and measured at amortised cost amounted to €0.2 million (2022: €0.2 million). The Group's investment in the equity tranche of GH1-2019, with a fair value of €1.0 million as at 31 December 2023 (2022: €0.6 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 2023, exposures to UK counterparties classified under the International Corporate Lending portfolio and categorised as 'Other European countries' in the tables below amounted to €58.4 million (2022: €147.0 million).

Exposures classified under Maltese Business Lending, Maltese Mortgage, Dutch and Belgian Mortgage portfolios are categorised as EU exposures in the following tables with the Maltese Business Lending portfolio classified under "real estate activities" and "construction" sectors whereas the Dutch, Belgian and Maltese retail 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
	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000
Stage 1										
As at 31 December 2023										
Administrative and support service activities	8,499	-	-	-	8,499	(191)	-	-	-	(191)
Construction	76,141	-	-	-	76,141	(262)	-	-	-	(262)
Financial and insurance activities	87,048	23,384	15,795	-	126,227	(953)	(194)	(96)	-	(1,243)
Households and individuals	2,443,910	-	-	-	2,443,910	(739)	-	-	-	(739)
Information and communication	10,001	-	-	-	10,001	(101)	-	-	-	(101)
Manufacturing	26,411	-	-	-	26,411	(252)	-	-	-	(252)
Professional, scientific and technical activities	42,784	3,137	-	-	45,921	(320)	(16)	-	-	(336)
Real estate activities	48,118	-	-	-	48,118	(158)	-	-	-	(158)
Transportation and Storage	8,964	-	-	-	8,964	(75)	-	-	-	(75)
Wholesale and retail trade, repairs of motor vehicles and motorcycles	11,838	11,913	7,989	-	31,740	(104)	(91)	(124)	-	(319)
	2,763,714	38,434	23,784	-	2,825,932	(3,155)	(301)	(220)	-	(3,676)

Stage 2										
As at 31 December 2023										
Accommodation and food service activities	-	20,982	-	-	20,982	-	(703)	-	-	(703)
Construction	9,535	-	-	-	9,535	-	-	-	-	-
Households and individuals	14,212	-	-	-	14,212	(191)	-	-	-	(191)
Real estate activities	161	-	-	-	161	-	-	-	-	-
	23,908	20,982	-	-	44,890	(191)	(703)	-	-	(894)

	Gross carrying amount					Credit loss allowance				
	EU	Other European countries	North America	Asia	Total	EU	Other European countries	North America	Asia	Total
	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000
Stage 3										
As at 31 December 2023										
Administrative and support service activities	-	-	5,052	-	5,052	-	-	(596)	-	(596)
Construction	2,530	-	-	-	2,530	(200)	-	-	-	(200)
Financial and insurance activities	27,406	-	21,045	-	48,451	(7,030)	-	(1,210)	-	(8,240)
Households and individuals	1,000	-	-	-	1,000	(85)	-	-	-	(85)
Real estate activities	14,838	-	-	-	14,838	-	-	-	-	-
Wholesale and retail trade, repairs of motor vehicles and motorcycles	351	-	-	-	351	(116)	-	-	-	(116)
	46,125	-	26,097	-	72,222	(7,431)	-	(1,806)	-	(9,237)
POCI										
As at 31 December 2023										
Financial and insurance activities	426	-	-	-	426	(212)	-	-	-	(212)
	426	-	-	-	426	(212)	-	-	-	(212)
Total	2,834,173	59,416	49,881	-	2,943,470	(10,989)	(1,004)	(2,026)	-	(14,019)

MeDirect Malta Group	Notional amount					Credit loss allowance				
	EU	Other European countries	North America	Asia	Total	EU	Other European countries	North America	Asia	Total
	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000
Commitments to purchase financial assets, commitments to extend credit, guarantees and other commitments										
As at 31 December 2023										
Accommodation and food service activities	-	292	-	-	292	-	(2)	-	-	(2)
Administrative and support service activities	-	-	951	-	951	-	-	(112)	-	(112)
Construction	55,027	-	-	-	55,027	-	-	-	-	-
Financial and insurance activities	-	-	25,527	-	25,527	-	-	(118)	-	(118)
Households and individuals	150,418	-	-	-	150,418	(16)	-	-	-	(16)
Professional, scientific and technical activities	8,540	-	-	-	8,540	(50)	-	-	-	(50)
Real estate activities	19,560	-	-	-	19,560	-	-	-	-	-
	233,545	292	26,478	-	260,315	(66)	(2)	(230)	-	(298)

MeDirect Malta Group	Gross carrying amount					Credit loss allowance				
	EU	Other European countries	North America	Asia	Total	EU	Other European countries	North America	Asia	Total
	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000
Stage 1										
As at 31 December 2022										
Activities of holding companies	15,039	-	-	-	15,039	(158)	-	-	-	(158)
Administrative and support service activities	8,484	-	-	-	8,484	(137)	-	-	-	(137)
Construction	7,894	-	-	-	7,894	(152)	-	-	-	(152)
Financial and insurance activities	114,181	48,479	30,358	-	193,018	(1,867)	(534)	(312)	-	(2,713)
Households and individuals	2,008,968	-	-	-	2,008,968	(415)	-	-	-	(415)
Human health and social work activities	14,960	-	-	-	14,960	(334)	-	-	-	(334)
Information and communication	10,001	14,433	-	-	24,434	(232)	(147)	-	-	(379)
Manufacturing	32,002	-	-	-	32,002	(349)	-	-	-	(349)
Professional, scientific and technical activities	48,679	32,068	-	-	80,747	(358)	(188)	-	-	(546)
Real estate activities	103,242	-	-	-	103,242	(208)	-	-	-	(208)
Transportation and Storage	8,964	-	-	-	8,964	(110)	-	-	-	(110)
Wholesale and retail trade, repairs of motor vehicles and motorcycles	11,889	-	7,976	-	19,865	(220)	-	(67)	-	(287)
	2,384,303	94,980	38,334	-	2,517,617	(4,540)	(869)	(379)	-	(5,788)

Stage 2										
As at 31 December 2022										
Accommodation and food service activities	-	17,704	-	-	17,704	-	(1,278)	-	-	(1,278)
Administrative and support service activities	10,000	-	-	-	10,000	(427)	-	-	-	(427)
Financial and insurance activities	12,311	11,410	-	-	23,721	(129)	(73)	-	-	(202)
Households and individuals	8,634	-	-	-	8,634	(87)	-	-	-	(87)
Information and communication	-	14,321	-	-	14,321	-	(229)	-	-	(229)
Real estate activities	11,662	-	-	-	11,662	(4)	-	-	-	(4)
Wholesale and retail trade, repairs of motor vehicles and motorcycles	-	11,845	-	-	11,845	-	(806)	-	-	(806)
	42,607	55,280	-	-	97,887	(647)	(2,386)	-	-	(3,033)

	Gross carrying amount					Credit loss allowance				
	EU	Other European countries	North America	Asia	Total	EU	Other European countries	North America	Asia	Total
	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000
Stage 3										
As at 31 December 2022										
Administrative and support service activities	-	-	9,220	-	9,220	-	-	(1,193)	-	(1,193)
Financial and insurance activities	16,687	-	17,123	-	33,810	(4,915)	-	(144)	-	(5,059)
Households and individuals	506	-	-	-	506	(7)	-	-	-	(7)
Real estate activities	16,161	-	-	-	16,161	(1)	-	-	-	(1)
Wholesale and retail trade, repairs of motor vehicles and motorcycles	351	-	-	-	351	(116)	-	-	-	(116)
	33,705	-	26,343	-	60,048	(5,039)	-	(1,337)	-	(6,376)
POCI										
As at 31 December 2022										
Financial and insurance activities	435	-	-	-	435	(224)	-	-	-	(224)
	435	-	-	-	435	(224)	-	-	-	(224)
Total	2,461,050	150,260	64,677	-	2,675,987	(10,450)	(3,255)	(1,716)	-	(15,421)

	Notional amount					Credit loss allowance				
	EU	Other European countries	North America	Asia	Total	EU	Other European countries	North America	Asia	Total
	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000
Commitments to purchase financial assets, commitments to extend credit, guarantees and other commitments										
As at 31 December 2022										
Accommodation and food service activities	69	3,143	-	-	3,212	-	(22)	-	-	(22)
Administrative and support service activities	14,460	-	5,407	-	19,867	(34)	-	(640)	-	(674)
Construction	3,452	-	-	-	3,452	-	-	-	-	-
Financial and insurance activities	56,174	-	27,313	-	83,487	(213)	-	(161)	-	(374)
Households and individuals	201,753	-	-	-	201,753	(38)	-	-	-	(38)
Information and communication	-	8,584	-	-	8,584	-	(75)	-	-	(75)
Manufacturing	3,437	-	-	-	3,437	(14)	-	-	-	(14)
Professional, scientific and technical activities	10,060	-	-	-	10,060	(66)	-	-	-	(66)
Real estate activities	6,575	-	-	-	6,575	-	-	-	-	-
Wholesale and retail trade, repairs of motor vehicles and motorcycles	3,069	-	-	-	3,069	-	-	-	-	-
	299,049	11,727	32,720	-	343,496	(365)	(97)	(801)	-	(1,263)

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	Gross amounts of recognised financial instruments offset in the statement of financial position	Net amounts of financial instruments presented in the statement of financial position	Related amounts not offset in the statement of financial position: Amounts subject to master netting arrangements	Financial collateral pledged/(received (incl. cash)	Net amount
	€000	€000	€000	€000	€000	€000
As at 31 December 2023						
Financial assets						
Derivative financial instruments	207,950	-	207,950	649	-	208,599
Loans and advances to financial institutions	352,793	-	352,793	-	(26,113)	326,680
Investments - Securities Portfolio	705,910	-	705,910	-	(157,322)	548,588
Investments - Securitisation Portfolio	605,340	-	605,340	-	(167,987)	437,353
	1,871,993	-	1,871,993	649	(351,422)	1,521,220
Financial liabilities						
Derivative financial instruments	(25,464)	-	(25,464)	(649)	26,113	-
Amounts owed to financial institutions	(373,102)	-	(373,102)	-	325,309	(47,793)
	(398,566)	-	(398,566)	(649)	351,422	(47,793)

	Gross amounts of recognised financial instruments	Gross amounts of recognised financial instruments offset in the statement of financial position	Net amounts of financial instruments presented in the statement of financial position	Related amounts not offset in the statement of financial position: Amounts subject to master netting arrangements	Financial collateral pledged/(received (incl. cash)	Net amount
	€000	€000	€000	€000	€000	€000
As at 31 December 2022						
Financial assets						
Derivative financial instruments	363,382	-	363,382	(1,500)	-	361,882
Loans and advances to financial institutions	483,559	(80,572)	402,987	-	(3,806)	399,181
Investments - Securities Portfolio	694,038	-	694,038	-	(192,919)	501,119
Investments - Securitisation Portfolio	574,001	-	574,001	-	(33,442)	540,559
	2,114,980	(80,572)	2,034,408	(1,500)	(230,167)	1,802,741
Financial liabilities						
Derivative financial instruments	(85,878)	80,572	(5,306)	1,500	3,806	-
Amounts owed to financial institutions	(545,135)	-	(545,135)	-	226,361	(318,774)
	(631,013)	80,572	(550,441)	1,500	230,167	(318,774)

Derivative financial liabilities and loans and advances to financial institutions are offset as a netting agreement is in place with the counterparty in order to set-off the liabilities against the assets received. There is a legal right to settle, or otherwise eliminate, the amount due by applying the amount receivable from the same counterparty against it.

As at 31 December 2023, the Group's derivative financial liabilities subject to master-netting agreements have a fair value of €0.7 million (2022: €1.5 million). Within the table above, these have been capped at the fair value of the derivative assets of the Group amounting to €0.7 million (2022: €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 and ALM function under the oversight of the Asset and Liability Committee ("ALCO") and the Board Risk and Compliance Committee ("BRCC"). The Treasury and ALM function have 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 ALM and Risk functions under the oversight of the ALCO and of the BRCC.

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 MeDirect Bank (Malta) plc and MDB Group Limited. 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 and Compliance Committee

The Board delegates to the Board Risk and Compliance Committee ("BRCC") its oversight responsibilities of the risk function. Therefore, the BRCC 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 BRCC 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 BRCC 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 Group Head - ALM.

The Group's Risk team, under the leadership of the Group Chief Risk Officer ("CRO"), has primary responsibility for monitoring current liquidity performance as well as defining potential adverse liquidity scenarios that should be considered, and for reporting exposure to these scenarios (the "downside case"). Under the leadership of the Group CRO, it is responsible for ensuring that all significant risks relating to liquidity are properly identified and clearly incorporated into the Group's risk management and reporting framework. It is also responsible for producing reports that show and analyse the Group's sensitivity to external events related to liquidity, including the definition of severe but plausible events that could constitute stress scenarios.

Funding strategy

Banks traditionally perform a role of liquidity transformation, whereby they fund through liabilities that are liquid in the short to medium term, in order to invest in longer term and less liquid assets. This mismatch of liquid liabilities and less liquid assets is a near universal feature of bank balance sheets and clearly leads to a risk if liabilities cannot be rolled over when they mature (which may be every day in the case of money held in current or savings accounts).

The Group's strategy to mitigate this risk has four main components:

- Diversifying deposit product offerings as its primary instrument of 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 Securities 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 or against which funding can be obtained 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; 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).

To ensure that the Group has adequate liquidity to meet its near-term obligations, the Treasury team maintains good 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 considers known inflows and outflows (for example settlements of asset purchases or sales) beyond this period.

The Group complies 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 LCR as at 31 December 2023 and 2022:

	Group	
	2023	2022
	%	%
Actual LCR	**209**	221

During the year ended 31 December 2023 and 2022, the LCR was within both the regulatory minimum and the risk appetite set by the Group. As at 31 December 2023 and 2022, the Group's LCR was significantly above 100% at all times.

- 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 and the NSFR requirement is of 100%.

The table below displays the Group's NSFR as at 31 December 2023 and 2022:

	Group	
	2023	2022
	%	%
Actual NSFR	**126**	119

The Group's NSFR remained above the minimum legal requirement of 100% at all times during the financial year ended 31 December 2023 and 2022.

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 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 the Group's 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.

The Treasury and ALM team maintains good liquidity buffers and projects the Group's and Bank'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.

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, Belgian 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	Between 1 and 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years	No maturity date	Total
	€000	€000	€000	€000	€000	€000	€000
As at 31 December 2023							
Assets							
Balances with central banks	237,117	-	-	-	-	28,281	265,398
Derivative financial instruments	199	-	1,102	27,958	178,180	511	207,950
Loans and advances to financial institutions	352,793	-	-	-	-	-	352,793
Loans and advances to customers	17,754	30,833	260,820	1,032,974	1,587,070	(183,180)	2,746,271
- International Corporate Lending portfolio	-	-	97,890	230,616	-	-	328,506
- Dutch Mortgage portfolio	13,009	26,179	120,605	650,679	1,294,096	-	2,104,568
- Belgian Mortgage portfolio	2,428	4,382	20,003	81,908	146,216	-	254,937
- IFRS basis adjustment: International Mortgage portfolio	-	-	-	-	-	(183,180)	(183,180)
- Maltese Business Lending portfolio	2,314	7	19,982	56,939	63,599	-	142,841
- Maltese Mortgage portfolio	3	265	2,340	12,832	83,159	-	98,599
Investments	-	10,011	80,521	436,689	784,029	-	1,311,250
- Securities portfolio	-	10,011	80,521	436,689	178,689	-	705,910
- Securitisation portfolio	-	-	-	-	605,340	-	605,340
Accrued income	967	20,708	2,255	-	-	-	23,930
Loans to related parties (incl. in other assets)	-	-	-	-	-	41	41
Other receivables (incl. in other assets)	-	-	-	-	-	1,024	1,024
Other assets (incl. in other assets)	-	-	-	-	-	28,342	28,342
Total financial assets	608,830	61,552	344,698	1,497,621	2,549,279	(124,981)	4,936,999
Liabilities							
Derivative financial instruments	844	-	-	4,519	20,101	-	25,464
Amounts owed to financial institutions	322,590	-	50,512	-	-	-	373,102
Amounts owed to customers	2,684,679	29,786	341,809	224,929	10	-	3,281,213
Debt securities in issue	7,552	15,103	66,456	821,737	-	-	910,848
Subordinated liabilities	-	-	54,982	-	-	-	54,982
Accrued interest expense (incl. in accruals and deferred income)	863	1,040	15,876	10,518	8,829	-	37,126
Lease liabilities (incl. in other liabilities)	370	50	785	3,030	104	-	4,339
Amounts due to related parties (incl. in other liabilities)	-	950	-	-	10,503	2,326	13,779
Total financial liabilities	3,016,898	46,929	530,420	1,064,733	39,547	2,326	4,700,853
Liquidity gap	(2,408,068)	14,623	(185,722)	432,888	2,509,732		
Cumulative liquidity gap	(2,408,068)	(2,393,445)	(2,579,167)	(2,146,279)	363,453		

MeDirect Malta Group	Not more than 1 month	Between 1 and 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years	No maturity date	Total
	€000	€000	€000	€000	€000	€000	€000
As at 31 December 2022							
Assets							
Balances with central banks	123,448	-	-	-	-	26,477	149,925
Derivative financial instruments	1,179	320	483	79,336	281,553	511	363,382
Loans and advances to financial institutions	402,987	-	-	-	-	-	402,987
Loans and advances to customers	14,859	24,967	355,186	932,712	1,332,842	(271,273)	2,389,293
- International Corporate Lending portfolio	-	-	214,220	297,894	-	-	512,114
- Dutch Mortgage portfolio	10,914	22,251	106,749	523,659	1,154,429	-	1,818,002
- Belgian Mortgage portfolio	1,276	2,520	11,757	46,239	70,208	-	132,000
- IFRS basis adjustment: International Mortgage portfolio	-	-	-	-	-	(271,273)	(271,273)
- Maltese Business Lending portfolio	2,669	13	20,817	56,525	50,828	-	130,852
- Maltese Mortgage portfolio	-	183	1,643	8,395	57,377	-	67,598
Investments	-	26,758	157,573	455,808	622,608	5,292	1,268,039
- Securities portfolio	-	26,758	157,573	455,808	48,607	5,292	694,038
- Securitisation portfolio	-	-	-	-	574,001	-	574,001
Accrued income	1,096	11,928	1,073	-	-	-	14,097
Loans to related parties (incl. in other assets)	-	-	-	-	-	652	652
Other receivables (incl. in other assets)	-	-	-	-	-	1,712	1,712
Other assets (incl. in other assets)	-	-	-	-	-	25,968	25,968
Total financial assets	543,569	63,973	514,315	1,467,856	2,237,003	(210,661)	4,616,055
Liabilities							
Derivative financial instruments	-	5,306	-	-	-	-	5,306
Amounts owed to financial institutions	344,497	50,638	150,000	-	-	-	545,135
Amounts owed to customers	2,114,495	39,965	412,570	220,534	36	-	2,787,600
Debt securities in issue	7,802	15,812	72,771	873,184	-	-	969,569
Subordinated liabilities	-	-	19,997	34,834	-	-	54,831
Accrued interest expense (incl. in accruals and deferred income)	1,589	522	5,746	3	2,912	-	10,772
Lease liabilities (incl. in other liabilities)	376	53	754	3,765	123	-	5,071
Amounts due to related parties (incl. in other liabilities)	-	950	-	-	10,309	1,491	12,750
Total financial liabilities	2,468,759	113,246	661,838	1,132,320	13,380	1,491	4,391,034
Liquidity gap	(1,925,190)	(49,273)	(147,523)	335,536	2,223,623		
Cumulative liquidity gap	(1,925,190)	(1,974,463)	(2,121,986)	(1,786,450)	437,173		

Current accounts and savings deposits payable on demand or at short notice of the Group amounted to €2,238 million (2022: €1,885 million), as at 31 December 2023. This amount is disclosed within the 'Not more than 1 month' maturity grouping. As at 31 December 2023 savings deposits with a withdrawal notice period of one month amounting to €777 thousand (2022: €2 million), are disclosed within the 'Between 1 and 3 months' maturity grouping. In addition, as at 31 December 2023 savings deposits with a withdrawal notice period of three to six months amounting to €151 million (2022: €299 million), are disclosed within the 'Between 3 months and 1 year' maturity grouping. Furthermore, as at 31 December 2023, savings deposits with a withdrawal notice period of one year for the Group amounting to €69 million (2022: €108 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 2023, unencumbered financial assets classified as Securities Investments measured at amortised cost with a carrying amount of €548 million (2022: €382 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, as at 31 December 2022, the Group held unencumbered financial assets classified as Securities Investments measured at amortised cost with a carrying amount of €12 million included in the category between 1 and 3 months in the preceding table.

The Group's cash from margin balances amounting to €56.8 million (2022: €54.5 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	Total outflows	Less than 1 month	Between 1 and 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years
	€000	€000	€000	€000	€000	€000	€000
As at 31 December 2023							
Non-derivative liabilities							
Amounts owed to financial institutions							
- Due to clearing houses	230,731	231,204	210,791	-	20,413	-	-
- Due to other banks	142,371	143,432	111,950	-	31,482	-	-
Amounts owed to customers	3,281,213	3,293,944	2,684,730	29,858	345,125	234,220	11
Debt securities in issue	910,848	985,350	8,169	16,339	71,892	888,950	-
Subordinated liabilities	54,982	57,553	-	-	57,553	-	-
Lease liabilities (included in other liabilities)	4,339	4,883	437	67	799	3,427	153
	4,624,484	4,716,366	3,016,077	46,264	527,264	1,126,597	164

MeDirect Malta Group	Carrying amount	Total out-flows	Less than 1 month	Between 1 and 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years
	€000	€000	€000	€000	€000	€000	€000
As at 31 December 2022							
Non-derivative liabilities							
Amounts owed to financial institutions							
- Due to clearing houses	150,000	151,653	-	-	151,653	-	-
- Due to other banks	395,135	395,708	344,626	51,082	-	-	-
Amounts owed to customers	2,787,600	2,795,171	2,114,504	40,003	414,180	226,444	40
Debt securities in issue	969,569	995,254	6,916	16,698	72,771	411,799	487,070
Subordinated liabilities	54,831	58,953	-	-	22,472	36,481	-
Lease liabilities (included in other liabilities)	5,071	5,838	422	77	857	4,278	204
	4,362,206	4,402,577	2,466,468	107,860	661,933	679,022	487,314

The following is an analysis of undiscounted cash flows relating to the Group's principal derivative financial instruments by remaining contractual maturities as at the reporting date:

MeDirect Malta Group	Carrying amount	Inflows/ (Outflows)	Less than 1 month	Between 1 and 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years
	€000	€000	€000	€000	€000	€000	€000
As at 31 December 2023							
Derivative assets							
Derivative financial instruments							
- Interest rate swaps	207,240	242,439	3,493	6,528	26,213	85,793	120,412
- Foreign exchange swaps	199	(210)	(210)	-	-	-	-
Inflows		21,289	21,289	-	-	-	-
Outflows		(21,499)	(21,499)	-	-	-	-
- Other derivative financial instruments (no maturity)	511	-	-	-	-	-	-
	207,950	242,229	3,283	6,528	26,213	85,793	120,412
Derivative liabilities							
Derivative financial instruments							
- Interest rate swaps	24,620	(28,830)	38	1,611	2,041	(21,313)	(11,207)
- Foreign exchange swaps	844	894	894	-	-	-	-
Inflows		69,493	69,493	-	-	-	-
Outflows		(68,599)	(68,599)	-	-	-	-
	25,464	(27,936)	932	1,611	2,041	(21,313)	(11,207)

MeDirect Malta Group	Carrying amount	Inflows/ (Outflows)	Less than 1 month	Between 1 and 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years
	€000	€000	€000	€000	€000	€000	€000
As at 31 December 2022							
Derivative assets							
Derivative financial instruments							
- Interest rate swaps	361,368	330,780	287	3,870	28,190	134,727	163,706
- Foreign exchange swaps	1,503	(1,545)	(1,212)	(333)	-	-	-
Inflows		85,481	70,258	15,223	-	-	-
Outflows		(87,026)	(71,470)	(15,556)	-	-	-
- Other derivative financial instruments (no maturity)	511	-	-	-	-	-	-
	363,382	329,235	(925)	3,537	28,190	134,727	163,706
Derivative liabilities							
Derivative financial instruments							
- Interest rate swaps	5,306	6,112	976	-	5,136	-	-
- Foreign exchange swaps	-	-	-	-	-	-	-
Inflows		4,566	4,566	-	-	-	-
Outflows		(4,566)	(4,566)	-	-	-	-
	5,306	6,112	976	-	5,136	-	-

2.3.5 Encumbered assets

The following tables set out the availability of the Group's financial assets to support future funding. International mortgage portfolios exclude any IFRS basis adjustment.

	Encumbered		Unencumbered		
MeDirect Malta Group	Pledged as collateral	Other*	Available as collateral	Other**	Total
	€000	€000	€000	€000	€000
31 December 2023					
Balances with central banks and cash (Note 4)	-	28,281	237,120	-	265,401
Derivative financial instruments	-	-	-	207,950	207,950
Loans and advances to financial institutions (Note 6)	303,587	-	-	49,206	352,793
Loans and advances to customers	-	-	-	2,746,271	2,746,271
- International Corporate Lending portfolio	-	-	-	328,506	328,506
- Dutch Mortgage portfolio	-	-	-	1,921,388	1,921,388
- Belgian Mortgage portfolio	-	-	-	254,937	254,937
- Maltese Business Lending portfolio	-	-	-	142,841	142,841
- Maltese Mortgage portfolio	-	-	-	98,599	98,599
Investments	325,310	-	966,527	19,413	1,311,250
- Securities portfolio	157,323	-	548,587	-	705,910
- Securitisation portfolio	167,987	-	417,940	19,413	605,340
Accrued income	-	-	-	23,930	23,930
Loans and advances to related parties (included in other assets)	-	-	-	41	41
Other receivables (included in other assets)	-	-	-	1,024	1,024
Other assets (included in other assets)	-	-	-	28,342	28,342
	628,897	28,281	1,203,647	3,076,177	4,937,002

* 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.

MeDirect Malta Group	Encumbered		Unencumbered		
	Pledged as collateral	Other*	Available as collateral	Other**	Total
	€000	€000	€000	€000	€000
31 December 2022					
Balances with central banks and cash (Note 4)	-	26,477	123,452	-	149,929
Derivative financial instruments	-	-	-	363,382	363,382
Loans and advances to financial institutions (Note 6)	294,634	-	-	108,353	402,987
Loans and advances to customers	-	-	-	2,389,293	2,389,293
- International Corporate Lending portfolio	-	-	-	512,114	512,114
- Dutch Mortgage portfolio	-	-	-	1,546,729	1,546,729
- Belgian Mortgage portfolio	-	-	-	132,000	132,000
- Maltese Business Lending portfolio	-	-	-	130,852	130,852
- Maltese Mortgage portfolio	-	-	-	67,598	67,598
Investments	466,780	-	777,019	24,240	1,268,039
- Securities portfolio	290,017	-	398,729	5,292	694,038
- Securitisation portfolio	176,763	-	378,290	18,948	574,001
Accrued income	-	-	-	14,097	14,097
Loans and advances to related parties (included in other assets)	-	-	-	652	652
Other receivables (included in other assets)	-	-	-	1,712	1,712
Other assets (included in other assets)	-	-	-	25,968	25,968
	761,414	26,477	900,471	2,927,697	4,616,059

* 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 and Compliance Committee, and as set out in the foreign exchange ("FX") risk policy and the Interest Rate Risk and Credit Spread Risk in the Banking Book ("IRRBB & CSRBB") 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 Group into relevant currency groupings.

MeDirect Malta Group	EUR currency	GBP currency	USD currency	Other	Total
	€000	€000	€000	€000	€000
As at 31 December 2023					
Financial assets					
Balances with central banks and cash	265,401	-	-	-	265,401
Derivative financial instruments	207,755	195	-	-	207,950
Loans and advances to financial institutions	329,676	3,325	2,742	17,050	352,793
Loans and advances to customers	2,702,041	42,515	1,715	-	2,746,271
- International Corporate Lending portfolio	284,625	42,515	1,366	-	328,506
- Dutch Mortgage portfolio	1,921,388	-	-	-	1,921,388
- Belgian Mortgage portfolio	254,937	-	-	-	254,937
- Maltese Business Lending portfolio	142,492	-	349	-	142,841
- Maltese Mortgage portfolio	98,599	-	-	-	98,599
Investments	1,311,250	-	-	-	1,311,250
- Securities portfolio	705,910	-	-	-	705,910
- Securitisation portfolio	605,340	-	-	-	605,340
Accrued income	23,422	485	15	8	23,930
Loans to related parties (included in other assets)	-	41	-	-	41
Other receivables (included in other assets)	938	86	-	-	1,024
Other assets (included in other assets)	28,342	-	-	-	28,342
	4,868,825	46,647	4,472	17,058	4,937,002
Financial liabilities					
Derivative financial instruments	24,620	293	551	-	25,464
Amounts owed to financial institutions	373,102	-	-	-	373,102
Amounts owed to customers	3,169,587	52,250	41,754	17,622	3,281,213
Debt securities in issue	910,848	-	-	-	910,848
Subordinated liabilities	50,834	4,148	-	-	54,982
Accrued interest expense (incl. in accruals and deferred income)	37,019	85	7	15	37,126
Lease liabilities (included in other liabilities)	4,088	251	-	-	4,339
Amounts owed to related parties (incl. in other liabilities)	13,766	13	-	-	13,779
	4,583,864	57,040	42,312	17,637	4,700,853
Net on-balance sheet financial position		(10,393)	(37,840)	(579)	
Notional of derivative financial instruments		10,268	37,095	-	
Residual exposure		(125)	(745)	(579)	

MeDirect Malta Group	EUR currency	GBP currency	USD currency	Other	Total
	€000	€000	€000	€000	€000
As at 31 December 2022					
Financial assets					
Balances with central banks and cash	149,929	-	-	-	149,929
Derivative financial instruments	361,882	1,150	220	130	363,382
Loans and advances to financial institutions	393,709	3,367	1,518	4,393	402,987
Loans and advances to customers	2,236,454	148,966	3,873	-	2,389,293
- International Corporate Lending portfolio	359,529	148,966	3,619	-	512,114
- Dutch Mortgage portfolio	1,546,729	-	-	-	1,546,729
- Belgian Mortgage portfolio	132,000	-	-	-	132,000
- Maltese Business Lending portfolio	130,598	-	254	-	130,852
- Maltese Mortgage portfolio	67,598	-	-	-	67,598
Investments	1,262,747	5,292	-	-	1,268,039
- Securities portfolio	688,746	5,292	-	-	694,038
- Securitisation portfolio	574,001	-	-	-	574,001
Accrued income	13,111	939	38	9	14,097
Loans to related parties (included in other assets)	612	39	-	1	652
Other receivables (included in other assets)	1,531	169	12	-	1,712
Other assets (included in other assets)	25,968	-	-	-	25,968
	4,445,943	159,922	5,661	4,533	4,616,059
Financial liabilities					
Derivative financial instruments	5,305	-	1	-	5,306
Amounts owed to financial institutions	545,135	-	-	-	545,135
Amounts owed to customers	2,673,837	60,663	40,096	13,004	2,787,600
Debt securities in issue	969,569	-	-	-	969,569
Subordinated liabilities	50,767	4,064	-	-	54,831
Accrued interest expense (incl. in accruals and deferred income)	10,633	113	8	18	10,772
Lease liabilities (included in other liabilities)	4,741	330	-	-	5,071
Amounts owed to related parties (incl. in other liabilities)	12,733	16	-	1	12,750
	4,272,720	65,186	40,105	13,023	4,391,034
Net on-balance sheet financial position		94,736	(34,444)	(8,490)	
Notional of derivative financial instruments		(89,995)	34,064	1,439	
Residual exposure		4,741	(380)	(7,051)	

The Group uses derivative financial instruments to hedge movements in foreign exchange rates by entering derivative contracts with notional amounts which substantially reflect the net exposure in each currency. As a result, the Group are 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 year.

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, or the date on which instruments mature. Actual cash flows on reset dates may differ from contractual dates owing to the 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	Repricing in: Not more than 3 months	Between 3 months and 1 year	Between 1 year and 3 years	Between 3 and 5 years	More than 5 years
	€000	€000	€000	€000	€000	€000
As at 31 December 2023						
Balances with central banks	265,398	265,398	-	-	-	-
Loans and advances to financial institutions	352,793	352,793	-	-	-	-
Loans and advances to customers	2,746,271	441,714	217,119	388,546	431,893	1,266,999
- International Corporate Lending portfolio	328,506	263,181	65,325	-	-	-
- Dutch Mortgage portfolio	2,104,568	39,188	120,605	330,681	319,998	1,294,096
- Belgian Mortgage portfolio	254,937	6,810	20,003	44,604	37,304	146,216
- IFRS basis adjustment: International Mortgage portfolio	(183,180)	-	-	-	-	(183,180)
- Maltese Business Lending portfolio	142,841	132,381	10,460	-	-	-
- Maltese Mortgage portfolio	98,599	154	726	13,261	74,591	9,867
Investments	1,310,232	898,353	411,879	-	-	-
- Securities portfolio	705,910	294,031	411,879	-	-	-
- Securitisation portfolio	604,322	604,322	-	-	-	-
	4,674,694	1,958,258	628,998	388,546	431,893	1,266,999
Amounts owed to financial institutions:	373,102	322,590	50,512	-	-	-
- Due to clearing houses	230,731	210,731	20,000	-	-	-
- Due to other banks	142,371	111,859	30,512	-	-	-
Amounts owed to customers	3,281,213	2,714,465	341,809	198,444	26,485	10
Debt securities in issue	910,848	22,655	66,456	235,035	586,702	-
Subordinated liabilities	54,982	-	54,982	-	-	-
Amounts due to immediate parent company (included in Other Liabilities)	10,503	-	-	10,503	-	-
	4,630,648	3,059,710	513,759	443,982	613,187	10
Interest rate repricing gap		(1,101,452)	115,239	(55,436)	(181,294)	1,266,989
Impact of hedging interest rate derivatives – notional amounts	182,620	1,125,450	(715,000)	214,367	(58,990)	(565,827)
Net interest rate repricing gap		23,998	(599,761)	158,931	(240,284)	701,162

MeDirect Malta Group	Carrying amount	Repricing in Not more than 3 months	Between 3 months and 1 year	Between 1 year and 3 years	Between 3 and 5 years	More than 5 years
	€000	€000	€000	€000	€000	€000
As at 31 December 2022						
Balances with central banks	149,925	149,925	-	-	-	-
Loans and advances to financial institutions	402,987	402,987	-	-	-	-
Loans and advances to customers	2,389,293	597,742	187,385	343,422	295,519	965,225
- International Corporate Lending portfolio	512,114	431,283	65,950	-	14,881	-
- Dutch Mortgage portfolio	1,818,002	33,165	106,749	314,195	209,464	1,154,429
- Belgian Mortgage portfolio	132,000	3,796	11,757	27,743	18,496	70,208
- IFRS basis adjustment: International Mortgage portfolio	(271,273)	-	-	-	-	(271,273)
- Maltese Business Lending portfolio	130,852	129,498	1,354	-	-	-
- Maltese Mortgage portfolio	67,598	-	1,575	1,484	52,678	11,861
Investments	1,262,175	826,942	435,233	-	-	-
- Securities portfolio	688,746	253,513	435,233	-	-	-
- Securitisation portfolio	573,429	573,429	-	-	-	-
	4,204,380	1,977,596	622,618	343,422	295,519	965,225
Amounts owed to financial institutions:	545,135	395,135	150,000	-	-	-
- Due to clearing houses	150,000	-	150,000	-	-	-
- Due to other banks	395,135	395,135	-	-	-	-
Amounts owed to customers	2,787,600	2,154,459	412,570	201,137	19,398	36
Debt securities in issue	969,569	23,615	79,224	649,832	216,898	-
Subordinated liabilities	54,831	-	19,997	34,834	-	-
Amounts due to immediate parent company (included in Other Liabilities)	10,309	-	-	-	10,309	-
	4,367,444	2,573,209	661,791	885,803	246,605	36
Interest rate repricing gap		(595,613)	(39,173)	(542,381)	48,914	965,189
Impact of hedging interest rate derivatives – notional amounts	361,368	1,450,550	-	(95,500)	(280,033)	(1,075,017)
Net interest rate repricing gap		854,937	(39,173)	(637,881)	(231,119)	(109,828)

The net interest rate repricing gap is attributable to differences between the behavioural and the contractual view of repricing profile. The Interest rate risk measurement, limits and hedging decisions are based on the behavioural view of repricing profile. The interest rate gaps under the behavioural view are kept at low levels resulting in conservative interest rate risk taken by the Group.

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 Mortgage lending 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 and Belgian Mortgage portfolio, that have a longer-term duration.

The presence of interest rate floors embedded in most 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 securities, and wholesale repo funding.

The Group's and MeDirect Belgium's long-term risk exposure to interest rate risk is managed through a hedging strategy which uses a series of plain vanilla interest rate swaps that form a run-off profile matching a mortgage portfolio run-off profile with behavioural pre-payment assumptions.

The Group's Securitisation Investment portfolio comprises an investment in the equity tranche of GH1-2019 amounting to €1.0 million (2022: €0.6 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 several 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") and on Economic Value based on scenarios and assumptions prescribed by the EBA guidelines on the management of interest rate risk arising from non trading book activities (EBA/GL/2018/02) would be as follows:

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- NIM would decrease by €4.9 million in a parallel up scenario and decrease by €0.1 million in the parallel down scenario.
- Economic value of equity would increase by €0.8 million in a parallel up scenario and decrease by €0.9 million in the parallel down scenario.

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- NIM would increase by €18.4 million in a parallel up scenario and decrease by €15.3 million in the parallel down scenario.
- Economic value of equity would increase by €1.9 million in a parallel up scenario and increase by €2.4 million in the parallel down scenario.

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 or behavioural prepayment profile 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 Dutch NHG and Belgian Retail mortgages are assumed to follow a CPR curve over and above the contractual principal payment schedule;
- In addition to the legal floor on regulated savings accounts of MeDirect Belgium, there is an implicit zero floor option on retail customer deposits as the Group will not charge negative rates to the retail segment of its customer base;
- The ΔNII and ΔEV metrics includes the effect of changes in value of the contractual automatic options embedded in the banking book assets;
- Customer deposits follow their behavioural schedule; and
- Sensitivities to behavioural assumptions are measured on a quarterly basis as part of the ICAAP whereas the IRRBB measurement has been validated and adapted to cater for novel characteristics of new product lines.

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.

2.4.4 Credit Spread Risk

The Group has a portfolio of Treasury securities (held mainly as High-Quality Liquid Assets - HQLAs) and other low credit risk bearing assets which give rise to the Credit Spread Risk in the Banking Book ("CSRBB"). Exposure to movements in securities prices can be decomposed into the exposure to interest rates and to spreads which for a same level of creditworthiness fluctuate on a daily basis as a result of the changes in the market demand and liquidity for certain securities.

The Group quantified the credit spread through the difference between the security's market yield at the valuation date and the risk-free rate and is strengthening its market value risk assessment including metrics related to the Marked-to-Market value sensitivity to spreads. For assets being hold to their maturities, the Group is not directly exposed to their market value variations. Nevertheless, the credit spread is an important market risk category for the Group given the existence of the Treasury and highly rated securities, mainly held for liquidity purposes, which could potentially be used as contingency assets in case of severe liquidity stress. This risk is however mitigated by the high credit quality requirement set in the Treasury's policy, the short spread duration of those securities and the hold to maturity strategy of the Group.

2.5 Operational risk

In line with the Basel framework, operational risk is defined as 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 ensures 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 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 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 out 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 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.

A financial measurement of this risk is calculated by the Group for the purpose of allocating risk capital using the Basic Indicator Approach under Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013, also known as the CRR. The risk weighted assets for operational risk under this method as at 31 December 2023 were calculated at €132.2 million (2022: €108.4 million).

ICT Security

ICT Risk is the risk of loss due to breach of confidentiality, failure of integrity of systems and data, inappropriateness or unavailability of systems and data or inability to change information technology within a reasonable time and with reasonable costs when the environment or business requirements change. This includes security risks resulting from inadequate or failed internal processes or external events including cyber-attacks or inadequate physical security.

The ICT Security function, led by the CISO manages the Group ICT and Security Risk management framework. The Framework documents the Group's approach to managing ICT risks and is reviewed and approved by the Board annually. The Framework has been documented taking into consideration supervisory requirements, namely the EBA Guidelines on ICT and security risk management (EBA/GL/2019/04).

Responsibility to manage and mitigate ICT risks lies with all Group employees, employees follow the Group's Information Security policies and procedures.

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 Group's three-year ICT Security strategy is embedded within the overall ICT Strategy and is aligned with the Group's overall business strategy.

ICT Risk Identification and ICT Risk Mitigation:

- **ICT Risk Identification:** the group adopts several techniques to identify ICT risks. Risk sources include ICT security risk assessments, external security assessments, IT Security policy spot-checks, ICT security audits, ICT security policy exemptions, RCSAs, risks assessed as part of third-party due diligence, risks identified through ongoing monitoring of ICT infrastructure and risks identified through monitoring the cyber security threat landscape.
- **ICT Risk Mitigation:** risks are documented in the ICT risk register and are followed up by the IT Security function. A risk treatment plan is documented for each risk. A control owner is defined and an implementation timeline for each control is documented. Implementation of controls is followed up by the IT Security function with the relevant control owner(s).

ICT Security controls implemented by the Group through the IT Security strategy are grouped into the following categories:

a) Physical Security.
b) Logical Security.
c) ICT Operations Security.
d) Security monitoring; and
e) Information Security reviews, assessment and training.

ICT risks are reported to the Group ExCo every six months. Additionally, every month the CISO provides a status update of the IT Security programme to the Board. This includes coverage of selected IT risks, IT risk appetite limits and Key Risk Indicators (“KRIs”).

Cyber security matters of interest are also reported to the Board. This includes updates on the Cyber security landscape, new and existing threats and how the Group is responding to such threats and results of external security tests.

Risk reports, security control test results and results from phishing awareness campaigns are presented to the Group Management Risk Committee (“MRC”) and the Group Operations Committee.

ICT Change Management

Identification and management of information security requirements and associated processes are integrated in early stages of ICT projects. An IT Security risk assessment is conducted for major projects to identify any security risks as well as challenge the design of the project.

A Technical Product Owner shall liaise with IT Security to ensure that any security requirements are included in the Product Specifications Document (PSD). Security requirements shall be vetted by the CISO or a delegate. IT Security and Operational Risk verify that the solution includes the necessary controls. Where the product being reviewed processes PII (Personally Identifiable Information), the Group Data Protection Officer conducts a Data Privacy Impact Assessment (DPIA).

2.6 Environmental, Social and Governance-related (“ESG”) risk

During 2023, the Group continued to integrate sustainability into its internal organisational structure as part of the implementation of its ESG agenda.

The Board of Directors are ultimately responsible for approving and overseeing the implementation of the Group’s strategic objectives, principal policies and procedures, including its ESG Strategy and Climate-related and Environmental Risks (“CER”)/ESG risk procedures and commitments that are incorporated into the Group’s wider risk management framework. Moreover, the Board reviews and approves the Group’s Non-Financial report together with the Group Annual Report & Financial Statements ensuring that all material ESG-related topics are covered and disclosed.

The Board structure enables the Group to coordinate its CER/ESG policies and procedures to ensure consistency on matters affecting all entities within the Group across all jurisdictions including Malta, Belgium, UK and the Netherlands. By setting the ESG agenda at the parent level, the Board ensures a common ESG strategic framework which can be deployed and implemented across the Group, including at the subsidiary level. This helps to ensure that ESG is given appropriate priority on the Group’s agenda and that ESG factors are embedded in the decision-making processes at all levels of the Group structure.

The Board maintains oversight of CER/ESG risks via periodic updates (at least once a quarter) that are given during the routine Board meetings by the Group Head of Sustainability.

The ESG Committee has the overall responsibility to oversee CER/ESG risks and initiatives including oversight of the MeDirect ESG strategy and agenda implementation, whilst providing advice and support to the Board of Directors on CER/ESG-related matters. The Committee consists of top management of main functions, including Finance (Group Chief Financial Officer, Belgium Chief Financial Officer and Procurement manager), Risk (Group Chief Risk Officer and Belgium Chief Risk Officer), Compliance and other Business functions. The Group Chief Financial Officer is the Chair of the Committee and the Belgium Chief Risk Officer is the co-Chair.

Moreover, the Group incorporated CER across the three lines of defence ("LoD") by updating business procedures and policies, the risk management framework, risk appetite, stress testing, compliance monitoring plans and internal audit plan. The front-line business is responsible for identifying, assessing and managing sustainability risks within their specific operations and for incorporating the management of such risks in the various stages of their business processes including, amongst others, the credit process. Business functions should follow the internal procedures related to ESG/CER in their day-to-day business operations. The Risk function is responsible for developing and tracking a dashboard of relevant CER/ESG risk indicators, stress test and limits within the existing risk reporting frameworks of the Group, with continuous enhancement over time. The Risk function has integrated CER and ESG risks (both financial and non-financial) in their risk identification and management process comprehensively analysing the ways in which CER and ESG risks may affect different areas of the Group. The Compliance Functions are responsible for preparing compliance plans that consider CER/ESG risk. The Compliance Function operates independently from the business units, albeit advising and assisting the business units and other internal functions to ensure that operations are in line with policies, procedures and regulation. The IAF (third line of defence) is responsible for executing a multi-year audit plan across the Group and on a periodic basis, provides (global or targeted) assurance on the integration and proper implementation of CER/ESG risks across the governance, internal control, operational and business processes of the Group. The Regulatory Affairs function monitors all incoming regulatory and legislative changes, (including CER/ESG-specific legislation) and ensures that the Group is kept abreast of all such changes.

All the strategic objectives and commitments related to CER/ESG were incorporated in the ESG Strategy 2022-2024/25 "On the path to sustainability for 2022-2024/25". During the last two years the Group incorporated CER/ESG criteria in a number of policies and procedures including Risk Management Framework, Risk Appetite Statements, the Stress Testing Framework, Sustainability Risk, Planning and Budgeting, Impairment and Accounting, Procurement and Remuneration policies.

MeDirect Sustainability Policy outlines the Group's approach on integrating and managing sustainability risks in the Group's main processes including credit, wealth, procurement, remuneration and governance processes.

During 2023, the Risk and appropriate Business functions have adopted (hard) risk appetite limits into its Risk Appetite Statements for all lending portfolios linked to physical and/or transition climate risks, such as high flood risk and high sea-level increase risk regions, poor EPC scoring (yearly energy efficiency) of the mortgaged properties, sectors highly contributing to climate change, and exclusion sectoral lists. The Group will monitor these limits, and applies escalation procedure, in line with the Risk Appetite Framework, in case of a breach in limits.

The Group also incorporated in to its operational framework the risk of CER impacting its operational centres and reputation. The Operational Risk Policy includes the extreme natural disaster scenario that damages the Malta operation (not accessible for 3D) and impact capital. The Business Continuity Plan ("BCP") includes scenarios related to natural hazards (e.g. storm, earthquake, flooding) and power failure, among others. The Incident management procedure includes scenarios related to physical risk due to inability to operate from offices/branches (e.g. earthquake, and other natural) with the escalation and scenarios related to counterparties reputation affected by ESG risk. The Operational & Reputational Risk Appetite Statement includes CER impact of the Group counterparties and Reputational Risk Management Policy includes ESG risk affecting reputation. In addition, the Planning and Budgeting Policy and Impairment and Accounting Policy were updated to include CER in budgeting process and impairment calculation whenever applicable.

The Risk function reviews and updates on an annual basis the Group CER Materiality Assessment that analyses the sensitivity of the Group's businesses to physical and transition risks using a forward-looking approach. In 2023, the Group reviewed its initial assessment to analyse the main CER that may impact MeDirect strategy, business model, asset portfolios, funding sources, treasury and hedging, wealth management services, as well as the business operating centres in which it operates. The assessment was presented to the ESG Committee and was validated by the Board.

The assessment included all on-balance sheet elements and off-balance sheet elements, covering physical risks (floods/fluvial, sea level risk, drought/external heat, forest fire/wildfire, biodiversity loss, water stress) and transition risks (policy/regulations, stranding risk, market sentiment, technology change) including high-level impact horizons (short, medium and long-term). The Group used the European Climate Risk Typology, European Environment Agency maps and Moody's Investor Services analysis including sectoral heatmaps while analysing individual physical risks. To analyse transition risk, the Group used Moody's Analytics researches and Grantham Research Institute's report on Climate Change and the Environment that are publicly available. The assessment was conducted on a proportional and risk-based approach, utilising currently available sources and data. The materiality assessment was conducted by the Risk function with the support of the relevant business functions.

The materiality assessment concluded that the overall strategic Group's exposure to CER is limited given the Group's business profile and its strategy. The direct impact of MeDirect operation is not material as the Group mainly operates in digital channels and its greenhouse gas emissions and resources consumption are limited. The impact is mainly indirect through financing clients from the sectors highly contributing to the climate change or through green financing. The assessment indicated that the assets could be impacted by CER primarily through credit risk (deterioration of collateral valuation and deterioration of credit standing of the borrower), retail funding primarily through reputational risk (deposit outflows), wholesale funding primarily through counterparty/country risk and deterioration of securities collateral valuation, wealth management services through market sentiment (fund classes) and operational centres through operational risk (higher energy requirements, physical risk of destruction or failure).

The Group assessment has shown a higher transition risk related to its residential mortgage portfolios in the Netherlands, Belgium and Malta driven by stranding assets risk and wealth management services driven by market sentiment The real estate portfolios of Belgium and Netherlands are the most exposed to these risks in the long-term due to their geographical location. The assessment was conducted in line with the approach adopted in the 2022 ECB Climate Stress Test, using a regional approach based on Eurostat's nomenclature of territorial units for statistics ("NUTS") for EU countries and European Climate Risk Typology ("ECRT") using CER scenarios. The Group's exposure to these portfolios represents almost €2.4 billion (48 % of the Group 2023 assets) as presented in the table below.

	Balance sheet exposure	Group assets
	€000	%
Dutch NHG mortgage portfolio exposure	2,019	41%
Dutch Buy-to-let mortgage portfolio exposure	86	2%
Belgian mortgage portfolio exposure	255	5%

A relatively low proportion of the Group's Dutch mortgage portfolio is exposed to higher flood risk (3.5%) and none of the Belgian portfolio, while 17.9% of the Group's Dutch mortgage portfolio and 22.9% of the Belgium mortgage portfolio is exposed to higher sea hazard risk area.

	2023	2022
	%	%
% of Dutch NHG mortgage portfolio exposure in high flood risk areas	**3.5%**	3.5%
% of Dutch NHG mortgage portfolio exposure in high sea hazard risk areas	**17.9%**	17.7%
% of Dutch Buy-to-let mortgage portfolio exposure in high flood risk areas	**4.4%**	N/A
% of Dutch Buy-to-let mortgage portfolio exposure in high sea hazard risk areas	**3.1%**	N/A
% of Belgian mortgage portfolio exposure in high flood risk areas	**-**	-
% of Belgian mortgage portfolio exposure in high sea hazard risk areas	**22.9%**	24.8%

The physical risk in the Dutch mortgage portfolio property is mitigated through property insurance or the National Mortgage Guarantee (NHG) protection. In Belgium, the Group implemented a contractual obligation for clients to purchase property insurance that automatically covers flood risk. Most of the Group's Belgian mortgages are already covered by property insurance.

Moreover, the Group implemented the portfolio limits related to high flood risk in the Dutch and Belgian Risk Appetite Statement.

The transition risk related to sea level increase hazard in the Dutch and Belgium mortgage portfolio is a long-term risk. The Group monitors the exposure to this risk in the quarterly Risk Report and Dutch and Belgian Risk Appetite Statement the portfolio limits related to high coastal (sea-level) risk.

Notwithstanding these risks, the Group has assessed its residual risk as low, particularly in the short- to medium-term. The assessment indicates that based on its current CER/ESG risk profile, no additional capital or liquidity buffer is required to cover potential impact of CER risk.

Moreover, CER has been also assessed from both the normative and economic perspectives of the Internal Capital Adequacy Assessment Process ("ICAAP"), which assesses its impact on the profit or loss, capital requirements and solvency (PD, LGD). The Group has incorporated climate-related scenarios into its stress testing processes, which encompass both physical and transition risks over a three-year time horizon. The updated in 2023 capital stress tests include scenarios linked to MeDirect operation (physical risk related to significant weather conditions impacting MT operation) and credit portfolios (NGFS Scenario Combined Orderly Net Zero 2050 Scenario and transition risk related to new CER regulations impose on homeowners with energy-inefficient properties to renovate their houses with the impact on capital and capital ratios). The impact on of the CER transition scenario on the capital is €14.3 million, and on the impairment is €28.5 million impairments over and above the budgeted amount of impairments. The impact of the CER physical scenario on the capital is €15.0 million operational loss. The Group continues to evolve its stress testing processes and to enhance existing processes to be able to conduct adequate and plausible Climate Risk Stress Tests to make informed decisions.

During the last two years the Group participated in the ECB Climate Stress Tests and ECB Climate thematic review. In addition, the Group also participates in the ECB Climate Fit-for-55 one-off data collection process.

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 based on 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.

	2023	2022
	%	%
CET 1 Ratio	**16.7**	15.2
Total Capital Ratio	**20.3**	18.7

Group's policy is to maintain a good capital base to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Group recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

MDB Group Limited is subject to the same supervision as that exercised over institutions. Accordingly, in terms of article 7(2) of the CRR, the obligation of MeDirect Malta to comply with the disclosure requirements relating to own funds, capital requirements, large exposures, and transferred credit risk have been waived.

In this respect, the Regulatory 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 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 year, 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 2023				As at 31 December 2022			
MeDirect Malta Group	**Level 1**	**Level 2**	**Level 3**	**Total**	Level 1	Level 2	Level 3	Total
	€000	**€000**	**€000**	**€000**	€000	€000	€000	€000
Assets								
Instruments mandatorily measured at fair value through profit or loss								
- Securitisation investment portfolio	-	-	**1,018**	**1,018**	-	-	572	572
- Derivative financial instruments	-	**207,439**	**511**	**207,950**	-	282,810	80,572	363,382
- Securities investment portfolio - Equity instruments	-	-	-	-	-	-	5,292	5,292
Total financial assets	-	**207,439**	**1,529**	**208,968**	-	282,810	86,436	369,246
Liabilities								
Derivative financial instruments	-	**25,464**	-	**25,464**	-	5,306	-	5,306

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, considering 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 investment in the equity tranche of GH1-2019 with a carrying amount of €1.0 million (2022: €0.6 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.
- MeDirect had entered into back-to-back structured interest rate swaps that reinternalised interest rate risk of the securitised mortgage loan receivables. The valuation of these derivatives as at 31 December 2022 was performed based on the expected cashflows on the swap transaction measured until the First Optional Redemption Date (FORD) of these related securitisations transactions. The valuation included both market observable inputs interest rate curves) as well as mortgage loan prepayment estimates consistent with MeDirect IRRBB assumptions.
- As part of a derecognition of loans and advances to a European corporation as a result of restructuring procedures that occurred in 2021, the Group obtained equity instruments as part of this restructuring procedure which it initially held at nil value due to the unlikely scenario of recovering any value on the equity at that time. During 2022, the Group was notified of an agreement to sell the corporation against which the Group would be receiving proceeds for the equity positions it held. Following the closing of this transaction in 2023 the Group received €5.3 million.
- Tax warrants and contingent value notes resulting from a loan restructuring arrangement, classified as derivative financial instruments amounting to €0.5 million (2022: €0.5 million).

The following table shows a reconciliation of the fair value measurements in Level 3 of the fair value hierarchy:

	Securisation investment portfolio measured at fair value through other comprehensive income		Securisation investment portfolio measured at fair value through profit or loss		Securities investment measured at fair value through profit or loss		Derivative financial instruments measured at fair value through profit or loss	
MeDirect Malta Group	**2023**	2022	**2023**	2022	**2023**	2022	**2023**	2022
	€000	€000	**€000**	€000	**€000**	€000	**€000**	€000
Year ended 31 December								
At beginning of year	-	327,110	**572**	1,145	**5,292**	-	**80,572**	5,562
Additions	-	-	-	-	-	-	-	-
Amortisation of premium/discount	-	(1)	-	-	-	-	-	-
Changes in fair value	-	212	**446**	(573)	-	5,292	**(80,061)**	75,010
Realised	-	-	-	-	**(5,292)**	-	-	-
Transfer to amortised cost category	-	(327,321)	-	-	-	-	-	-
At end of year	-	-	**1,018**	572	-	5,292	**511**	80,572

As previously mentioned, the Group's main exposure to Level 3 assets consist of derivative assets as part of back-to-back structured interest swaps. It has been determined that any changes to the unobservable inputs to the underlying models will result in changes to the value of the back-to-back structured interest swaps, but this will result in a corresponding change in the valuation of the derivative liabilities off-set with the loans and advances to financial institutions, as discussed further in note 2.2.9.

Accordingly, a sensitivity analysis of the fair value measurement to changes in observable 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 year during which the transfer has occurred.

There were no transfers between levels of the fair value hierarchy during the financial years ended 31 December 2023 and 31 December 2022.

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.

	As at 31 December 2023				
MeDirect Malta Group	**Level 1**	**Level 2**	**Level 3**	**Total fair values**	**Total carrying amount**
	€000	€000	€000	€000	€000
Assets					
Loans and advances to customers	-	42,020	2,136,177	2,178,197	2,426,515
- International Corporate Lending portfolio	-	42,020	22,138	64,158	67,010
- Dutch Mortgage portfolio	-	-	1,875,134	1,875,134	2,104,568*
- Belgian Mortgage portfolio	-	-	238,905	238,905	254,937*
Investments	682,055	-	594,728	1,276,783	1,310,232
- Securities portfolio	682,055	-	-	682,055	705,910
- Securitisation portfolio	-	-	594,728	594,728	604,322
Total financial assets	682,055	42,020	2,730,905	3,454,980	3,736,747
Liabilities					
Debt securities in issue	-	-	914,409	914,409	910,848
Subordinated liabilities	53,012	-	-	53,012	54,982
Total financial liabilities	53,012	-	914,409	967,421	965,830

	As at 31 December 2022				
MeDirect Malta Group	**Level 1**	**Level 2**	**Level 3**	**Total fair values**	**Total carrying amount**
	€000	€000	€000	€000	€000
Assets					
Loans and advances to customers	-	51,724	1,736,937	1,788,661	2,132,516
- International Corporate Lending portfolio	-	51,724	118,152	169,876	182,384
- Dutch Mortgage portfolio	-	-	1,486,918	1,486,918	1,818,002*
- Belgian Mortgage portfolio	-	-	131,867	131,867	132,130*
Investments	639,503	-	550,433	1,189,936	1,250,140
- Securities portfolio	639,503	-	-	639,503	676,711
- Securitisation portfolio	-	-	550,433	550,433	573,429
Total financial assets	639,503	51,724	2,287,370	2,978,597	3,382,656
Liabilities					
Debt securities in issue	-	-	971,209	971,209	969,569
Subordinated liabilities	53,827	-	-	53,827	54,831
Total financial liabilities	53,827	-	971,209	1,025,036	1,024,400

* The Group's International mortgage portfolios disclosed in the preceding tables are presented exclusive of the IFRS basis adjustment equivalent to €183.2 million (2022: €271.3 million)

In addition to the above, as disclosed in note 20 to the financial statements in February 2021, MDB Group Limited issued €11.0 million fixed rate reset callable subordinated notes.

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. As at 31 December 2023, the carrying amount of this loan, included by MeDirect Malta within "Other liabilities", amounted to €10.5 million (2022: €10.3 million) and its fair value as at the same date was €11.6 million (2022: €10.0 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 loans in February 2021, the fair value calculation considers 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 Securities 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 of the Group amounting to €239.1 million (2022: €329.7 million) net of expected credit losses, and as at 31 December 2022, a corporate debt security within the Group's Securities Investment portfolio, with a carrying amount of €12.1 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 €604.3 million (2022: €573.4 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 €2,104.5 million (2022: €1,818.0 million) and Belgium mortgages amounting to €254.9 million (2022: €132.0 million), included in Loans and advances to customers. In order to derive their fair value as at 31 December 2023 and 2022, the Group bootstraps the average of the top three interest rate quotes offered by Dutch government-backed mortgage loan lenders in the Netherlands and Belgian mortgage loan lenders in Belgium respectively 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 2023, the carrying amount for loans and advances to customers classified under the Maltese Business Lending portfolio amounting to €142.8 million (2022: €130.9 million) and Maltese mortgages amounting to €98.6 million (2022: €67.6 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.

As at 31 December 2023, all the Group's exposures classified under loans and advances to financial institutions amounting to €352.8 million (2022: €403.0 million), and balances with central banks amounting to €265.4 million (2022: €149.9 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' of the Group as at 31 December 2023 amounting to €373.1 million (2022: €545.1 million), and 'Amounts owed to customers' of the Group amounting to €3.1 billion (2022: €2.6 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 (2022: €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 to 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 2024 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 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.

For loans within the Group's International Corporate Lending and Maltese 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 current economic conditions.

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 2023 and 2022, 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. 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 Maltese Business Lending portfolios, and all exposures within the Dutch, Belgian 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 lending portfolio, the level of estimation uncertainty is 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 for the International Corporate Lending, Maltese Business Lending and Dutch Mortgage portfolio 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. A significant level of judgement is 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 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. As described in more detail in Note 2.2.7 of the financial statements, as at 31 December 2023 the Group did not resort to the application of overlays.

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 and the impact of the conflict between Russia and Ukraine and between Israel and Hamas on macroeconomic variables in specific countries and industries.

Hence, as at 31 December 2023, 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 ensures that the modelled macroeconomic forecasts provided by the external vendor that supplies the Group with the applicable modelled scenarios for the purposes of ECL modelling are aligned with the ECB staff macroeconomic projections published in December 2023.

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 2023 and 2022 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. The level of subjectivity in determining expected maturities increases significantly when increased credit risk is experienced by such borrowers as it 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, requires significant judgement in order to assess the severity of the impact of significant events on the financial performance and financial condition of such borrowers. In this respect, during 2023 and 2022, 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.

3.3 Valuation of derivatives and hedge accounting

The level of management judgment required in establishing fair value of derivative financial instruments is limited for those instruments valued using valuation models which are standard across the industry and where all parameter inputs are quoted in active markets.

The level of subjectivity and degree of management judgment required is more significant for those derivative financial instruments valued using specialised and sophisticated models and where some or all of the parameter inputs are less liquid or less observable. Management judgment is required in the selection and application of appropriate parameters, assumptions and modelling techniques. Where no market data are available for a particular instrument then pricing inputs are determined by assessing other relevant sources of information such as historical data and making appropriate adjustment to reflect the actual instrument being valued and current market conditions. Further, some valuation adjustments may require the exercise of management judgment to achieve fair value.

Moreover, the accounting treatment of the hedging relationship and the effectiveness test is based on a number of assumptions that include amongst others the expected future early redemptions and renegotiations of the International Mortgage portfolios.

Financial assets and liabilities carried at fair value are required to be disclosed according to the inputs to the valuation method that are used to determine their fair value. Specifically, segmentation is required between those valued using valuation techniques based on observable parameters (level 2) and valuation techniques using significant unobservable parameters (level 3). Management judgment is required in determining the category to which certain instruments should be allocated. This specifically arises when the valuation is determined by a number of parameters, some of which are observable and others are not.

4. Balances with central banks and cash

	Group	
	2023	2022
	€000	€000
At amortised cost:		
Balances with central banks	**265,398**	149,925
Cash	**3**	4
	265,401	149,929

As at 31 December 2023, balances held with central banks include reserve deposits of the Group amounting to €28.3 million (2022: €26.5 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 €154.7 million (2022: €104.3 million) are subject to a positive interest rate of 4% (2022: positive interest rate of 2%) per annum. The remaining balances that are held with Central Bank of Malta are subject to a positive interest rate of 4% per annum (2022: 2% 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 2023 (2022: €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 1 month (2022: 2 months) from the reporting date.

In 2023 and 2022, the Group used over-the-counter interest rate swaps to hedge their 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 were matched to fixed rate securities in designated fair value hedging transactions. The gains on the hedged items arising during the year ended 31 December 2023 attributable to the hedged risk were €0.6 million (2022: gains of €1.5 million). The losses on the related hedging instruments for the Group during the year ended 31 December 2023 were €0.6 million (2022: gains of €6.1 million). As at 31 December 2023, the Group did not use such over-the-counter interest rate swaps.

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 losses on the related hedging instruments during the year ended 31 December 2023 were €86.4 million (2022: gains of €238.2 million). The gains on the hedged items arising during the year attributable to the hedged risk were €85.1 million (2022: losses of €235.5 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	
	2023	2022
	€000	€000
Derivative financial assets - fair value	**207,950**	363,382
Derivative financial liabilities - fair value	**(25,464)**	(5,306)

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, natural interest rate hedges are used in the first place, that is the interest rate risk associated with liabilities (e.g. retail funding, wholesale funding), to determine the net exposure. 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 240 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.

Hedge ineffectiveness can arise from:

- Differences in timing of cash flows of hedged items and hedging instruments;
- Different interest rate curves and the intra period movement of these curves applied to forecast and discount of the cash flows of the hedged item and hedging instruments; and
- Disparity between expected and actual prepayments (prepayment risk).

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	**Fair value**	Notional	Fair value
	2023	**2023**	2022	2022
	€000	**€000**	€000	€000
Derivatives held for trading – Assets				
Instrument type:				
- Foreign exchange swaps	**21,289**	**199**	85,809	1,503
- Interest rate swaps	**-**	**-**	-	80,061
- Other derivative financial instruments		**511**		511
		710		82,075
Derivatives held for trading – Liabilities				
Instrument type:				
- Foreign exchange swaps	**68,599**	**(844)**	4,565	-
		(844)		-
Net derivatives held for trading		**(134)**		82,075
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	**-**	**-**	120,300	6,788
- Macro hedges	**1,080,923**	**29,060**	304,233	28,546
More than five years				
- Macro hedges	**1,031,277**	**178,180**	1,075,017	245,973
		207,240		281,307
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				
- Macro hedges	**553,900**	**(4,519)**	200,000	(5,306)
More than five years				
- Macro hedges	**432,850**	**(20,101)**	-	-
		(24,620)		(5,306)
Net derivatives designated as hedging instruments in fair value hedges		**182,620**		276,001

MeDirect had entered into back-to-back structured interest rate swaps that reinternalised interest rate risk of the securitised mortgage loan receivables. As at 31 December 2022, the derivative asset side included above within the Group's derivative assets held for trading amounted to €80.6 million. As described in Note 2.2.9, the respective derivative financial liabilities as at 31 December 2022 were offset against loans and advances to financial institutions as a netting agreement was in place with the counterparty.

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 – Securities portfolio, and accordingly disclosed in note 7 and note 8.

The accumulated negative basis adjustment within loans and advances to customers amounting to €183.2 million (2022: negative basis adjustment amounting to €271.3 million) also includes the accumulated unamortised fair value hedge adjustments of €1.2 million (2022: €3.7 million) related to hedges that have been discontinued and are now amortised.

6. Loans and advances to financial institutions

	Group		Company	
	2023	2022	**2023**	2022
	€000	€000	**€000**	€000
At amortised cost:				
Repayable on call and at short notice	**297,824**	227,865	**164**	158
Term loans and advances	**55,133**	175,280	**-**	-
	352,957	403,145	**164**	158

As at 31 December 2023, €205.4 million (2022: €47.3 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 €182.9 million (2022: €9.9 million) and in relation to the funding of the purchase of Belgium mortgages amounting to €22.2 million (2022: €36.5 million).

Besides the above, the Group has amounts of €40.1 million (2022: €161.6 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.

As at 31 December 2023, other loans and advances to financial institutions of the Group amounting to €49.7 million (2022: €77.3 million) were encumbered, most of which were pledged in favour of Eurex Clearing AG in relation to clearing of derivative financial instruments. In addition, loans and advances to financial institutions of the Group also include €8.4 million (2022: €8.4 million) in the form of cash that has also been contributed to a derivatives clearing fund held by Eurex Clearing AG, of which the Group is a member. The clearing fund protects members against losses until they leave the clearing fund.

Loans and advances to financial institutions as at 31 December 2023 and 2022 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 2023 and 2022.

7. Loans and advances to customers

	Group	
	2023	2022
	€000	€000
International Corporate Lending portfolio		
- Term loans and advances: corporate	**340,950**	526,813
Dutch Mortgage portfolio		
- Term loans and advances: retail	**2,104,853**	1,818,186
Belgian Mortgage portfolio		
- Term loans and advances: retail	**255,290**	132,130
IFRS basis adjustment - International mortgage portfolio	**(183,180)**	(271,273)
Maltese Business Lending portfolio		
- Repayable on call and short notice: corporate	**4,909**	4,731
- Term loans and advances: corporate	**138,490**	126,334
Maltese Mortgage portfolio		
- Term loans and advances: retail	**98,978**	67,793
Gross loans and advances to customers	**2,760,290**	2,404,714
Less: Credit loss allowances	**(14,019)**	(15,421)
	2,746,271	2,389,293

Group	Allowance booked under									
	Stage 1		Stage 2		Stage 3		POCI		Total	
	2023	2022	**2023**	2022	**2023**	2022	**2023**	2022	**2023**	2022
	€000	€000	**€000**	€000	**€000**	€000	**€000**	€000	**€000**	€000
Credit loss allowances:										
- International corporate lending	**(2,577)**	(5,165)	**(703)**	(2,942)	**(8,952)**	(6,368)	**(212)**	(224)	**(12,444)**	(14,699)
- Dutch mortgage portfolio	**(136)**	(106)	**(145)**	(71)	**(4)**	(7)	**-**	-	**(285)**	(184)
- Belgian mortgage portfolio	**(249)**	(114)	**(46)**	(16)	**(58)**	-	**-**	-	**(353)**	(130)
- Maltese business lending portfolio	**(358)**	(208)	**-**	(4)	**(200)**	(1)	**-**	-	**(558)**	(213)
- Maltese mortgage portfolio	**(356)**	(195)	**-**	-	**(23)**	-	**-**	-	**(379)**	(195)
	(3,676)	(5,788)	**(894)**	(3,033)	**(9,237)**	(6,376)	**(212)**	(224)	**(14,019)**	(15,421)

The negative fair value/basis adjustment amounting to €183.2 million (2022: negative fair value/basis adjustment amounting to €271.3 million) is attributable to interest rate swaps 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 gains on hedged items attributable to the hedged risk amounting to €85.1 million (2022: losses of €235.5 million) as disclosed in note 24 to these financial statements.

As disclosed in further detail in Note 19, as at 31 December 2023 Dutch retail mortgages amounting to €1,153.3 million (2022: €1,219.7 million) have been securitised through three (2022: three) Residential Mortgage-Backed Security ("RMBS") transactions. As risks and rewards were deemed to have been retained by MeDirect Belgium, as at 31 December 2023 and 2022, these were recognised on the Group's statement of financial position.

The Group's Dutch Mortgage portfolio in the preceding table mainly consist of Dutch retail residential mortgages with the exception of buy-to-let mortgages amounting to €85.3 million as at 31 December 2023 (2022: €15.9 million). This business was launched in October 2022.

Loans and advances relating to exposures within the International Corporate Lending portfolio amounting to €5.8 million have been written off during the financial year (2022: €12.7 million). Consequently, during the financial year ended 31 December 2023 credit loss allowances amounting to €2.0 million (2022: €12.7 million) relating to such write-offs have been released to profit or loss.

No restructuring of the Group's International Corporate Lending Portfolio have taken place during the years ended 31 December 2023 and 2022.

8. Securities and Securitisation Investment portfolios

Securities Investment portfolio

	Group	
	2023	2022
	€000	€000
Investments measured at amortised cost including basis adjustment attributable to the hedged risk		
- Debt and other fixed income securities	**705,976**	688,942
- Less: Credit loss allowances	**(66)**	(196)
Investments measured at fair value through profit and loss		
- Equity instruments	**-**	5,292
	705,910	694,038
Credit loss allowances:		
- On investments measured at amortised cost	**(66)**	(196)
	(66)	(196)

	Measured at amortised cost		Measured at fair value through profit or loss	
Group	**2023**	2022	**2023**	2022
	€000	€000	**€000**	€000
Debt securities and other fixed income securities				
Issued by public bodies				
- foreign national and regional governments	**247,749**	135,590	**-**	-
- supranational	**20,505**	154,067	**-**	-
Issued by other bodies				
- foreign banks	**437,656**	386,952	**-**	-
- corporations	**-**	12,137	**-**	-
	705,910	688,746	**-**	-
Equity instruments				
Issued by public issuers				
- corporations	**-**	-	**-**	5,292
	-	-	**-**	5,292
Listing status				
- listed on foreign recognised exchanges	**705,910**	676,711	**-**	-
- not listed	**-**	12,035	**-**	5,292
	705,910	688,746	**-**	5,292

	Measured at amortised cost		Measured at fair value through other comprehensive income		Measured at fair value through profit or loss	
Group	**2023**	2022	**2023**	2022	**2023**	2022
	€000	€000	**€000**	€000	**€000**	€000
Year ended 31 December						
At beginning of year	**688,746**	119,700	**-**	650,217	**5,292**	-
Additions	**200,500**	204,819	**-**	-	**-**	-
Redemptions	**(183,437)**	(35,000)	**-**	(240,653)	**(5,292)**	-
Gains/(losses) on hedged items attributable to the hedged risk	**907**	(5,897)	**-**	362	**-**	-
Amortisation of premium/discount	**(936)**	2,642	**-**	(8,618)	**-**	-
Changes in fair value	**-**	-	**-**	1,239	**-**	5,292
Movement in credit loss allowances	**130**	(65)	**-**	-	**-**	-
Reclassification to amortised cost category	**-**	402,547	**-**	(402,547)	**-**	-
At end of year	**705,910**	688,746	**-**	-	**-**	5,292

Investment securities with a nominal value of €606.7 million are pledged as collateral with Eurex against the provision of borrowing facilities (2022: €588.8 million). These include investment securities that are held on balance sheet with a carrying amount of €605.2 million (2022: €557.5 million). In addition, in 2022, investment securities with a nominal value of €34.7 million were subject to a bilateral repo with a global bank.

The cash value of unutilised borrowing facilities (headroom) of the Group as at 31 December 2023 which are secured by the investment securities referred to above amounted to €524.2 million (2022: €387.1 million).

As at 31 December 2023, an amount of €3.9 million (2022: €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 MeDirect Malta 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 2023 (2022: €2.0 million) were also contributed to Eurex Clearing AG to cover for daily margining.

Furthermore, as at 31 December 2023, MeDirect Malta also held €5.5 million (2022: €5.5 million) in the form of High Quality Liquid Assets with Saxo Bank as collateral for trading purposes.

Investment securities with a nominal value of €87.0 million (2022: €110.5 million) and a carrying amount of €87.0 million (2022: €112.0 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 2023, investment securities held by the Group with a nominal value of €2.2 million (2022: €2.3 million) and a fair value of €2.1 million (2022: €2.1 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. As at 31 December 2022, MeDirect Malta's interest rate risk on specific fixed-income investments with a carrying amount of €108.0 million was hedged by swapping the coupon to a floating interest rate using interest rate swaps. This included a negative fair value/basis adjustment amounting to €5.0 million. During the financial year ended 31 December 2023, the hedging of interest rate risk on an individual basis was ceased. The unamortised basis adjustment associated with the former hedge amounted to €2.9 million of which €0.5 million was amortised to profit or loss during the year. As at 31 December 2023, the unamortised basis adjustment amounted to €2.4 million.

As at 31 December 2023 and 2022, the Group had no commitment to purchase further investment securities.

As referred to in note 2.8.3, throughout the financial year ended 31 December 2022, the Group and Bank recognised equity investments of €5.3 million, acquired as part of a restructure of a European corporation that occurred in 2021, which were previously held at nil value. These were redeemed in 2023.

Securitisation Investment portfolio

	Group	
	2023	2022
	€000	€000
Investments measured at amortised cost		
- Debt and other fixed income securities	**604,504**	573,608
- Less: Credit loss allowances	**(182)**	(179)
Investments mandatorily measured at fair value through profit or loss		
- Debt and other fixed income securities	**1,018**	572
	605,340	574,001

	Measured at amortised cost		Measured at fair value through other comprehensive income		Measured at fair value through profit or loss	
Group	**2023**	2022	**2023**	2022	**2023**	2022
	€000	€000	**€000**	€000	**€000**	€000
Year ended 31 December						
At beginning of year	**573,429**	179,096	**-**	327,110	**572**	1,145
Additions	**31,250**	67,000	**-**	-	**-**	-
Redemptions	**(169)**	-	**-**	-	**-**	-
Amortisation of premium/discount	**(185)**	51	**-**	(1)	**-**	-
Changes in fair value	**-**	-	**-**	212	**446**	(573)
Movement in credit loss allowances	**(3)**	(39)	**-**	-	**-**	-
Reclassification to amortised cost category	**-**	327,321	**-**	(327,321)	**-**	-
At end of year	**604,322**	573,429	**-**	-	**1,018**	572

As at 31 December 2023, the Group had pledged €168.0 million of the securitisation investment portfolio in favour of third parties against the provision of borrowing facilities (2022: €176.8 million).

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 2023, with the exception of the equity tranche amounting to €1 million (2022: €0.6 million) and mandatorily measured at FVTPL, MeDirect Malta's investment in the remaining tranches amounting to €18.5 million (2022: €18.5 million) is measured at amortised cost.

During the financial year ended 31 December 2023, the Group also acquired portions in CLO transactions amounting to €31.3 million (2022: €67.0 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 2023, positions with a nominal value of €586.2 million (2022: €555.1 million) are held in a 'hold to collect' business model and measured at amortised cost.

Reclassification of investments

In June 2022, the Group changed the business model for managing those investments within the Securities and Securitisation investments portfolios that were originally deemed to be "Hold to collect and sell" and therefore were measured at fair value through other comprehensive income.

This change in business model was attributable to the fact that the first half of 2022 represented the end of a journey to shape MeDirect for tomorrow as the Group, through the commencement of the Belgium mortgages business, completed its plan to achieve sound diversification through various assets classes.

The Group's diversification strategy that kicked off in 2019 was mainly based on the reduction of the International Lending portfolio and the launch of the Dutch mortgage business line. The successful launch of the Dutch mortgage business also allowed MeDirect Belgium to successfully issue two RMBS from the Dutch mortgage business during the height of the COVID-19 pandemic. Furthermore, in 2021 MeDirect Malta launched the Malta home loans business using a customer-centric approach with a digitalised experience.

In December 2021, the Group ceased the intragroup funding arrangements between MeDirect Belgium and MeDirect Malta through Grand Harbour I. This resulted in significantly better management of the liquidity of both banks.

The Group has also increased and diversified the sources of funding as it increased the channels for both deposit taking and repurchase agreements and is financing its International Mortgage portfolio through its Bastion mortgage securitisation programme. Thus through such sources of funding the Group is able to satisfy its liquidity needs and will hold these investments till maturity.

The above developments resulted in a change in the business model of the Securities and Securitisation investments portfolios. These investments are now categorised as hold to collect and as a result on 1 July 2022 these investments were reclassified out of the fair value through other comprehensive income measurement category and into the amortised cost measurement category.

	Group	
	Carrying amount prior to reclassifi-cation	Carrying amount subsequent to reclassification
	€000	€000
Assets		
Investments – Securities portfolio:		
- measured at amortised cost	**312,729**	869,331
- measured at fair value through other comprehensive income	**541,807**	-
Investments – Securitisation portfolio:		
- measured at amortised cost	**179,108**	573,400
- measured at fair value through other comprehensive income	**377,666**	-
Deferred tax assets	**26,857**	18,179
Total assets	**4,412,147**	4,434,890
Equity		
Other reserves	**(23,731)**	(1,050)
Retained earnings	**28,478**	28,540
Total equity	**214,339**	237,082

As at 31 December 2023, the Investments - Securities portfolio and the Investments - Securitisation portfolio included investments with a carrying amount of € 203.9 million and €394.2 million respectively (2022: €402.3 million and €394.3 million) that were part of this reclassification that took place on 1 July 2022. The fair value of these investments as at 31 December 2023 was equivalent to €191.2 million for the investments in the Securities portfolio and €387.2 million for the investments in the Securitisation portfolio (2022: €382.1 million and €378.6 million respectively). If these investments had not been reclassified out of the fair value through other comprehensive income category so that they are measured at amortised cost, during the period between 1 July 2022 and 31 December 2023 fair value losses would have been recognised in other comprehensive income for the investments in the Securities portfolio equivalent to €2.7 million and fair value gains would have been recognised in other comprehensive income for the investments in the Securitisation portfolio equivalent to €9.5 million (2022: fair value losses of €5.3 million and fair value gains of €0.9 million respectively).

9. Investment in subsidiaries

Name of subsidiary	Country of incorporation/ formation	Nature of business	Equity interest	
			2023	2022
			%	%
MeDirect Bank (Malta) plc	Malta	Banking	**100**	100

	Company	
	2023	2022
	€000	€000
Year ended 31 December		
At beginning of year	**242,557**	232,924
Share of results and reserves	**11,981**	9,633
At end of year	**254,538**	242,557

	Company	
	2023	2022
	€000	€000
At 31 December		
Cost	**130,914**	130,914
Shareholders' contribution	**133,196**	133,196
Share of results and reserves	**(9,572)**	(21,553)
Net book amount	**254,538**	242,557

MeDirect Malta owns the following subsidiaries:

Name of subsidiary	Country of incorporation/ formation	Nature of business	Equity interest	
			2023	2022
			%	%
MeDirect Bank SA	Belgium	Banking	**100**	100
MeDirect Tech Limited	Malta	Leases of software and equipment	**100**	100
Medifin Estates (partnership)	Malta	Operating lease of branches	**100**	100

MeDirect Belgium was incorporated on 16 June 2014 and was authorised as a Belgian credit institution on 1 June 2015. MeDirect Belgium's principal activities comprise those 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 financing of Dutch and Belgian mortgages, including RMBS transactions.

MeDirect Tech Limited was incorporated on 20 July 2011 and was acquired by MeDirect Malta on 4 January 2021 from Medifin Investments Limited. MeDirect Tech'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 MeDirect Malta.

10. Property and equipment

Group	Improvements to premises	Computer equipment	Other equipment	Fixture and fittings	Motor vehicles	Right-of-use assets	Total
	€000	€000	€000	€000	€000	€000	€000
As at 1 January 2022							
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
Year ended 31 December 2022							
At beginning of year	349	1,802	50	490	75	6,420	9,186
Additions	21	962	35	437	-	355	1,810
Modification of lease	-	-	-	-	-	(1,075)	(1,075)
Disposals	(152)	(96)	(5)	(123)	-	-	(376)
Depreciation for the year	(69)	(849)	(29)	(122)	(15)	(1,058)	(2,142)
Depreciation released on disposals	76	31	3	61	-	-	171
At end of year	225	1,850	54	743	60	4,642	7,574
As at 31 December 2022							
Cost	458	4,340	162	1,218	80	10,015	16,273
Accumulated depreciation	(233)	(2,490)	(108)	(475)	(20)	(5,373)	(8,699)
Net book amount	225	1,850	54	743	60	4,642	7,574
Year ended 31 December 2023							
At beginning of year	**225**	**1,850**	**54**	**743**	**60**	**4,642**	**7,574**
Additions	**-**	**208**	**3**	**31**	**-**	**-**	**242**
Modification of lease	**-**	**-**	**-**	**-**	**-**	**260**	**260**
Disposals	**(26)**	**-**	**-**	**(10)**	**-**	**-**	**(36)**
Depreciation for the year	**(44)**	**(751)**	**(21)**	**(156)**	**(16)**	**(976)**	**(1,964)**
Depreciation released on disposals	**11**	**-**	**-**	**4**	**-**	**-**	**15**
At end of year	**166**	**1,307**	**36**	**612**	**44**	**3,926**	**6,091**
As at 31 December 2023							
Cost	**432**	**4,548**	**165**	**1,239**	**80**	**10,275**	**16,739**
Accumulated depreciation	**(266)**	**(3,241)**	**(129)**	**(627)**	**(36)**	**(6,349)**	**(10,648)**
Net book amount	**166**	**1,307**	**36**	**612**	**44**	**3,926**	**6,091**

As at 31 December 2023 and 2022 the Group operated from five 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	
	2023	2022
	€000	€000
Premises	**3,926**	4,642

The movement in the carrying amount of right-of-use assets is analysed in the following table:

Group	**Premises**	**Computer equipment**	**Other equipment**	**Total**
	€000	**€000**	**€000**	**€000**
As at 1 January 2022				
Cost	9,869	796	70	10,735
Accumulated depreciation	(3,449)	(796)	(70)	(4,315)
Net book amount	6,420	-	-	6,420
Year ended 31 December 2022				
At beginning of year	6,420	-	-	6,420
Additions	355	-	-	355
Modification of lease	(1,075)	-	-	(1,075)
Depreciation for the year	(1,058)	-	-	(1,058)
At end of the year	4,642	-	-	4,642
As at 31 December 2022				
Cost	9,149	796	70	10,015
Accumulated depreciation	(4,507)	(796)	(70)	(5,373)
Net book amount	4,642	-	-	4,642
Year ended 31 December 2023				
At beginning of year	**4,642**	**-**	**-**	**4,642**
Modification of lease	**260**	**-**	**-**	**260**
Depreciation for the year	**(976)**	**-**	**-**	**(976)**
At end of the year	**3,926**	**-**	**-**	**3,926**
As at 31 December 2023				
Cost	**9,409**	**796**	**70**	**10,275**
Accumulated depreciation	**(5,483)**	**(796)**	**(70)**	**(6,349)**
Net book amount	**3,926**	**-**	**-**	**3,926**

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 (2022: nil).

11. Intangible assets

	Group			
	Goodwill	Computer software	Customer list	Total
	€000	€000	€000	€000
As at 1 January 2022				
Cost	461	19,505	474	20,440
Accumulated amortisation	-	(6,474)	(474)	(6,948)
Net book amount	461	13,031	-	13,492
Year ended 31 December 2022				
At beginning of year	461	13,031	-	13,492
Additions	-	4,304	-	4,304
Write-off	-	(52)	-	(52)
Amortisation and impairment charges for the year	-	(4,014)	-	(4,014)
Amortisation released on write-off	-	37	-	37
At end of year	461	13,306	-	13,767
As at 31 December 2022				
Cost	461	23,757	474	24,692
Accumulated amortisation	-	(10,451)	(474)	(10,925)
Net book amount	461	13,306	-	13,767
Year ended 31 December 2023				
At beginning of year	**461**	**13,306**	**-**	**13,767**
Additions	**-**	**6,257**	**-**	**6,257**
Amortisation and impairment charges for the year	**-**	**(3,608)**	**-**	**(3,608)**
At end of year	**461**	**15,955**	**-**	**16,416**
As at 31 December 2023				
Cost	**461**	**30,014**	**474**	**30,949**
Accumulated amortisation	**-**	**(14,059)**	**(474)**	**(14,533)**
Net book amount	**461**	**15,955**	**-**	**16,416**

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 at 31 December 2023, internally generated software included within Computer software in the table above amounted to €8.1 million (2022: €5.6 million). Capitalised staff costs in respect of the financial year ended 31 December 2023, included within "Additions" to Computer software in the table above amounted to €3.6 million (2022: €2.0 million). Meanwhile, amortisation recognised during the year in respect of internally generated software amounts to €1.6 million (2022: €1.6 million).

Amortisation of amounts capitalised by the Group of €3.2 million (2022: €1.8 million) had not yet commenced by the end of the reporting year.

The carrying amount of the assets written off during the preceding 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 (2022: 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 held for sale

As at 31 December 2023, the property that had been acquired in satisfaction of debt had a carrying amount of €1.8 million (2022: €1.8 million).

	Group	
	2023	2022
	€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

	Group		Company	
	2023	2022	**2023**	2022
	€000	€000	**€000**	€000
Deferred tax assets	**17,525**	17,524	**-**	-
Deferred tax liabilities	**(342)**	(358)	**-**	-

Deferred tax assets and liabilities are attributable to the following:

	Group		Company	
	2023	2022	**2023**	2022
	€000	€000	**€000**	€000
Property and equipment	**(1,036)**	(1,163)	**-**	-
Investments measured at fair value through profit or loss	**132**	(1,770)	**-**	-
Derivative financial instruments	**(95)**	(95)	**-**	-
Unutilised wear and tear allowances	**-**	131	**-**	-
Unutilised tax losses	**12,340**	16,248	**-**	-
Unutilised notional interest deduction	**77**	73	**-**	-
Credit loss allowances	**6,026**	6,251	**-**	-
Taxation in overseas jurisdictions	**(261)**	(2,509)	**-**	-
	17,183	17,166	**-**	-

Deferred tax assets and liabilities amounting to €1.1 million (2022: €5.2 million) were offset as there is a legally enforceable right to offset current tax assets against current tax liabilities and the deferred income taxes relate to the same fiscal authority.

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% (2022: 35%) in relation to the Maltese jurisdiction and 25% (2022: 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	Recognised in profit or loss	At end of year
	€000	€000	€000
Year ended 31 December 2023			
Property and equipment	(1,163)	127	(1,036)
Investments measured at fair value through profit or loss	(1,770)	1,902	132
Derivative financial instruments	(95)	-	(95)
Unutilised wear and tear allowances	131	(131)	-
Unutilised tax losses	16,248	(3,908)	12,340
Unutilised notional interest deduction	73	4	77
Credit loss allowances	6,251	(225)	6,026
Taxation in overseas jurisdictions	(2,509)	2,248	(261)
	17,166	17	17,183

	At beginning of year	Recognised in profit or loss	Recognised in other comprehensive income	At end of year
	€000	€000	€000	€000
Year ended 31 December 2022				
Property and equipment	(721)	(442)	-	(1,163)
Investments measured at fair value through other comprehensive income	393	-	(393)	-
Investments measured at fair value through profit or loss	-	(1,770)	-	(1,770)
Derivative financial instruments	(95)	-	-	(95)
Unutilised wear and tear allowances	60	71	-	131
Unutilised tax losses	8,172	8,076	-	16,248
Unutilised notional interest deduction	62	11	-	73
Credit loss allowances	9,703	(3,452)	-	6,251
Taxation in overseas jurisdictions	-	(2,509)	-	(2,509)
	17,574	(15)	(393)	17,166

As at 31 December 2023, deferred tax assets attributable to MeDirect Malta are equivalent to €9.9 million (2022: €9.9 million), while deferred tax assets attributable to MeDirect Belgium are equivalent to €7.6 million (2022: €7.6 million).

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	
	2023	2022	**2023**	2022
	€000	€000	**€000**	€000
Property and equipment	**2,468**	2,232	**-**	-
Unutilised tax losses	**11,879**	12,656	**-**	-
Unutilised notional interest deduction	**41,305**	34,409	**5,857**	5,854
Net deferred tax assets	**55,652**	49,297	**5,857**	5,854

14. Prepayments and accrued income

	Group	
	2023	2022
	€000	€000
Prepayments	**3,833**	4,376
Accrued income	**23,930**	14,097
	27,763	18,473

Accrued income is shown net of credit loss allowances amounting to €0.3 million as at 31 December 2023 (2022: €0.3 million).

15. Other assets

	Group		Company	
	2023	2022	**2023**	2022
	€000	€000	**€000**	€000
Amounts receivable from:				
- immediate parent company	**-**	-	**-**	-
- subsidiary companies	**-**	-	**12,847**	11,737
Dividend related refund	**584**	2,164	**-**	1,578
Deferred customer contract costs	**587**	644	**-**	-
Other receivables	**1,024**	1,712	**-**	-
Other assets	**28,359**	25,981	**17**	13
	30,554	30,501	**12,864**	13,328

As at 31 December 2023, the amounts receivable from subsidiary companies comprise a callable loan granted by MDB Group Limited to MeDirect Malta amounting to €11.5 million (2022: €11.4 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.

Other amounts receivable from subsidiary companies as at 31 December 2023 and 2022 are unsecured, interest free and repayable on demand.

As at 31 December 2023, the Group's 'other assets' comprises balances amounting to €19.5 million (2022: €16.2 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.

As at 31 December 2023, the Group's 'other assets' comprises balances amounting to €1.6 million (2022: €6.9 million) held with a third-party mortgage originator in Belgium until the relevant criteria for specific loan applications relating to the Belgian Mortgage portfolio are fulfilled in the future.

As at 31 December 2023, 'other assets' include an amount of €0.8 million (2022: €0.8 million) placed in an account held in respect of the Single Resolution Fund as an Irrevocable Payment Commitment ('IPC') in terms of the Recovery and Resolution Regulations.

The total Irrevocable Payment Commitments ('IPC') made by the Group during the financial year ended 31 December 2023 amounted to €37 thousand (2022: €104 thousand).

None of these assets are deemed credit-impaired at 31 December 2023 and 2022 and expected credit losses in relation to such balances were deemed insignificant.

16. Capital and reserves

	Group and Company	
	2023	2022
	No.	No.
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

	2023	2022
	€	€
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 2023 and 2022, 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 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:

Group and Company			**Share premium**	
	Number of shares	**Premium per share**	**2023**	2022
		€	**€000**	€000
Issue date				
05 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 required banks in Malta to hold additional reserves for general banking risks in respect of non-performing loans. This reserve was required to be funded from retained earnings. As at 31 December 2022, the reserve for general banking risks of the Group was equivalent to €3.8 million. This reserve, which was distributable subject to the formal consent of the Banking Regulator, represented 100% of the regulatory allocation by virtue of paragraph 38 of the Banking Rule.

Banking Rule 09 was revised as from 1 January 2023 and under the new rule banks are no longer required to hold this reserve given that banks are required to carry out deductions from Common Equity Tier 1 capital in line with the minimum coverage expectations as specified within the Capital Requirements Regulations for those loans that were classified as NPEs after 26 April 2019 and in line with minimum coverage expectations as set by the regulatory authorities for those loans that were classified as NPEs before such date.

Other reserves

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. As a result of the acquisition of the noncontrolling 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 2023, other reserves also comprises of a legal reserve amounting to €0.7 million (2022: €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 Company do not propose any final dividends for distribution.

17. Amounts owed to financial institutions

	Group	
	2023	2022
	€000	€000
Term deposits	**373,058**	545,109
Other	**44**	26
	373,102	545,135

As at 31 December 2023, amounts owed to financial institutions of the Group amounting to €192.5 million (2022: €271.4 million) included in term deposits and consisting of repos are secured by a pledge over the Group's investments (refer to Note 8).

18. Amounts owed to customers

	Group	
	2023	2022
	€000	€000
Repayable on call and at short notice	**2,452,739**	1,896,470
Term deposits	**828,474**	891,130
	3,281,213	2,787,600

19. Debt securities in issue

	Group	
	2023	2022
	€000	€000
Year ended 31 December		
At beginning of year	**969,569**	658,293
Original face value of notes issued	**-**	368,500
Issue costs incurred	**-**	(2,063)
Amortisation of premium recognised in profit or loss	**(1,028)**	(1,303)
Amortisation of issue costs recognised in profit or loss	**995**	1,303
Redemptions	**(58,688)**	(55,161)
At end of year	**910,848**	969,569
As at 31 December		
Original face value of notes issued	**910,766**	969,454
Unamortised note premium	**2,316**	3,311
Unamortised note issue costs	**(2,234)**	(3,196)
Net carrying amount	**910,848**	969,569
As at 31 December		
Bastion 2020-1 NHG B.V.	**271,555**	295,053
Bastion 2021-1 NHG B.V.	**297,822**	307,416
Bastion 2022-1 NHG B.V.	**341,471**	367,100
Net carrying amount	**910,848**	969,569

By virtue of a base prospectus dated May 2020, MeDirect Belgium successfully securitised part of its Dutch retail mortgage portfolio raising €350.0 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, and interest of 1.00% per annum above 3-month Euribor (including floor at 0%) from the first optional redemption date being April 2025, payable quarterly. All bonds are redeemable at par and shall become due for final redemption in April 2057, however, 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 €350.0 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 held by the institutional investor 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 23 January 2023, 24 April 2023, 24 July 2023 and 23 October 2023, amounts of €6.4 million, €5.6 million, €5.1 million and €6.7 million of Class A notes, pertaining to the senior tranche were redeemed, whereas on each of the Notes Payment Dates on 24 January 2022, 25 April 2022, 25 July 2022 and 24 October 2022, amounts of €7.3 million, €6.1 million, €7.8 million and €5.8 million of the said Class A notes were redeemed.

In January 2021, MeDirect Belgium securitised a further part of its Dutch retail mortgages portfolio through a RMBS transaction, listed on Luxembourg Stock Exchange, whereby a principal amount of €414.0 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.

This RMBS is subject to interest of 0.70% 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.

An institutional investor acquired the Class A notes of the RMBS equivalent to €350.0 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 2021-1. As a result, the mortgage portfolio, the senior notes of Bastion 2021-1 held by the institutional investor and related income and expenditure are reflected in the Group's financial statements.

On each of the Notes Payment Dates of Bastion 2021-1, falling on 20 February 2023, 22 May 2023, 21 August 2023 and 20 November 2023, amounts of €8.0 million, €5.3 million, €10.6 million and €6.8 million of Class A notes, pertaining to the senior tranche were redeemed whereas on each of the Notes Payment Dates on 21 February 2022, 20 May 2022, 22 August 2022 and 21 November 2022, amounts of €7.9 million, €9.2 million, €5.8 million and €7.3 million of the said Class A notes were redeemed.

By virtue of a base prospectus dated 25 November 2022, MeDirect Belgium successfully securitised part of its Dutch retail mortgage portfolio raising €368.5 million through placement with external investors of A1 notes of the RMBS transaction, listed on Luxembourg Stock Exchange. As part of the transaction the mortgage portfolio was sold to Bastion 2022-1, 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, and interest of 1.20% per annum above 3-month Euribor (including floor at 0%) from the first optional redemption date being March 2028, payable quarterly. All bonds are redeemable at par and shall become due for final redemption in May 2060, however, MeDirect Belgium reserves the right to redeem the bond in particular circumstances specified in the base prospectus.

An institutional investor acquired Class A notes of this RMBS equivalent to €369.0 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 2022-1. As a result, the mortgage portfolio, the senior notes of Bastion 2022-1 held by the institutional investor and related income and expenditure are reflected in the Group's financial statements.

On each of the Notes Payment Dates of Bastion 2022-1, falling on falling on 20 February 2023, 22 May 2023, 21 August 2023 and 20 November 2023, amounts of €5.7 million, €5.9 million, €7.2 million and €7.2 million of Class A notes, pertaining to the senior tranche were redeemed.

20. Subordinated liabilities

	Group		Company	
	2023	2022	**2023**	2022
	€000	€000	**€000**	€000
Year ended 31 December				
At beginning of year	**65,141**	65,130	**10,310**	10,136
Foreign exchange differences	**83**	(226)	**-**	-
Transaction costs amortised to profit or loss	**261**	237	**193**	174
At end of year	**65,485**	65,141	**10,503**	10,310
Analysed as follows:				
5% Subordinated Unsecured Bonds 2022 – 2027	**20,045**	19,997	**-**	-
4% Subordinated Unsecured Bonds 2024 – 2029	**34,937**	34,834	**-**	-
9.75% Subordinated Notes 2031	**10,503**	10,310	**10,503**	10,310
	65,485	65,141	**10,503**	10,310

On 16 October 2017, MeDirect Malta announced the issue of euro equivalent of €20.0 million 5% Subordinated Unsecured Bonds 2027 maturing on 13 October 2027 with a 13 October 2024 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 €35.0 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 €11.0 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 2023 and 2022. As at 31 December 2023, the euro equivalent contractual amount due at maturity with regards to MeDirect Malta and MDB Group Limited was €55.0 million (2022: €54.9 million) and €11.0 million (2022: €11.0 million) respectively.

21. Provisions for liabilities and other charges

	Group	
	2023	2022
	€000	€000
Credit loss allowances in respect of loan commitments and financial guarantee contracts		
Year ended 31 December		
At beginning of year	**1,263**	1,158
Change in expected credit losses	**(965)**	105
At end of year	**298**	1,263

22. Accruals and deferred income

	Group		Company	
	2023	2022	**2023**	2022
	€000	€000	**€000**	€000
Accrued interest expense	**38,076**	11,722	**950**	950
Other accrued expenses	**9,286**	10,146	**14**	12
Deferred income	**966**	3,397	**-**	-
	48,328	25,265	**964**	962

23. Other liabilities

	Group		Company	
	2023	2022	**2023**	2022
	€000	€000	**€000**	€000
Amounts due to ultimate parent company	**841**	875	**-**	-
Amounts due to immediate parent company	**78**	127	**-**	-
Amounts due to other group companies	**-**	-	**30**	642
Indirect taxes payable	**1,419**	916	**-**	-
Lease liabilities	**4,339**	5,071	**-**	-
Other liabilities	**14,320**	12,165	**7**	4
	20,997	19,154	**37**	646

Amounts due to ultimate parent company, immediate parent company and other group companies are unsecured, interest free and repayable on demand.

Other liabilities mainly consist of settlement accounts.

The lease liabilities associated with the recognised right-of-use assets are analysed below.

	Group		Current		Total	
	2023	2022	**2023**	2022	**2023**	2022
	€000	€000	**€000**	€000	**€000**	€000
Premises	**3,280**	4,126	**1,059**	945	**4,339**	5,071

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 Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has certain lease contracts that include extension and termination options. The Group applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control that affects its ability to exercise or not to exercise the option to renew or to terminate.

The contractual undiscounted cash flows attributable to lease liabilities as at 31 December 2023 and 2022 are analysed in Note 2.3.4.

The movement in the carrying amount of these liabilities is analysed in the following table:

	Group	
	2023	2022
	€000	€000
Year ended 31 December		
At beginning of year	**5,071**	7,083
Additions	**-**	355
Modification of lease	**260**	(1,075)
Payments	**(1,177)**	(1,503)
Interest charge	**185**	211
At end of year	**4,339**	5,071

The income statement reflects the following amounts relating to leases:

	Group	
	2023	2022
	€000	€000
Interest expense (Note 24)	**185**	211

24. Net Interest Income

	Group		Company	
	2023	2022	**2023**	2022
	€000	€000	**€000**	€000
Interest income				
Loans and advances to financial institutions	**47,425**	908	**-**	-
Loans and advances to customers				
- interest on loans and advances to customers	**119,079**	75,015	**-**	-
- (losses)/gains representing ineffective portion of fair value hedges	**(1,300)**	2,700	**-**	-
Loans and advances to subsidiary company			**1,267**	1,227
Investment securities				
- interest on investment securities	**9,419**	7,934	**-**	-
- amortisation of net premiums on investment securities	**(1,121)**	(5,926)	**-**	-
- gains representing ineffective portion of fair value hedges	**253**	56	**-**	-
Total interest income	**173,755**	80,687	**1,267**	1,227
Interest expense				
Amounts owed to financial institutions	**46,169**	6,597	**-**	-
Amounts owed to customers	**41,347**	12,447	**-**	-
Lease liabilities	**185**	211	**-**	-
Subordinated liabilities	**3,733**	3,694	**1,267**	1,227
Total interest expense	**91,434**	22,949	**1,267**	1,227
Net interest income	**82,321**	57,738	**-**	-

An amount of €5.4 million (2022: €4.2 million) relating to credit-impaired financial assets is included within interest income from loans and advances to customers for the year ended 31 December 2023.

In the financial year ended 31 December 2023, fair value losses of €0.7 million (2022: gains of €5.6 million) arising on derivatives designated in micro fair value hedge relationships and €0.9 million (2022: €5.5 million) representing net increases (2022: net decreases) 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, that were discontinued during 2023, used to 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 losses of €86.4 million (2022: gains of €238.2 million) arising on derivatives designated in fair value hedge relationships and gains of €85.1 million (2022: losses of €235.5 million) representing net decrease (2022: decrease) 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.

Within interest income, the Group is netting-off amounts of €5.7 million (2022: €3.1 million) relating to interest expense on interest rate swaps used to hedge the International Mortgage portfolios.

	Group	
	2023	2022
	€000	€000
Micro hedging:		
(Losses)/gains on hedging instruments	**(654)**	5,591
Gains/(losses) on hedged items attributable to the hedged risk – basis adjustment to Securities Investments measured at amortised cost (see Note 8)	**907**	(5,535)
	253	56
Macro hedging:		
(Losses)/gains on hedging instruments	**(86,400)**	238,200
Gains/(losses) on hedged items attributable to the hedged risk – basis adjustment to International Mortgage portfolio (see Note 7)	**85,100**	(235,500)
	(1,300)	2,700
Net (losses)/gains representing ineffective portion of fair value hedges	**(1,047)**	2,756

25. Net fee and commission income

	Group	
	2023	2022
	€000	€000
Fee and commission income		
Corporate secured lending fee income	**1,052**	1,151
Banking transactions fee income	**1,488**	1,112
Investment services fee income	**6,793**	6,803
Other fee income	**361**	150
Total fee and commission income	**9,694**	9,216
Fee and commission expense		
Corporate secured lending fee expense	**1,877**	111
Banking transactions fee expense	**718**	851
Investment services transaction and custody fees	**1,797**	1,963
Other fee expense	**202**	163
Total fee and commission expense	**4,594**	3,088
Net fee and commission income	**5,100**	6,128

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 2023 includes income of €1.1 million (2022: €1.3 million) and expenses of €1.9 million (2022: €0.1 million) relating to such financial assets and liabilities.

The net revenue arising during 2023 (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 investment services licence in Malta amount to €2.0 million (2022: €1.9 million).

26. Net trading income

	Group	
	2023	2022
	€000	€000
Net income from foreign exchange activities	**1,121**	1,671
Net loss from held for trading financial instruments	**(574)**	(263)
	547	1,408

26.1 Realised losses on disposal of other investments

	Group	
	2023	2022
	€000	€000
Investments measured at amortised cost	**(30)**	-

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	
	2023	2022
	€000	€000
Directors' emoluments		
- salaries	**3,860**	2,888
- defined contribution social security costs	**62**	31
- fees	**817**	668
- other emoluments	**145**	66
Staff costs		
- salaries	**21,034**	20,656
- defined contribution social security costs	**2,007**	2,005
Staff costs capitalised within Intangible Assets (Note 11)	**(3,634)**	(2,018)
	24,291	24,296

The Directors of MeDirect Tech Limited do not receive any Directors' emoluments as they are employed within the MDB Group and their remuneration for 2023 and 2022 are presented above within 'Staff costs'.

As per above, in the financial year ended 31 December 2023 salary costs amounted to €24.9 million (2022: €23.5 million) with variable remuneration accounting for 12.2% (2022: 10.7%) of these amounts.

The salary costs include expenses for defined contributions plans amounting to €0.5 million (2022: €0.5 million).

The weekly average number of persons employed during the year, including Executive Directors, was as follows:

	Group	
	2023	2022
	No.	No.
Executive and senior management	**25**	16
Other managerial, supervisory and clerical	**313**	326
Other	**6**	6
	344	348

The number of persons employed with the Group as at the reporting date, including Executive Directors, was 350 (2022: 339).

As disclosed in the remuneration report, share-based payments are granted to certain Executive Directors and other material risk takers under a performance and retention bonus plan, where they are entitled to share-linked instruments, subject to a deferral period not greater than five years, 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.

	2023		2022	
	Vested	**Unvested**	Vested	Unvested
Group	**€000**	**€000**	€000	€000
Total outstanding deferred remuneration – share-based payments				
Year ended 31 December				
At beginning of year	**1,586**	**810**	1,507	1,200
Awarded throughout the year	**-**	**587**	-	197
Vested throughout the year	**744**	**(744)**	587	(587)
Paid throughout the year	**(845)**	**-**	(553)	-
Performance and other adjustments throughout the year	**176**	**-**	45	-
At end of year	**1,661**	**653**	1,586	810

The total expense recognised during the financial year ended 31 December 2023, disclosed in the table above within 'salaries' amounted to €0.4 million (2022: €0.2 million) and the resultant liability as at 31 December 2023, arising from deferred share-based payments and presented in the statement of financial position with 'Accruals and deferred income', amounted to €1.8 million (2022: €2.3 million).

28. Other administrative expenses

Other administrative expenses are analysed as follows:

	Group		Company	
	2023	2022	**2023**	2022
	€000	€000	**€000**	€000
IT support and telecommunication costs	**8,072**	7,974	**-**	-
Legal, professional and marketing expenses	**17,811**	12,910	**12**	34
Regulatory expenses	**5,501**	6,060	**8**	1
Indirect taxation	**4,964**	4,666	**5**	2
Other expenses	**7,077**	5,562	**18**	4
	43,425	37,172	**43**	41

Included in other administrative expenses are fees charged by the Group's independent auditors for the year as follows:

	Group		Company	
	2023	2022	**2023**	2022
	€000	€000	**€000**	€000
Audit services	**615**	465	**11**	10
Other assurance services	**59**	20	**-**	-
Tax related services	**-**	10	**-**	-
Other non-audit services	**194**	38	**-**	-

Other non-audit services consisted of regulatory advisory services in respect of the Group's compliance with elements of the accounting and 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	
	2023	2022
	€000	€000
Change in expected credit losses		
Loans and advances to customers, including credit-related commitments		
- International Corporate Lending portfolio (including accrued income)	**3,189**	6,388
- Dutch Mortgage portfolio	**(100)**	(37)
- Belgian Mortgage portfolio	**(204)**	(164)
- Maltese Business Lending portfolio	**(345)**	3,691
- Maltese Mortgage portfolio	**(184)**	(92)
Investments measured at amortised cost		
- Securities portfolio	**130**	(65)
- Securitisation portfolio	**(3)**	(7)
Other credit impairment charges		
Amounts written off on loans and advances to customers		
- International Corporate Lending portfolio	**(3,428)**	(7,673)
	(945)	2,041

30. Tax expense

	Group		Company	
	2023	2022	**2023**	2022
	€000	€000	**€000**	€000
Current tax expense				
- current year tax charge	**2,425**	445	**-**	-
Deferred tax (Note 13)				
- current year tax	**(17)**	15	**-**	-
Income tax charge	**2,408**	460	**-**	-

The tax recognised in profit or loss on the Group's and the Company's 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	
	2023	2022	**2023**	2022
	€000	€000	**€000**	€000
Profit before tax	**14,311**	9,168	**11,937**	8,582
Tax at the applicable rate of 35%	**5,009**	3,209	**4,178**	3,004
Tax effect of:				
Non-deductible expenses	**958**	70	**15**	14
Unrecognised deferred tax movements (Note 13)	**(541)**	(3,128)	**-**	-
Income not subject to tax	**(3,383)**	(1,846)	**-**	-
Share of results of subsidiary undertaking	**-**	-	**(4,193)**	(3,018)
Effect of different tax rates	**(694)**	2,044	**-**	-
Other	**1,059**	111	**-**	-
Income tax charge	**2,408**	460	**-**	-

31. Cash and cash equivalents

Balances of cash and cash equivalents as shown in the statements of cash flows are analysed below:

	Group		Company	
	2023	2022	**2023**	2022
	€000	€000	**€000**	€000
Analysis of cash and cash equivalents:				
Cash in hand	**3**	4	**-**	-
Call deposits	**49,370**	108,513	**164**	158
Target 2 overnight deposits	**237,117**	123,448	**-**	-
Amounts owed to financial institutions with original maturity of less than 3 months	**(312,434)**	(395,135)	**-**	-
Per Statement of cash flows	**(25,944)**	(163,170)	**164**	158
Adjustments to reflect:				
Other balances with central banks	**28,281**	26,477	**-**	-
Deposits with original maturity of over 3 months and encumbered deposits	**303,587**	294,632	**-**	-
Amounts owed to financial institutions with original maturity of over 3 months	**(60,668)**	(150,000)	**-**	-
Per Statement of financial position	**245,256**	7,939	**164**	158

		Group		Company	
		2023	2022	**2023**	2022
	Notes	**€000**	€000	**€000**	€000
Analysed as follows:					
Balances with central banks and cash	**4**	**265,401**	149,929	**-**	-
Loans and advances to financial institutions	**6**	**352,957**	403,145	**164**	158
Amounts owed to financial institutions	**17**	**(373,102)**	(545,135)	**-**	-
		245,256	7,939	**164**	158

32. Contingent liabilities

As at 31 December 2023, the Group had cash secured guarantee obligations amounting to €20.2 million (2022: €9.4 million).

33. Commitments

Commitments to lend

Commitments to lend represent undrawn formal standby facilities, credit facilities and other similar commitments to lend. As at 31 December 2023, the Group had undrawn commitments of €35.3 million (2022: €125.1 million) under international lending revolving credit facilities. In addition, lending commitments in relation to the Group's Dutch Mortgage portfolio amounted to €94.5 million (2022: €98.4 million), Belgian Mortgage portfolio amounted to €28.7 million (2022: €63.8 million) and Maltese mortgage portfolio amounted to €27.0 million (2022: €33.2 million).

As at 31 December 2023, undrawn facilities on corporate term loans of the Group in Malta amounted to €54.7 million (2022: €13.6 million).

Other contingent liabilities consist of possible future contributions payable to the Depositor Compensation Scheme ('DCS') and the Single Resolution Fund ('SRF'). The DCS provides compensation, up to certain limits, to eligible customers of credit institutions that are unable, or likely to be unable, to pay claims against them. The DCS may impose a further contribution on the Group to the extent the contributions imposed to date are not sufficient to cover the compensation due to customers in any future possible collapse. The ultimate contribution to the industry as a result of a collapse cannot be estimated reliably. It is dependent on various uncertain factors including the potential recovery of assets by the DCS, changes in the level of protected products (including deposits and investments) and the population of DCS members at the time. At 31 December 2023, assets pledged in favour of the DCS comprised debt securities measured at amortised cost with a carrying amount of €2.3 million (2022: €2.3 million). The Depositor Compensation Scheme reserve amounts to €2.0 million (2022: €2.0 million).

In addition, in accordance with article 70(3) of Regulation (EU) No 806/2014 of the European Parliament and of the Council of 15 July 2014 establishing uniform rules and a uniform procedure for the resolution of credit institutions and certain investment firms in the framework of a Single Resolution Mechanism and a Single Resolution Fund and amending Regulation (EU) No 1093/2010, the available financial means of the SRF may include irrevocable payment commitments which are fully backed by unencumbered collateral of low-risk assets. The share of irrevocable payment commitments cannot exceed 30% of the total amount of contributions. At 31 December 2023, irrevocable payment commitments to the SRF by the Group amounted to €0.8 million (2022: €0.8 million), reflecting cash collateral to the SRF. The cash collateral is classified within 'Other assets' in the statement of financial position.

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 the 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 2023 (2022: €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 2023		As at 31 December 2023		
Related party	Income from related parties	Expenses charged by related parties	Amounts owed by related parties	Amounts owed to related parties	Transaction/ balance type
	€000	€000	€000	€000	
Ultimate controlling party	-	98	-	-	Interest expense
	-	-	-	955	Debt securities in issue
Ultimate parent company	5	-	-	-	Service charge fees
	-	-	-	841	Other liabilities
Immediate parent company	5	-	-	-	Service charge fees
	-	-	-	78	Other liabilities
Key management personnel	-	7	-	-	Interest expense
	-	-	-	4,207	Amounts owed to customers
	-	-	-	25	Subordinated liabilities

	Year ended 31 December 2022		As at 31 December 2022		
Related party	**Income from related parties**	**Expenses charged by related parties**	**Amounts owed by related parties**	**Amounts owed to related parties**	**Transaction/ balance type**
	€000	**€000**	**€000**	**€000**	
Ultimate controlling party	-	98	-	-	Interest expense
	-	-	-	937	Debt securities in issue
Ultimate parent company	5	-	-	-	Service charge fees
	-	-	-	875	Other liabilities
Immediate parent company	5	-	-	-	Service charge fees
	-	-	-	127	Other liabilities
Key management personnel	-	1	-	-	Interest expense
	-	-	-	178	Amounts owed to customers
	-	-	-	25	Subordinated liabilities

As regards the Company at 31 December 2023, the amounts receivable from subsidiary companies comprise a callable loan granted by MDB Group Limited to MeDirect Malta as disclosed in note 23 with a carrying amount of €10.5 million (2022: €10.3 million).The interest income on such amounts receivable in the financial year ended 31 December 2023 amounted to €1.3 million (2022: €1.2 million) and the accrued interest as at 31 December 2023 was equivalent to €0.9 million (2022: €0.9 million). Other amounts receivable from group companies amounted to €1.4 million (2022: €0.5 million) and amounts payable to group companies in 2022 amounted to €0.6 million.

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 through Dutch, Belgian 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. The Group also has a lending portfolio consisting of international corporate lending and Malta corporate lending. 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, 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 2023			Year ended 31 December 2022		
	Malta	Belgium	Total	Malta	Belgium	Total
	€000	€000	€000	€000	€000	€000
Turnover *	54,891	129,681	184,572	48,505	52,283	100,788
Interest expense	(16,162)	(75,272)	(91,434)	(8,892)	(14,057)	(22,949)
Fee expense and other losses	(3,079)	(1,515)	(4,594)	(1,519)	(1,569)	(3,088)
Change in expected losses and other credit impairment charges						
- International corporate lending	(1,137)	898	(239)	(830)	(453)	(1,283)
- Dutch mortgages	-	(100)	(100)	-	(37)	(37)
- Belgian mortgages	-	(204)	(204)	-	(164)	(164)
- Maltese business lending	(345)	-	(345)	3,691	-	3,691
- Maltese mortgages	(184)	-	(184)	(92)	-	(92)
- Other	105	22	127	(23)	(51)	(74)
Total change in expected losses and other credit impairment charges	(1,561)	616	(945)	2,746	(705)	2,041
Depreciation and amortisation	(3,302)	(2,270)	(5,572)	(3,975)	(2,181)	(6,156)
Other operating expenses	(26,298)	(41,418)	(67,716)	(22,251)	(39,217)	(61,468)
Profit/(loss) before tax	4,489	9,822	14,311	14,614	(5,446)	9,168
Taxation	(394)	(2,014)	(2,408)	(291)	(169)	(460)
Profit/(loss) after tax	4,095	7,808	11,903	14,323	(5,615)	8,708
Capital expenditure	6,133	366	6,499	5,126	988	6,114

	As at 31 December 2023			As at 31 December 2022		
Total assets (€million)	1,020	3,964	4,984	1,133	3,531	4,664
Total liabilities (€million)	954	3,773	4,727	1,072	3,347	4,419
Full time equivalent staff (No)	288	62	350	280	59	339

* 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 2023 includes interest charged to MeDirect Malta amounting to €0.4 million (2022: €1.1 million).

Total assets allocated to Malta include non-current assets held for sale amounting to €1.8 million (2022: €1.8 million).

The Group carried out its activities in the countries listed above under the name of MeDirect Malta in Malta and in the name of 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.

36. Investor compensation scheme

In accordance with the provisions of the Investor Compensation Scheme Regulations, 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 2023 and 2022, 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 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 2023, the total assets held by the Group on behalf of customers amounted to €1,688.4 million (2022: €1,435.8 million).

38. Events after the reporting date

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

39. Statutory information

MDB Group Limited is a limited liability company and is incorporated in Malta.

The ultimate controlling party of MDB Group Limited is AnaCap Financial Partners II L.P., a limited partnership registered in Guernsey with its registered address at 2nd Floor, Windsor House, Lower Pollet, St Peter Port, Guernsey, GY1 1WF.

The ultimate parent company of MDB Group Limited is Medifin Investments Limited, a non-cellular company, which is incorporated and registered in Guernsey, with its registered address at 2nd Floor, Windsor House, Lower Pollet, St Peter Port, Guernsey, GY1 1WF.

The immediate parent company of MDB Group Limited is Medifin Finance Limited, a non-cellular company, which is incorporated and registered in Guernsey, with its registered address at 2nd Floor, Windsor House, Lower Pollet, St Peter Port, Guernsey, GY1 1WF.

Independent Auditor’s Report

Building a better working world

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INDEPENDENT AUDITOR'S REPORT

to the Shareholders of MDB Group Limited

Report on the audit of the financial statements

Opinion

We have audited the consolidated financial statements of MDB Group Limited (the "Group") and the separate financial statements of MDB Group Limited (the "Company") set on pages 41 to 210, which comprise the consolidated and separate statement of financial position as at 31 December 2023, and the consolidated and separate statement of comprehensive income, the consolidated and separate statement of changes in equity and the statement of cash flows for the for the year ended 31 December 2023, and notes to the consolidated and separate financial statements, including a summary of material accounting policies information.

In our opinion, the accompanying consolidated and separate financial statements give a true and fair view of the financial position of the Group and Company as at 31 December 2023, and of their consolidated and separate financial performance and their consolidated and separate cash flows for the year ended 31 December 2023 in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS") and in accordance with the requirements of the Banking Act (Cap. 371) (the "Banking Act") and the Companies Act (Cap.386) (the "Companies Act") of the Laws of Malta.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and the Companies Act. Our responsibilities under those standards and under the Companies Act are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Group and Company in accordance with the *International Code of Ethics for Professional Accountants (including International Independence Standards)* as issued by the *International Ethics Standards Board of Accountants (the "IESBA Code")* together with the ethical requirements that are relevant to our audit of the consolidated and separate financial statements in accordance with the *Accountancy Profession (Code of Ethics for Warrant Holders) Directive* issued *in terms of the Accountancy Profession Act, Cap. 281 of the Laws of Malta*, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

INDEPENDENT AUDITOR'S REPORT

to the Shareholder of MDB Group Limited - continued

Report on the audit of the financial statements - continued

Key audit matters incorporating the most significant risks of material misstatements, including assessed risk of material misstatements due to fraud

Key audit matters are those matters that, in our professional judgment, 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. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Measurement of expected credit losses of the international corporate lending portfolio and the Maltese business lending portfolios within the loans and advances to customers of the Group

The Group's international corporate lending and Maltese business lending portfolios, which comprise of syndicated loans and advances to international corporates and other facilities to Malta corporates amount to 12% and 5% of the gross loans and advances to customers of the Group, respectively. The expected credit losses (ECL) on such portfolios, as described and disclosed in notes 1.5, 2.2, 3.2, 7 and 29 represents 3.6% and 0.4% of the Group's portfolio. The total expected credit losses on loans and advances to customers on these two portfolios comprise 93% of the total ECL of the Group as at 31 December 2023.

Measurement of ECL for stage 1 and 2 exposures

The stage model of the Group is detailed in Note 1.5. For exposures classified as Stage 1 and Stage 2, the Group measures credit loss allowances on the basis of the following key inputs: Probability of Defaults (PDs) and Loss Given Defaults (LGDs).

The PD and LGD models used for the measurement of credit loss allowances are developed by an external vendor, enabling the estimation of these key risk parameters at a facility level using statistical models, mainly by benchmarking exposure-specific characteristics against an underlying dataset.

Measurement of expected credit losses of the international corporate lending portfolio and the Maltese business lending portfolios within the loans and advances to customers of the Group - continued

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. 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.

Management re-calibrates its probability weights with the severity of the scenario using a weighting allocation approach whereby the latter represents the share of outcomes that are best approximated by a scenario (not the likelihood of a specific scenario occurring).

Measurement for stage 3 ECL

In respect of defaulted / Stage 3 exposures, the Group utilises an internally developed discounted cash flow ("DCF") 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.

Reasons for designation as a KAM

ECL calculations are based on complex statistical analyses and modelling assumptions and calibrated by reference to historical information in respect of default levels and loss severities. In view of 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.

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. A high 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.

INDEPENDENT AUDITOR'S REPORT

to the Shareholder of MDB Group Limited - continued

Report on the audit of the financial statements - continued

Measurement of expected credit losses of the international corporate lending portfolio and the Maltese business lending portfolios within the loans and advances to customers of the Group - continued

The Group utilises a DCF approach for its defaulted exposures. In estimating the cash flows, management makes judgements about a borrower's financial situation and future repayment prospects, taking into consideration borrower's 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 each 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 current economic conditions.

Audit procedures

Our audit procedures over the measurement and adequacy of expected credit losses included amongst others:

- Obtained understanding of the design and effectiveness of the controls relating to the credit issuance, the credit risk management (including periodic credit review, monitoring of the borrower's credit quality using indicators and the determination of the staging) and the flow of information between systems.

ECL measurement for Stage 1 and Stage 2 exposures

- Involved our Quantitative Analysis specialist to assess the appropriateness of the ECL measurement model in line with IFRS 9 requirements;
- Assessed the reasonableness of key assumptions with the involvement of our Quantitative specialist including :
  - the Staging of the loans, historical migrations and staging sensitivity ;
  - the PD's generated by the Moody's tool and the volatility adjusted PD's;
  - the relevant data points for the determination of the LGD;
- Analysed other key assumptions and inputs including:
  - expected maturities of individual borrower and performed back testing by assessing the historical accuracy of management's prediction of expected maturity to actual maturity;
  - Analytically reviewed and benchmarked the historical and projected PD's estimated by the model as at year end with PDs for exposures with similar credit quality issued by an independent credit rating agency and other sources;

Report on the audit of the financial statements - continued

Measurement of expected credit losses of the international corporate lending portfolio and the Maltese business lending portfolios within the loans and advances to customers of the Group - continued

- Performed sensitivity analysis and benchmarked the LGDs estimated by the model with proposed LGDs for similar credit exposures by an independent credit rating agency, the European Banking Authority and other sources;
- For a risk-based sample of borrowers with credit upgrades during the financial year, independently assessed whether a decrease in credit risk has been experienced;
- For a sample of Stage 1 and Stage 2 borrowers, independently assessed the staging appropriateness;

- Tested the accuracy of the model data inputs used against source data including borrowers' information such as key financial data points, sector, geographic location, days past due, amongst others.

ECL measurement for Stage 3 exposures

- For stage 3 loans we obtained understanding of the borrower's latest developments and inspected information available to assess the prospects of recoverability
- Assessed the appropriateness of the DCF methodology and reasonability of key inputs with the involvement of our Valuation specialist including:
  - the expected future cashflows against industry peers;
  - the discount rate used in determining the present value;
  - benchmarked the DCF results to industry multiples;
  - DCF shadow recalculation incorporating additional sensitivity analysis.

We have also assessed the relevance of disclosures relating to the Groups expected credit losses on loans and advances within the International Corporate Lending portfolio presented in notes 1.5, 2.2, 3.2, 7 and 29 to the financial statements.

Valuation of derivatives and hedge accounting of the Group

The net value of the derivatives of the Group amounted to 71% of the net assets as at year end, as disclosed in 1.14, 2.2.9, 3.3 and 5.

Derivative financial instruments mainly comprise of currency forwards, currency swaps and interest rate swaps. They are classified as held for trading derivatives unless designated as hedging instruments and are initially recognised at fair value and subsequently remeasured at fair value. Fair values for currency forwards and swaps are determined using forward exchange market rates at the end of the reporting period.

INDEPENDENT AUDITOR'S REPORT

to the Shareholder of MDB Group Limited - continued

Report on the audit of the financial statements - continued

Valuation of derivatives and hedge accounting of the Group - continued

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 in respect of its retail operations after considering the duration gap between the Dutch and Belgian 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 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.

Reasons for the designation as a key audit matter

The valuation of the fair value of derivatives is based on a number of estimates and assumptions, inbuilt within the valuation techniques, which are not readily observable on the market. Moreover, the establishment of the correct accounting treatment of the hedging relationship and the effectiveness test is based on a number of assumptions that include amongst others the expected future early redemptions and renegotiations of the mortgages.

Audit procedures

Our audit procedures over the valuation of derivatives and hedge accounting included amongst others:

- Compared the fair values of the derivatives recognized by the Group to the valuation issued by the Group's external counterparties;
- For a sample basis, recalculated the fair value of derivatives using the term of the instrument and key inputs from independent sources including benchmark interest rate curves;
- Assessed the Group's hedging documentation to determine whether it meets the criteria as described in the "carved-out" version of IAS 39 as adopted by the European Union;
- Assessed the reasonableness of the model used by the Group to forecast future early repayments and renegotiations of mortgage loans and back tested to recent financial years;

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INDEPENDENT AUDITOR'S REPORT

to the Shareholder of MDB Group Limited – continued

Report on the audit of the financial statements - continued

Valuation of derivatives and hedge accounting of the Group - continued

- Compared the volume of hedging derivatives with the projected volume of hedged mortgage loans over future time buckets to identify any over-hedging situations;
- Analysed the effectiveness tests performed by the Group to determine whether the hedging relationships are effective and whether the ineffectiveness was calculated correctly;
- Assess the appropriateness of the hedge accounting in line with the results of the Group's model and testing.

We have also assessed the relevance of disclosures relating to the Group's valuation of derivatives and hedge accounting presented in notes 1.14, 2.2.9, 3.3 and 5 to the financial statements.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the Annual Report, rather than the financial statements and out auditor's report thereon.

Our opinion on the consolidated and separate financial statements does not cover the other information and we do not express any form of assurance conclusion thereon other than our reporting on other legal and regulatory requirements.

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate 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.

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INDEPENDENT AUDITOR'S REPORT

to the Shareholder of MDB Group Limited – continued

Report on the audit of the financial statements - continued

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

The Directors are responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with IFRS, and in accordance with the requirements of the Banking Act and the Companies Act of the Laws of Malta, and for such internal control as the directors determine is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and separate financial statements, the directors are responsible for assessing the Group and 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 and/or Company to cease operations, or have no realistic alternative but to do so. Those charged with governance are responsible for overseeing the Group and Company's financial reporting process.

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated and separate 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 consolidated and separate financial statements.

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

- identify and assess the risks of material misstatement in the consolidated and separate 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 and Company's internal control;

INDEPENDENT AUDITOR'S REPORT

to the Shareholder of MDB Group Limited – continued

Report on the audit of the financial statements - continued

Auditor's responsibilities for the audit of the financial statements – continued

- 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 and 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 consolidated and separate 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, future events or conditions may cause the Group and/or Company to cease to continue as a going concern; and
- evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate 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 and separate 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 consolidate and separate 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

to the Shareholder of MDB Group Limited – continued

Report on other legal and regulatory requirements

Matters on which we are required to report by the Companies Act

We are required to express an opinion as to whether the Directors' report has been prepared in accordance with the applicable legal requirements. In our opinion the Directors' report has been prepared in accordance with the Companies Act.

In addition, in the light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the Directors' report. We have nothing to report in this regard.

We also have responsibilities under the Companies Act to report if in our opinion:

- proper accounting records have not been kept;
- the consolidated and separate financial statements are not in agreement with the accounting records;
- we have not received all the information and explanations we require for our audit.

We have nothing to report to you in respect of these responsibilities.

The partner in charge of the audit resulting in this independent auditor's report is Shawn Falzon for and on behalf of

Ernst & Young Malta Limited
Certified Public Accountants
27 March 2024