2022 Interim Results - Highlights

"MeDirect Bank continues to deliver business growth whilst investing to become a pan-European WealthTech leader"

Investment in technology, specialised lending and continued franchise growth

- During the first six months of 2022, MeDirect continued its transformation towards becoming a pan-European WealthTech leader and a specialised mortgage lender.
- By taking advantage of the flexibility offered by its technology and ability to innovate, during the past three years, the Group has successfully executed its strategy, which is based on four pillars: building a world-class WealthTech platform, growing its retail franchise focused on affluent customers, de-risking and diversifying its balance sheet with a focus on mortgages, as well as improving the efficiency of its operating model.
- The Group is on track to complete the delivery of its disruptive Wealth SuperApp which features a single, user-friendly suite of products combining innovative wealth solutions with daily banking functionalities, which will make MeDirect a one-stop-shop for its customers.
- In the coming months, MeDirect will continue to strengthen its platform with the launch of an online advisory product, an online discretionary portfolio management service as well as virtual and physical cards to enhance its everyday banking offering. This unique combination of daily banking and wealth services available both on a mobile app and desktop is expected to be highly differentiating in the market.
- In mid-2022, MeDirect revamped its brand in anticipation of the release of its new suite of products. The new branding emphasises that MeDirect offers its clients the tools necessary to empower them to navigate the complexity of the financial world and makes them feel confident and in control of their finances. MeDirect is shifting its customers' perception of banking from "we" to "me" – my money, my choices.

Focus on specialised lending solutions

- MeDirect is building a scalable specialised mortgage lending platform in Malta, Belgium and the Netherlands.
- In Malta, MeDirect introduced three new products during the first half of 2022 – a Green Home Loan product, a 10-year fixed-rate mortgage product and a home equity product. These products were all well-received and have been gaining momentum in the Maltese market. MeDirect's trademark personalised service, typical of a digital bank, has ensured a faster and market-leading turnaround for customers purchasing their homes.
- MeDirect's Dutch NHG mortgage portfolio remains a core part of its asset base, now representing approximately 40% of the Group's balance sheet.
- In December 2021, MeDirect launched its meHomeLoan product in the Belgian market in partnership with Allianz.
- MeDirect continues the steady development of its well-established Maltese corporate lending business to support the local economy.

Delivering sustained franchise growth

- MeDirect's retail franchise, focused on affluent customers, grew by almost 30% over the past twelve months to more than 106,000 clients. Total client financial assets increased by almost 4% year over year, notwithstanding very challenging market and macroeconomic conditions, reaching €4.3 billion.
- Strong trust in the MeDirect brand and its award-winning onboarding process enabled MeDirect to increase its wealth clients by 19% over the past twelve months.
- This growth was supported by high customer satisfaction and retention levels. Success in retaining clients is demonstrated by the fact that over 90% of clients who opened accounts with MeDirect five years ago remain clients of the bank.

Growth in total operating income and robust capital and liquidity position, as the Group continues to diversify its revenue streams

- Profit before tax for the period ended 30 June 2022 amounted to €2.7 million, compared to €3.2 million for the period ended 30 June 2021. Operating income grew by 7% year over year whilst improved market conditions led to a €3.5 million net release of loan impairment charges.
- Net interest income increased by 11% compared with the same period last year, from €25.8 million in 2021 to €28.7 million, while net fee and commission income increased by 8% from €2.8 million in 2021 to €3.1 million.
- The Group's Non-performing loan ratio was reduced to 4.6% as at 30 June 2022, from 6.7% in 31 December 2021.
- The Group's capital and liquidity positions remained strong, supporting the continuation of its business transformation and growth strategy. MeDirect's Tier 1 capital ratio stood at 13.6%, with a total capital ratio of 17.3%, - both well above regulatory requirements.
- The Group's liquidity reserves remained strong at €740 million as at 30 June 2022, and the Group's Liquidity Coverage Ratio (LCR) stood at 247% and its Net Stable Funding Ratio (NSFR) at 129%, both well above the minimum requirements.
- MeDirect's mortgage portfolio increased by 9% over the past twelve months. As part of the Group's de-risking plan, the international corporate lending portfolio was reduced by 12% to €624 million and as at end June 2022, represented less than 15% of the Group's balance sheet.

ESG – a key focus area

- Environmental, Social and Governance (ESG) is an important area of focus for MeDirect. The Group has implemented a programme to integrate ESG principles into its daily business.
- During the first half of 2022, MeDirect implemented a range of ESG initiatives, including, amongst others the incorporation of sustainability principles in its credit and investment businesses, the launch of green home loans, the inclusion of a feature in its brokerage platform enabling investors to identify and filter funds which focus on sustainability, as well as the provision of ESG training for MeDirect's Board and employees.
- MeDirect's efforts in incorporating ESG principles into its business were validated by its improved rating by EcoVadis, one of the top international providers of sustainability ratings. MeDirect's overall score was in the top 15% of all companies rated by EcoVadis.

Outlook

- MeDirect aims to continue delivering an attractive value proposition to its customers, whilst at the same time diversifying and de-risking its balance sheet despite a challenging geopolitical and macroeconomic environment.

2022

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Business growth

During the first half of the 2022 financial year, MeDirect continued its transformation toward becoming a pan-European WealthTech leader and a specialised mortgage lender, with the capability of scaling and specialising both business lines.

Taking advantage of the flexibility offered by its technology and ability to innovate, during the past three years, the Group has successfully executed its strategy, which is based on four pillars:

- Building a world-class WealthTech platform;
- Growing its retail franchise focused on affluent customers;
- De-risking and diversifying its balance sheet, with a focus on mortgages; and
- Improving the efficiency of its operating model.

Through the execution of its transformation strategy, MeDirect is delivering an attractive value proposition to its customers, with an enhanced customer journey, whilst at the same time diversifying and de-risking its balance sheet.

MeDirect's retail franchise, focused on affluent customers, grew by almost 30% over the past twelve months to more than 106,000 clients. Total client financial assets increased by almost 4% year over year, notwithstanding very challenging market and macroeconomic conditions, reaching €4.3 billion.

Strong trust in the MeDirect brand and its award-winning onboarding process enabled MeDirect to increase its wealth clients by 19% over the past twelve months.

MeDirect's retail franchise, focused on affluent customers, grew by almost 30% over the past twelve months to more than 106,000 clients.

This growth was supported by high customer satisfaction and retention levels. MeDirect's high level of customer satisfaction is demonstrated by its Net Promoter Score (NPS) of 58 recorded at the end of June for Maltese clients. Success in retaining clients is demonstrated by the fact that over 90% of clients who opened accounts with MeDirect five years ago remain clients of MeDirect.

MeDirect's mortgage portfolio increased by 9% over the past twelve months, reinforced by the launch of a mortgage origination partnership with Allianz in Belgium. As part of the Group's de-risking plan, the international corporate lending portfolio was reduced by 12% to €624 million and as at end June 2022 represented less than 15% of the Group's balance sheet.

Financial performance

The Group's net profit was slightly above breakeven during the financial reporting period ended 30 June 2022. Operating income grew by 7% year over year, supported by further net releases of loan impairment charges.

Total operating income growth was driven by increases in net interest income and net fee commissions as the Group continued to diversify its revenue streams.

Net interest income increased by 11% compared with the same period last year

Net interest income increased by 11% compared with the same period last year, from €25.8 million in 2021 to €28.7 million, while net fee and commission income increased by 8% from €2.8 million in 2021 to €3.1 million.

Improved market conditions led to a net release of loan impairment charges of €3.5 million in H1 2022, compared to €4.4 million in H1 2021.

Capital & Liquidity position

MeDirect's capital and liquidity positions remained strong, supporting the continuation of its business transformation strategy and further growth.

As at 30 June 2022, MeDirect's Tier 1 capital ratio stood at 13.6%, with a total capital ratio of 17.3%, both well above regulatory requirements and recommendations (total capital SREP capital requirement benchmark of 11%).

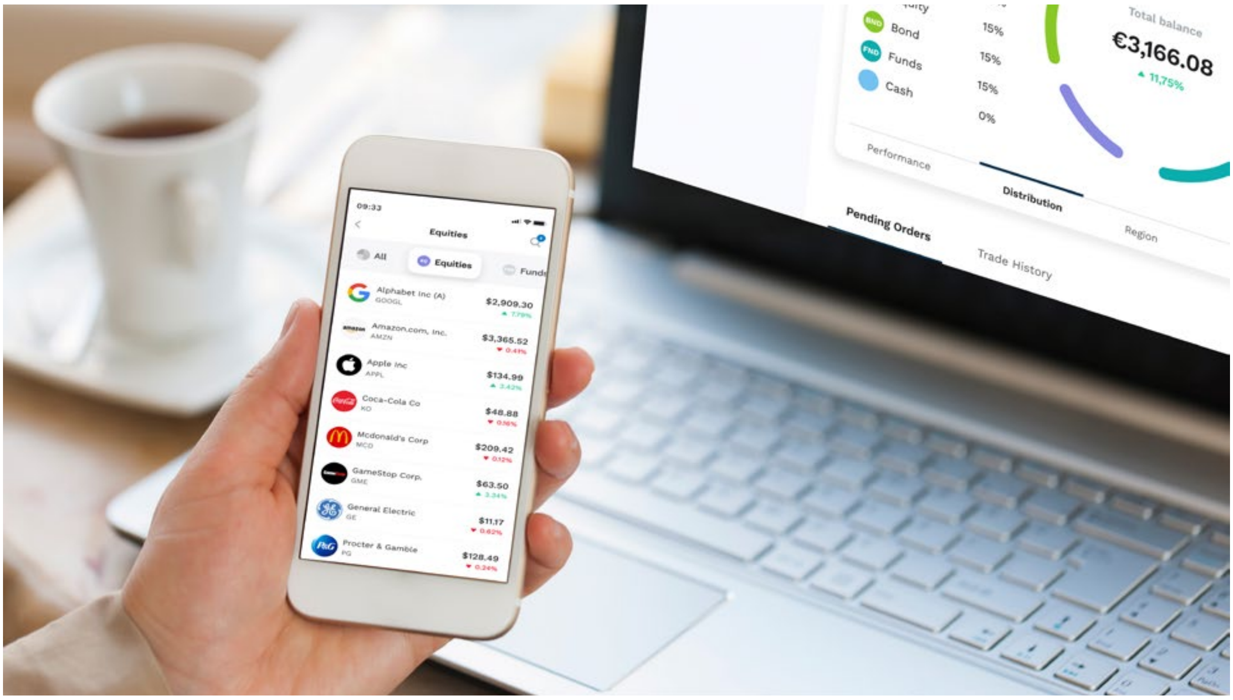
Following the reclassification of investments as at 1 July 2022, the Group's Tier 1 and total capital ratios stood at 15.3% and 19.0%, respectively.

MDB Group's liquidity reserves remained strong at €740 million as at 30 June 2022. On that date, the Group's Liquidity Coverage Ratio (LCR) stood at 247% (minimum requirement of 100%), and its Net Stable Funding Ratio (NSFR) stood at 129% (minimum requirement of 100%).

Asset quality

The Group has continued to execute its de-risking strategy and to improve its asset quality. Its non-performing loan ("NPL") ratio was reduced to 4.6% as at 30 June 2022, from 6.7% as at 31 December 2021, following the Group's implementation of an NPL reduction strategy. The Group actively managed its NPL portfolio and was able to reduce its NPL ratio by implementing individual borrower loan resolution strategies to maximise recoveries and reduce the amount of NPLs through debt sales and restructuring strategies.

The Group has continued to execute its de-risking strategy and to improve its asset quality



Further progress in building the WealthTech platform

MeDirect is on track to complete the delivery of its disruptive Wealth SuperApp, featuring a single, user-friendly suite of products combining innovative Wealth solutions with daily banking functionalities. The Wealth SuperApp will make MeDirect a one-stop-shop for the investment and daily banking needs of its clients with the aim of democratising investing and enabling them to control their own investment journeys. The Wealth SuperApp is designed to serve the needs of the affluent market segment and to be scalable and customisable to individual markets.

An important milestone in the Group's WealthTech strategy was reached in December 2021, with the upgrade of the MeDirect brokerage platform. The new platform provides a more intuitive design, with easy access to trading and investment through its mobile app. Also included in this release was real time pricing on equities and ETFs.

MeDirect offers access to a wide universe of mutual funds and equities: over 1,500 mutual funds, 500 ETFs and 3,000 equities traded on 17 global stock exchanges, plus a selection of local and international bonds. With an intuitive interface, guided search facilities and personalisation options, MeDirect's brokerage platform allows customers to invest their money in an informed and convenient manner.

By having a top-quality technology team in-house, MeDirect retains flexibility to develop and deliver new features and to address identified client needs and preferences quickly and efficiently.

Continued investment in the Wealth SuperApp platform is part of MeDirect's long-term strategy. In the coming months, MeDirect will launch an online advisory product and an online discretionary portfolio management service as well as virtual and physical cards to enhance its everyday banking offering. This package of products will enable MeDirect customers to access, in a single app, a highly convenient daily banking offer (payments, FX and cards), plus a wide range of online investment services (brokerage, investment advice and discretionary management) and guiding tools. This unique combination of daily banking and wealth services available both on mobile app and desktop will be highly differentiating in the market. Going forward, MeDirect intends to add new features and products continually to enhance its offering.

Focus on specialised lending with diversified growth engines

MeDirect is also building a scalable specialised mortgage lending platform in the Netherlands, Belgium and Malta, in partnership with some of the best servicers and mortgage originators in the market. MeDirect's focus is on niche market segments offering an attractive balance of risk and reward. An example is the meHomeLoan product, which was launched in Belgium in December 2021 in partnership with Allianz. In a short time, this product has gained significant traction and has enabled MeDirect to gain access to a network of over 400 mortgage brokers which originate Belgian mortgages according to MeDirect's specifications.

MeDirect's focus is on niche market segments offering an attractive balance of risk and reward

MeDirect's Dutch NHG mortgage portfolio remains a core part of its asset base, now representing approximately 40% of the Group balance sheet.

In Malta, MeDirect introduced three new products during the first half of 2022 – a Green Home Loan product, a 10-year fixed-rate mortgage product and a home equity product. These products were all well-received and have been gaining momentum in the Maltese market

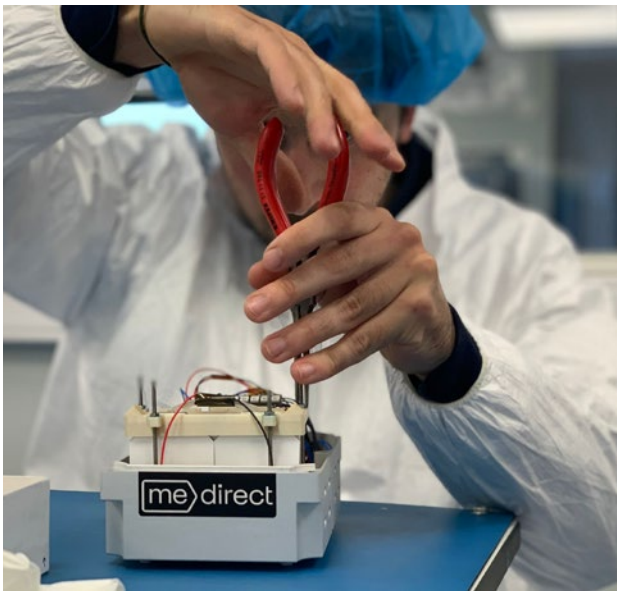
MeDirect continues the steady development of its well-established Maltese corporate lending business to support the local economy.

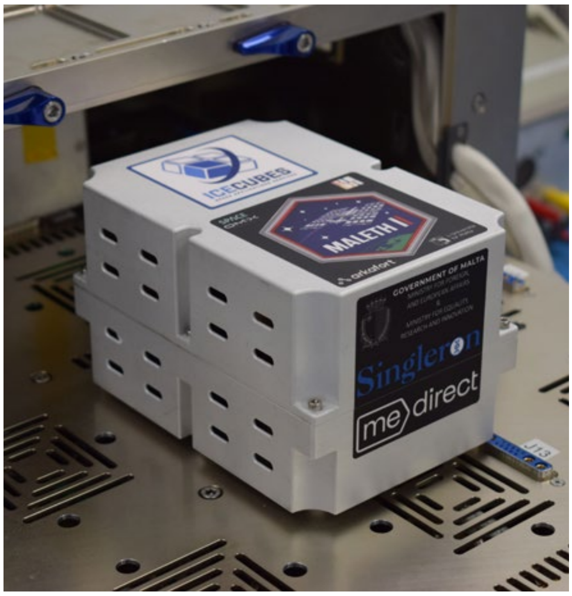
The Maltese corporate lending business continues to grow at a controlled pace, with exposures expected to increase in the coming months. Corporate lending in Malta also facilitates the growth of MeDirect's corporate payments and services product lines, reinforcing its relationships with corporate clients and leading to multiple revenue streams from such clients. MeDirect intends to continue to grow this business line by targeting new client groups in targeted industries.

The Group's international corporate lending portfolios continue to be reduced in line with MeDirect's de-risking and diversification strategy. MeDirect intends to continue reducing the size of this loan portfolio gradually through repayments and selective loan sales.

Rebranding as a part of the transformation plan

In early July 2022, MeDirect revamped its brand in anticipation of the release of its new suite of products and services. The new branding, that comprised a new logo and a refreshed look and feel, emphasises that MeDirect offers its clients the tools necessary to empower them to navigate the complexity of the financial world and makes them feel confident and in control of their finances. MeDirect is shifting its customers' perception of banking from "we" to "me" – my money, my choices.





MeDirect is a proud supporter of Project Maleth II, the second mission under space bioscience experiment Project Maleth which was launched in 2021 to investigate the effects of spaceflight and microgravity on diabetic foot ulcer skin tissue samples together with the microbiome.

Team building events included Tough Mudder, a competition whereby participants overcome challenging obstacles.

The MeDirect staff celebrated carnival at the office.

Environmental, social and governance (“ESG”) focus

ESG matters have been an important area of focus for MeDirect. The Group has implemented a programme to integrate environmental, social and governance principles into its daily business and to increase ESG awareness across the Group. MeDirect recruited a Group Head of Sustainability and established an ESG Committee to monitor the Group’s progress in implementing its ESG initiatives and to ensure ongoing commitment to ESG principles.

During the first half of 2022, MeDirect implemented a range of ESG initiatives, including, amongst others, (i) incorporation of sustainability principles in its credit and investment businesses, (ii) launching of green home loans, (iii) including a feature in its brokerage platform enabling investors to identify and filter funds which focus on sustainability and (iv) providing ESG training for MeDirect’s Board and employees. Stress tests and questionnaires conducted by the European Central Bank acknowledged significant progress by MeDirect in implementing its ESG initiatives.


MeDirect took part in the Careers EXPO week at the University of Malta with a stand at which students could speak with MeDirect's HR team about internship opportunities. The HR team met students from all faculties and stages in their studies.

MeDirect continues to support the National Blood Transfusion Service.

The HR team organised a St Patrick's Day celebration for its employees.

MeDirect's objective is to make the Group an attractive and welcoming workplace for all its employees. The Group employs nationals from 24 countries, and 41% of its employees are female, several of whom serve in senior executive positions. MeDirect has implemented a hybrid working model, enabling its employees to work from home or from the office. MeDirect recognises that its employees are key to its success in implementing the Group's strategy. MeDirect supports a range of charities and talented individuals through sponsorships, donations and the voluntary actions of its employees.

MeDirect's efforts in incorporating ESG principles into its business were validated by its improved rating by EcoVadis, one of the top international providers of sustainability ratings. MeDirect's overall score was in the top 15% of all companies rated by EcoVadis.

Events after the reporting date

Effective 1 July 2022, MeDirect changed its business model for managing treasury assets by categorising those assets as either (i) assets for which the intention of the Group is either to hold or sell, depending on the Group's requirements at the time, or (ii) assets for which the intention of the Group is to hold indefinitely. Assets in the first category are classified as "Hold to collect and sell" and are measured at fair value through other comprehensive income. Assets in the second category, which was introduced to reflect the reality of how the treasury portfolio is managed, are now categorised as "hold to collect" and are now measured based on amortised cost.

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

Important factors influencing the Group's activities and results

In 2022, armed forces of the Russian Federation invaded Ukraine, as a result of which economic sanctions were imposed by the European Union, the United States and several countries on Russia, Belarus and a number of Russian and Belarussian individuals.

The Group assessed the effects of the conflict on the Group's processes and on its borrowers' businesses. The assessment concluded that the Group has virtually no direct exposure to assets in Russia, Belarus or Ukraine and that the conflict does not have any currently- identified material effect on the Group or its businesses. The Group updated the macroeconomic assumptions underlying its financial forecasts and IFRS 9 expected credit loss modelling, but there was no significant impact on the expected credit losses recognised throughout this financial period.

"... the conflict does not have any currently- identified material effect on the Group or its businesses."

It should be noted, however, that the conflict is ongoing and, together with the after-effects of the Covid pandemic and of political instability in many parts of the world, may have medium- to long-term effects on the Group and its businesses. European and world economies are already experiencing high inflation, increasing interest rates and market volatility. The combined effects of these factors are likely to have longer-term impacts which have yet to be identified on global and national economies, on trade flows and on individual businesses and consumers. The Group will continue to monitor the evolving economic and geopolitical situation and will endeavour to take all appropriate steps available to it to mitigate any resulting risks.

Michael Bussey
Chairman

Arnaud Denis
Chief Executive Officer

Financial Statements

Condensed consolidated interim statement of financial position

ASSETS	Notes	As at 30 June 2022 €000	As at 31 December 2021 €000
Balances with central banks and cash		**193,061**	328,626
Derivative financial instruments		**188,370**	37,637
Loans and advances to financial institutions		**285,401**	198,877
Loans and advances to customers		**2,242,029**	2,324,303
Investments			
- Treasury portfolio	11	**854,559**	769,917
- Securitisation portfolio	11	**557,394**	507,351
Property and equipment		**7,340**	9,186
Intangible assets		**13,563**	13,492
Non-current assets classified as held for sale		**1,785**	1,785
Current tax assets	6	**678**	1,302
Deferred tax assets	11	**26,857**	18,390
Prepayments and accrued income		**19,798**	14,314
Other assets		**21,312**	15,329
Total assets		**4,412,147**	4,240,509
EQUITY			
Called up issued share capital	8	**55,738**	55,738
Share premium	8	**13,756**	13,756
Shareholders' contributions	8	**136,300**	136,300
Reserve for general banking risks	8	**3,798**	3,798
Other reserves	8, 11	**(23,731)**	(2,059)
Retained earnings	8, 11	**28,478**	27,960
Total equity		**214,339**	235,493
LIABILITIES			
Derivative financial instruments		**4,910**	1,131
Amounts owed to financial institutions		**512,355**	273,349
Amounts owed to customers		**2,945,651**	2,960,865
Debt securities in issue		**628,515**	658,293
Subordinated liabilities		**65,153**	65,130
Current tax liabilities		**2**	2
Deferred tax liabilities		**1,001**	816
Provisions for liabilities and other charges		**2,895**	1,223
Accruals and deferred income		**22,870**	24,700
Other liabilities		**14,456**	19,507
Total liabilities		**4,197,808**	4,005,016
Total equity and liabilities		**4,412,147**	4,240,509
Memorandum items			
Commitments to purchase financial assets	9	**3,988**	11,000
Commitments to extend credit, guarantees and other commitments	9	**369,188**	377,572

The notes on pages 11 to 42 are an integral part of these condensed consolidated interim financial statements.

The condensed consolidated interim financial statements on pages 16 to 42 were approved and authorised for issue by the Board of Directors on 9 August 2022 and signed on its behalf by:

Michael Bussey
Chairman

Arnaud Denis
Chief Executive Officer

Condensed consolidated interim statement of comprehensive income

	Notes	Period from 1 January to 30 June 2022 €000	Period from 1 January to 30 June 2021 €000
Interest income		**39,558**	38,935
Interest expense		**(10,856)**	(13,179)
Net interest income		**28,702**	25,756
Fee and commission income		**4,714**	4,124
Fee and commission expense		**(1,622)**	(1,272)
Net fee and commission income		**3,092**	2,852
Net trading income		**321**	1,138
Other operating income			
- Realised losses on disposal of loans and advances		**(172)**	(58)
- Other income		**73**	71
Total operating income		**32,016**	29,759
Personnel expenses		**(12,031)**	(10,871)
Depreciation and amortisation		**(3,136)**	(3,232)
Other administrative expenses		**(17,693)**	(16,720)
Total operating expenses		**(32,860)**	(30,823)
Net operating loss before changes in expected credit losses		**(844)**	(1,064)
Change in expected credit losses and other credit impairment charges		**3,535**	4,303
Profit before tax		**2,691**	3,239
Tax expense	6	**(2,173)**	(240)
Profit for the period	5	**518**	2,999
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		**(29,957)**	100
Income tax relating to other comprehensive income	11	**8,285**	517
Other comprehensive income, net of tax		**(21,672)**	617
Total comprehensive income, net of tax		**(21,154)**	3,616

The notes on pages 16 to 42 are an integral part of these condensed consolidated interim financial statements.

Condensed consolidated interim statement of changes in equity

	Share capital €000	Share premium €000	Shareholders' contributions €000	Reserve for general banking risks €000	Other reserves €000	Retained earnings €000	Total €000
Balance at 1 January 2021	55,738	13,756	136,300	3,357	(13)	45,580	254,718
Total comprehensive income							
Profit for the period	-	-	-	-	-	2,999	2,999
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 period, net of deferred tax	–	–	–	–	617	–	617
Total other comprehensive income, net of tax	–	–	–	–	617	–	617
Total comprehensive income, net of tax	–	–	–	–	617	2,999	3,616
Transactions with owners							
Acquisition of subsidiary (Note 1)	-	-	-	-	-	(3,295)	(3,295)
Balance at 30 June 2021	55,738	13,756	136,300	3,357	604	45,284	255,039
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 period	**–**	**–**	**–**	**–**	**–**	**518**	**518**
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 period, net of deferred tax (Note 11)	**–**	**–**	**–**	**–**	**(21,672)**	**–**	**(21,672)**
Total other comprehensive income, net of tax	**–**	**–**	**–**	**–**	**(21,672)**	**–**	**(21,672)**
Total comprehensive income, net of tax	**–**	**–**	**–**	**–**	**(21,672)**	**518**	**(21,154)**
Balance at 30 June 2022	**55,738**	**13,756**	**136,300**	**3,798**	**(23,731)**	**28,478**	**214,339**

The notes on pages 16 to 42 are an integral part of these condensed consolidated interim financial statements.

Condensed consolidated interim statement of cash flows

	Period from 1 January to 30 June 2022 €000	Period from 1 January to 30 June 2021 €000
Cash flows from operating activities		
Interest and commission receipts	**34,628**	36,174
Interest and commission payments	**(11,476)**	(12,908)
Payments to employees and suppliers	**(35,403)**	(28,877)
Operating cash flows before changes in operating assets/liabilities	**(12,251)**	(5,611)
Increase in operating assets:		
- Reserve deposit with central banks	**(2,053)**	(1,542)
- Loans and advances to financial institutions and customers	**(188,390)**	(332,366)
Increase/(decrease) in operating liabilities:		
- Amounts owed to financial institutions and customers	**306,656**	142,168
- Other payables	**(3,210)**	990
Net tax refunded	**394**	145
Net cash from/(used in) operating activities	**101,146**	(196,216)
Cash flows from investing activities		
Acquisitions of property and equipment and acquisition and development of intangible assets	**(2,436)**	(1,414)
Acquisition of investments measured at amortised cost	**(204,819)**	-
Acquisition of investments measured at fair value through other comprehensive income	**(67,000)**	(224,715)
Redemption of investments measured at fair value through other comprehensive income	**89,495**	106,778
Redemption of investments measured at amortised cost	**10,000**	67,394
Net cash used in investing activities	**(174,760)**	(51,957)
Cash flows from financing activities		
Issuance of debt securities	**-**	364,292
Redemption of debt securities	**(29,398)**	(225,937)
Principal element of lease payments	**(656)**	(1,009)
Net advances to group companies	**(119)**	(1,095)
Net cash (used in)/from financing activities	**(30,173)**	136,251
Net decrease in cash and cash equivalents	**(103,787)**	(111,922)
Cash and cash equivalents at the beginning of the period	**158,759**	302,182
Cash and cash equivalents at the end of the period	**54,972**	190,260

The notes on pages 16 to 42 are an integral part of these condensed consolidated interim financial statements.

Notes to the interim financial statements

Notes to the condensed consolidated interim financial statements

1. Reporting entity

MDB Group Limited ("the Company") is domiciled and incorporated in Malta. These condensed consolidated interim financial statements ("interim financial statements") as at and for the six months ended, 30 June 2022 comprise MeDirect Bank (Malta) plc ("MeDirect Malta") with its principal subsidiaries, MeDirect Bank SA ("MeDirect Belgium") and Medifin Leasing Limited ("Medifin Leasing"), together referred to as the "Group".

On 4 January 2021, MeDirect Malta acquired substantially all the share capital of Medifin Leasing from the ultimate parent company Medifin Investments Limited, after receiving full regulatory approval, with the intention of consolidating the entity within the Group. Medifin Leasing Limited was set up with the object of acquiring immovable or movable property and rights and licences, including in particular software solutions and hardware, which such entity leases to MeDirect Malta and MeDirect Belgium.

The consolidated financial statements also include Medifin Estates, a property leasing partnership in Malta and all entities where MeDirect Malta and MeDirect Belgium retained all the underlying risks and rewards consisting of Grand Harbour I B.V., Bastion 2020-1 NHG B.V. and Bastion 2021-1 NHG B.V., controlled special purpose entities established in the Netherlands that were set up as part of the Group's funding strategy. The comparative financial period also includes Cavalier 2020 B.V., another controlled special purpose entity established in the Netherlands to serve as a warehousing facility in relation to the Dutch mortgages business, that was dissolved in December 2021.

On 23 December 2021, MeDirect Malta and MeDirect Belgium agreed to instruct GH I and the Collateral Manager to dispose of all the collateral in the form of international corporate loans. MeDirect Malta and MeDirect Belgium acquired collateral loans from GH I and as a result of the proceeds from such sale of loans, with transfer prices being at arm's length, GH I repaid the Senior Loan of MeDirect Belgium, with the remaining funds available, after settlement of expenses, released to MeDirect Malta in respect of its Junior Loan.

The financial statements of the Group as at and for the periods ended 30 June 2022 and 31 December 2021 are available upon request from MeDirect Malta's registered office, being The Centre, Tigné Point, Sliema TPO 0001, Malta, and are available for viewing on its website at www.medirect.com.mt.

The principal customer-related activities of MeDirect Malta and MeDirect Belgium include an easy-to-use wealth platform with access to fund houses and mutual funds, a suite of wealth products available digitally through digital channels and attractive and innovative savings products in Malta and Belgium.

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

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

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

2. Basis of preparation

These condensed consolidated interim financial statements for the six months ended 30 June 2022 have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU applicable to interim financial reporting (IAS 34 'Interim Financial Reporting'). They do not include all information required for a complete set of financial statements prepared in accordance with International Financial Reporting Standards as adopted by the EU. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Group's financial position and performance since the last annual financial statements as at and for the year ended 31 December 2021.

As required by IAS 34 'Interim Financial Reporting', adopted by the EU, these interim financial statements include a comparative statement of financial position presenting information as at the previous financial year end, and comparative statements of comprehensive income presenting information for the comparable interim periods of the immediately preceding financial year

The condensed consolidated interim financial statements have been extracted from MDB Group Limited's unaudited Group management accounts for the six months ended 30 June 2022. The Group has prepared the financial statements on the basis that it will continue to operate as a going concern.

Russia Ukraine conflict

In 2022, armed forces of the Russian Federation invaded Ukraine, as a result of which economic sanctions were imposed by the European Union, the United States and several other countries on Russia and Belarus as well as a number of Russian and Belarussian individuals. The Group will ensure compliance with any applicable sanctions and will continue to follow closely the developing situation and any potential effects on its business, customers and operations.

The war and related sanctions are contributing to deteriorating macroeconomic outlook and global economic dislocation, including disruption of energy supplies, higher inflation and additional credit and market risk. The Group performed an assessment of the effects the current situation may have on its business. The continued conflict in Ukraine and higher inflation led to rising interest rates, lower expectations for economic growth, lower consumer confidence and weaker financial markets. We can expect continued volatility and uncertainty in the coming quarters. Higher interest rates will dampen economic activity, but should also be seen as a healthy adjustment as it will mean a more balanced mix of income, as we will be generating more income from our lending portfolios.

The Group's assessment also considered the effects of the conflict on the Group's processes and on its borrowers' business. The assessment concluded that the Group has virtually no direct exposure to assets in Russia, Belarus or Ukraine and in fact it did not have any currently-identified material effect on the Group or its businesses. The Group updated its macroeconomic assumptions underlying its financial forecasts and IFRS 9 expected credit loss modelling but there was no significant impact on the expected credit losses recognised throughout this financial period.

It should be noted, however, that the conflict is ongoing and, together with the after-effects of the COVID-19 pandemic and of political instability in many parts of the world, may have medium- to long-term effects on the Group and its businesses. European and world economies are already experiencing high inflation, increasing interest rates and market volatility. The combined effects of these factors are likely to have longer-term impacts which have yet to be identified on global and national economies, on trade flows and on individual businesses and consumers. The Group will continue to monitor the evolving economic and geopolitical situation and will endeavour to take all appropriate steps available to it to mitigate any resulting risks.

3. Significant accounting policies

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2021, except for the adoption of new standards effective as of 1 January 2022. The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

Several amendments apply for the first time in 2022, but do not have an impact on the interim condensed consolidated financial statements of the Group.

4. Critical accounting estimates and judgements in applying the Group's accounting policies

Estimates and judgements are continually evaluated and based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. These estimates and assumptions present a risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. The Group's management also makes judgements, apart from those involving estimations, in the process of applying the entity's accounting policies that may have a significant effect on the amounts recognised in the financial statements.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty impacting the preparation of these interim financial statements are the same as those that applied to the preparation of the financial statements as at and for the year ended 31 December 2021, as disclosed in those financial statements.

As part of the Group's review process of collective modelling for IFRS 9 expected credit losses, management approved the application of model adjustments to exposures within the corporate lending portfolios in order to ensure an appropriate level of ECL is recognised at the reporting date. As mentioned in "7.4 Current Conditions and Forward-looking information incorporated in the ECL model", the Group's IFRS 9 models for estimating credit risk parameters, Expected Default Frequency data was used for modelling point-in-time, forward-looking parameters, and these were conditioned with forecasted macroeconomic variable data starting from 30 June 2022 onwards. Adjustments (downgrades) were applied to internal risk ratings (and indirectly to the underlying PDs) on exposures identified as having experienced an increase in credit risk identified through qualitative factors not yet captured by internal rating models using latest available and supportable information and expert judgment.

Significant judgement is also required in the modelling of macroeconomic forecasts, including the selection of macroeconomic variables, as well as calibration of the severities and respective probability weights of macroeconomic scenarios. This is particularly true in view of the heightened level of uncertainty triggered by the unprecedented economic and socio-political conditions being currently experienced across countries and industries. In this respect, a number of modelling assumptions are required, based on expert judgement, in order to form a view on the expected time horizon for the global economy to return to pre-COVID-19 levels; the impact of possible further waves of infections; the resolution of Russia's invasion of Ukraine; the impact of the geopolitical tensions, inflation and global energy and commodity prices as a result of the war; and the impact of sanctions causing supply-chain bottlenecks. The development of multiple forward-looking macroeconomic scenarios taking into consideration all these variables represent a key element of estimation uncertainty in the measurement of credit loss allowances as at 30 June 2022.

Given the increased level of model uncertainty, an important part of the internal governance and review process involved reviewing modelled outputs against market data, credit spread trends, outputs using challenger default risk models to act as benchmarks and thereby inform any model adjustments. Management also applies judgement in the determination and modelling of any management overlays or model adjustments.

In this regard, a significant level of judgement is required in order to first evaluate the appropriateness of the model output, which is based on the application of a number of macroeconomic scenarios. The application of management overlays and model adjustments in the context of the current economic conditions is described in detail in Note 7.4 of the financial statements.

The underlying models and their calibration, including how they react to forward-looking macroeconomic conditions, remain subject to review and refinement. Depending on the resulting effects on key model inputs (market signal data and change in forecasts of macroeconomic variables), collectively modelled ECL may require further adjustments during the second half of 2022.

5. Segmental information

The Group engages primarily in the business of lending conducted from Malta and Belgium and has a diversified lending portfolio consisting of international corporate lending, Malta corporate lending and 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. 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.

The investment portfolio is spread across a large number of exposures diversified in government, financial institutions and other corporates.

	Period ended 30 June 2022			Period ended 30 June 2021		
	Malta €000	**Belgium €000**	**Total €000**	Malta €000	Belgium €000	Total €000
Turnover*	23,496	21,656	45,152	27,062	18,633	45,695
Profit/(loss) after tax	5,714	(5,196)	518	12,607	(9,608)	2,999

	As at 30 June 2022			As at 31 December 2021		
	Malta	**Belgium**	**Total**	Malta	Belgium	Total
Total assets (€ million)	1,375	3,037	4,412	1,237	3,004	4,241
Total liabilities (€ million)	1,350	2,848	4,198	1,161	2,844	4,005

* Turnover is defined as interest income, fee and commission income, net trading income and other operating income. The turnover allocated to Belgium in the financial period ended 30 June 2022 includes interest charged to MeDirect Malta amounting to €0.5 million (Period ended 30 June 2021: €0.4 million).

The Group carried out its activities in the countries listed above under the name of MeDirect Malta in Malta and MeDirect Belgium in Belgium. Activities in Malta and Belgium include banking and wealth management.

6. Taxation

Income tax expense is recognised based on management's best estimate of the weighted average annual income tax rate expected for the financial year applied to the pre-tax income of the interim period. In the first half of 2022, the Group identified a potential withholding tax exposure relating to prior years. In this financial period the Group has accounted for a provision for liabilities and charges in this respect equivalent to €1.9 million that includes the potential tax exposure, including any other associated charges.

7. Financial instruments

7.1 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 allowance, as well as the fair value of financial instruments within the Treasury portfolio measured at fair value though other comprehensive income ("FVOCI") and the associated credit loss allowance.

	At 30 June 2022		At 31 December 2021	
	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	**193,061**	**(2)**	328,627	(2)
Loans and advances to financial institutions	**285,144**	**(1)**	198,776	(1)
Loans and advances to customers	**2,266,692**	**(24,663)**	2,346,218	(21,915)
International Corporate Lending portfolio	**617,043**	**(24,270)**	614,814	(21,455)
Dutch Mortgage portfolio	**1,667,655**	**(192)**	1,643,163	(149)
IFRS basis adjustment: Dutch Mortgage portfolio	**(183,270)**	**-**	(37,149)	-
Belgian Mortgage portfolio	**8,585**	**(11)**	-	-
Maltese Business Lending portfolio	**113,165**	**(85)**	106,360	(234)
Maltese Mortgage portfolio	**43,514**	**(105)**	19,030	(77)
Investments measured at amortised cost	**492,012**	**(175)**	299,072	(276)
Treasury portfolio	**312,764**	**(35)**	119,836	(136)
Securitisation portfolio	**179,248**	**(140)**	179,236	(140)
Accrued income	**13,142**	**(113)**	10,983	(110)
Loans to related parties (included in other assets)	**597**	**-**	283	-
Other receivables (included in other assets)	**6,919**	**-**	12,363	-
	3,257,567	**(24,954)**	3,196,322	(22,304)
Off balance sheet at nominal amount				
Commitments to purchase financial assets	**3,988**	**-**	11,000	-
Commitments to extend credit, guarantees and other commitments	**370,143**	**(955)**	378,730	(1,158)
	374,131	**(955)**	389,730	(1,158)
Total	**3,631,698**	**(25,909)**	3,586,052	(23,462)

	Fair value	**Credit loss allowance**	Fair value	Credit loss allowance
	€000	**€000**	€000	€000
Instruments measured at fair value through other comprehensive income				
Investments - Treasury portfolio	**541,830**	**(23)**	650,217	(27)
Investments - Securitisation portfolio	**377,705**	**(39)**	327,110	(32)

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

	At 30 June 2022	At 31 December 2021
	€000	€000
Instruments mandatorily measured at fair value through profit or loss		
Held for trading derivative financial instruments	**188,370**	37,637
Investments - Securitisation portfolio	**581**	1,145
	188,951	38,782

7.2 Summary of credit risk

(excluding derivative financial instruments and debt instruments measured at FVTPL) by stage distribution and ECL coverage

	Gross carrying/nominal amount					Credit loss allowance					ECL coverage %				
As at 30 June 2022	Stage 1 €000	Stage 2 €000	Stage 3 €000	POCI €000	Total €000	Stage 1 €000	Stage 2 €000	Stage 3 €000	POCI €000	Total €000	Stage 1 %	Stage 2 %	Stage 3 %	POCI %	Total %
On balance sheet at amortised cost															
Balances with central banks	193,061	–	–	–	193,061	(2)	–	–	–	(2)	–	–	–	–	–
Loans and advances to financial institutions	285,144	–	–	–	285,144	(1)	–	–	–	(1)	–	–	–	–	–
Loans and advances to customers															
– International Corporate Lending portfolio	429,932	102,874	83,779	458	617,043	(3,330)	(1,824)	(19,115)	(1)	(24,270)	0.8	1.8	22.8	0.2	3.9
– Dutch Mortgage portfolio	1,661,624	5,355	676	–	1,667,655	(65)	(107)	(20)	–	(192)	–	2.0	3.0	–	–
– IFRS basis adjustment: Dutch Mortgage portfolio	(183,270)	–	–	–	(183,270)	–	–	–	–	–	–	–	–	–	–
– Belgian Mortgage portfolio	8,585	–	–	–	8,585	(11)	–	–	–	(11)	0.1	–	–	–	0.1
– Maltese Business Lending portfolio	85,203	12,253	15,708	–	113,165	(55)	(6)	(24)	–	(85)	0.1	0.1	0.5	–	0.1
– Maltese Mortgage portfolio	43,514	–	–	–	43,514	(105)	–	–	–	(105)	0.2	–	–	–	0.2
Investments measured at amortised cost															
– Treasury portfolio	312,764	–	–	–	312,764	(35)	–	–	–	(35)	–	–	–	–	–
– Securitisation portfolio	178,728	520	–	–	179,248	(19)	(121)	–	–	(140)	–	23.3	–	–	0.1
Accrued income	11,310	1,296	536	–	13,142	(33)	(25)	(55)	–	(113)	0.3	1.9	10.3	–	0.9
Loans to related parties (included in other assets)	597	–	–	–	597	–	–	–	–	–	–	–	–	–	–
Other receivables (included in other assets)	6,919	–	–	–	6,919	–	–	–	–	–	–	–	–	–	–
Off balance sheet at nominal amount															
Commitments to purchase financial assets	3,988	–	–	–	3,988	–	–	–	–	–	–	–	–	–	–
Commitments to extend credit, guarantees and other commitments	340,530	26,446	3,167	–	370,143	(274)	(167)	(514)	–	(955)	0.1	0.6	16.2	–	0.3
	3,378,629	148,744	103,866	458	3,631,698	(3,930)	(2,250)	(19,728)	(1)	(25,909)	0.1	1.5	21.3	0.2	0.7

	Fair value				Credit loss allowance				ECL coverage %			
As at 30 June 2022	Stage 1 €000	Stage 2 €000	Stage 3 €000	Total €000	Stage 1 €000	Stage 2 €000	Stage 3 €000	Total €000	Stage 1 %	Stage 2 %	Stage 3 %	Total %
Investments at fair value through other comprehensive income												
– Treasury portfolio	541,830	–	–	541,830	(23)	–	–	(23)	–	–	–	–
– Securitisation portfolio	377,705	–	–	377,705	(39)	–	–	(39)	–	–	–	–

	Gross carrying/nominal amount				Credit loss allowance				ECL coverage %			
As at 31 December 2021	**Stage 1 €000**	**Stage 2 €000**	**Stage 3 €000**	**Total €000**	**Stage 1 €000**	**Stage 2 €000**	**Stage 3 €000**	**Total €000**	**Stage 1 %**	**Stage 2 %**	**Stage 3 %**	**Total %**
On balance sheet at amortised cost												
Balances with central banks	328,627	–	–	328,627	(2)	–	–	(2)	–	–	–	–
Loans and advances to financial institutions	198,776	–	–	198,776	(1)	–	–	(1)	–	–	–	–
Loans and advances to customers												
- International Lending portfolio	344,011	174,749	96,054	614,814	(2,130)	(3,855)	(15,470)	(21,455)	0.6	2.2	16.1	3.5
- Dutch Mortgage portfolio	1,639,236	3,503	424	1,643,163	(71)	(62)	(16)	(149)	–	1.8	3.8	–
- IFRS basis adjustment: Dutch Mortgage portfolio	(37,149)	–	–	(37,149)	–	–	–	–	–	–	–	–
- Local Lending portfolio	89,080	5,704	11,576	106,360	(106)	(15)	(113)	(234)	0.1	0.3	1.0	0.2
- Maltese Mortgage portfolio	19,030	–	–	19,030	(77)	–	–	(77)	0.4	–	–	0.4
Investments measured at amortised cost												
- Treasury portfolio	119,836	–	–	119,836	(136)	–	–	(136)	0.1	–	–	0.1
- Securitisation portfolio	178,720	516	–	179,236	(19)	(121)	–	(140)	–	23.4	–	0.1
Accrued income	8,528	1,855	600	10,983	(15)	(41)	(54)	(110)	0.2	2.2	9.0	1.0
Loans to related parties (included in other assets)	283	–	–	283	–	–	–	–	–	–	–	–
Other receivables (included in other assets)	12,363	–	–	12,363	–	–	–	–	–	–	–	–
Off balance sheet at nominal amount												
Commitments to purchase financial assets	11,000	–	–	11,000	–	–	–	–	–	–	–	–
Commitments to extend credit, guarantees and other commitments	331,382	42,490	4,858	378,730	(314)	(330)	(514)	(1,158)	0.1	0.8	10.6	0.3
	3,243,723	228,817	113,512	3,586,052	(2,871)	(4,424)	(16,167)	(23,462)	0.1	1.9	14.2	0.7

	Fair value				Credit loss allowance				ECL coverage %			
As at 31 December 2021	**Stage 1 €000**	**Stage 2 €000**	**Stage 3 €000**	**Total €000**	**Stage 1 €000**	**Stage 2 €000**	**Stage 3 €000**	**Total €000**	**Stage 1 %**	**Stage 2 %**	**Stage 3 %**	**Total %**
Investments at fair value through other comprehensive income												
– Treasury portfolio	650,217	–	–	650,217	(27)	–	–	(27)	–	–	–	–
– Securitisation portfolio	327,110	–	–	327,110	(32)	–	–	(32)	–	–	–	–

7.3 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 reporting period ended 30 June 2022. Meanwhile, "Repayments and disposals" reflect loan repayments and disposals that occurred during the financial reporting period ended 30 June 2022, which however, would only have existed on the Group's balance sheet as at 31 December 2021. 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 30 June 2022. The line item "Net re-measurement of ECL arising from stage transfers and changes in risk parameters" represents the increase or decrease in credit loss allowances due to modified measurement basis from 12-month to lifetime in relation to stage transfers. It also includes the effects of changes in other expected credit loss measurement factors and model parameters such as, but not limited to, change 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 Group's International Corporate Lending portfolio has been particularly impacted in 2020 and 2021 by the impact of the COVID-19 pandemic, principally since the size and gearing levels within the debt structure of such borrowers amplified the level of default risk stemming from the unprecedented adverse macroeconomic conditions being experienced.

The Group increases ECLs by applying management overlays (referred to as "Uncertainty adjustment" in the tables below) through the net impact of an in-model adjustment to reduce the impact of volatile equity market performance on PiT PDs.

The following table provides a reconciliation of movements in gross carrying/nominal amounts and credit loss allowances, by stage, for the International Corporate Lending portfolio.

	Non credit-impaired				Credit-impaired		POCI assets		Total	
	Stage 1		Stage 2		Stage 3					
International Corporate Lending portfolio	Gross carrying/ nominal amount €000	Credit loss allowance €000	Gross carrying/ nominal amount €000	Credit loss allowance €000	Gross carrying/ nominal amount €000	Credit loss allowance €000	Gross carrying/ nominal amount €000	Credit loss allowance €000	Gross carrying/ nominal amount €000	Credit loss allowance €000
Period ended 30 June 2022										
At beginning of period	522,117	(2,455)	215,631	(4,226)	101,296	(16,038)	–	–	839,044	(22,719)
New business	97,931	(383)	–	–	–	–	458	–	98,389	(383)
Repayments and disposals	(106,442)	507	(21,268)	421	(2,467)	(6,092)	–	–	(130,177)	(5,164)
Transfers of financial instruments										
– Transfers from Stage 2 to Stage 1	77,272	(2,614)	(77,272)	2,614	–	–	–	–	–	–
– Transfers from Stage 3	–	–	11,481	(2,929)	(11,481)	2,929	–	–	–	–
Net remeasurement of ECL arising from stage transfers and changes in risk parameters	–	3,141	–	3,073	–	(6,575)	–	–	–	(361)
Uncertainty adjustment	–	(1,823)	–	(968)	–	–	–	–	–	(2,791)
Change in ECL through restructuring and disposals	–	–	–	–	–	6,092	–	–	–	6,092
At end of period	590,878	(3,627)	128,572	(2,015)	87,348	(19,684)	458	–	807,256	(25,326)

ECL released for the period	(2,607)
Effect of foreign exchange differences	(74)
Change in ECL through restructurings and disposals	6,092
Change in expected credit losses and other credit impairment charges for the period	3,411

	As at 30 June 2022		Period ended 30 June 2022
	Gross carrying/ nominal amount €000	Credit loss allowance €000	ECL release /(charge) €000
As per preceding table	807,256	(25,326)	3,411
Balances at central banks	193,061	(2)	–
Loans and advances to financial institutions	285,144	(1)	–
Loans and advances to customers			
Dutch Mortgage portfolio: drawn exposures	1,667,655	(192)	(43)
Dutch Mortgage portfolio: undrawn commitments	68,705	(2)	–
Belgian Mortgage portfolio: drawn exposures	8,585	(11)	(11)
Belgian Mortgage portfolio: undrawn commitments	26,646	(8)	(8)
Local Lending portfolio: drawn exposures	113,165	(85)	150
Maltese Mortgage portfolio: drawn exposures	43,514	(105)	(28)
Maltese Mortgage portfolio: undrawn commitments	66,857	–	–
Investments measured at amortised cost			
Treasury portfolio	312,764	(35)	68
Securitisation portfolio	179,248	(140)	–
Other accrued income	8,181	(2)	–
Summary of financial instruments to which the impairment requirements in IFRS 9 are applied through profit or loss	3,780,781	(25,909)	3,539
Investments measured at fair value through other comprehensive income			
Treasury portfolio	541,830	(23)	3
Securitisation portfolio	377,705	(39)	(7)
Total credit loss allowance/total income statement ECL release for the period		(25,971)	3,535

The table below provides a reconciliation of movements in gross carrying/nominal amounts and credit loss allowances by stage for the International Lending portfolio for the financial period ended 30 June 2021:

	Non credit-impaired				Credit-impaired		Total	
	Stage 1		Stage 2		Stage 3			
International Lending portfolio	Gross carrying/ nominal amount €000	Credit loss allowance €000	Gross carrying/ nominal amount €000	Credit loss allowance €000	Gross carrying/ nominal amount €000	Credit loss allowance €000	Gross carrying/ nominal amount €000	Credit loss allowance €000
Period ended 30 June 2021								
At beginning of period	857,774	(8,958)	239,061	(5,285)	176,859	(43,125)	1,273,694	(57,368)
New business	17,153	(84)	–	–	–	–	17,153	(84)
Repayments and disposals	(222,008)	2,516	(2,911)	146	(50,469)	13,853	(275,388)	16,515
Transfers of financial instruments								
– Transfers from Stage 1 to Stage 2	(72,737)	1,481	72,737	(1,481)	–	–	–	–
– Transfers from Stage 2 to Stage 1	–	–	(13,006)	696	13,006	(696)	–	–
Net remeasurement of ECL arising from stage transfers and changes in risk parameters	–	3,540	–	2,366	–	(16,526)	–	(10,620)
Post-model adjustment	–	(681)	–	(1,997)	–	–	–	(2,678)
Change in ECL through restructuring and disposals	–	–	–	–	(37,298)	37,298	(37,298)	37,298
At end of period	580,182	(2,186)	295,881	(5,555)	102,098	(9,196)	978,161	(16,937)

ECL released for the period	40,433
Effect of foreign exchange differences	477
Change in ECL through restructuring and disposals	(37,298)
Change in expected credit losses and other credit impairment charges for the period	3,612

	As at 30 June 2021		Period ended 30 June 2021
	Gross carrying/ nominal amount €000	Credit loss allowance €000	ECL release/ (charge) €000
As per preceding table	978,161	(16,937)	3,612
Balances at central banks	190,894	(2)	–
Loans and advances to financial institutions	252,333	(1)	–
Loans and advances to customers			
Dutch Mortgage portfolio: drawn exposures	1,575,493	(149)	(2)
Dutch Mortgage portfolio: undrawn commitments	107,387	(3)	14
International Corporate Lending portfolio: recoveries	–	–	194
Local Lending portfolio: drawn exposures	113,226	(297)	243
Local Lending portfolio undrawn commitments	26,816	(1)	(1)
Investments measured at amortised cost			
Treasury portfolio	130,377	(90)	217
Securitisation portfolio	292,221	(151)	–
Other accrued income	5,962	–	–
Summary of financial instruments to which the impairment requirements in IFRS 9 are applied through profit or loss	3,672,870	(17,631)	4,277
Investments measured at FVOCI			
Treasury portfolio	653,802	(49)	38
Securitisation portfolio	123,687	(12)	(12)
Total allowances for ECL/total income statement ECL release for the period		(17,692)	4,303

Movements in expected credit losses measured in respect of exposures within the Maltese Business Lending portfolio classified as Stage 1 and Stage 2 exposures, resulted in a decrease in related credit loss allowances from €0.3 million to €0.1 million during the twelve-month period ending 30 June 2022 (Twelve-month period ending 30 June 2021: decrease from €0.5 million to €0.3 million). The Group's credit risk on this portfolio 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 period, improving macroeconomic scenarios and to a lesser extent due to stage transfers and net book movements during the period.

The table also includes the credit loss allowances attributable to the Dutch Mortgage portfolio backed by the national mortgage guarantee scheme, the Belgian Mortgage portfolio and to the Maltese Mortgage portfolio, the credit loss allowances attributable to the Securitisation Investment portfolio, which comprises the Group's investments in CLOs (5% vertical slice in each of the Grand Harbour CLO 2019-1 Designated Activity Company "GH1 – 2019" structured note tranches and acquired portions in CLO transactions managed by third party entities), included within "Investments measured at amortised cost" and "Investments measured at fair value through other comprehensive income", as well as credit loss allowances attributable to the Treasury and Securitisation Investment portfolio measured at FVOCI. The ECL charge for the Group in respect of these portfolios is not considered significant in absolute terms and, as a result, no further disclosures were deemed necessary.

7.4 Current conditions and forward-looking information incorporated in the ECL model

Point-in-time, forward-looking PD and LGD modelling methodology

The Group modelling approach for ECL for the Corporate and Treasury portfolios includes a model developed by Moody's Analytics. that leverages updates in market signal data (Expected Default Frequency credit metrics) to convert internal ratings into a point-in-time, forward-looking measure of default risk. The structural model uses a firm's market capitalization as a key input. If a firm's stock price should fall rapidly, this risk metric can increase rapidly. Therefore, equity markets performance is a key variable in the IFRS 9 ECL modelling process.

The Group's IFRS 9 modelling approach, through the Moody's Analytics model, conditions the point-in-time, forward looking PDs and term structure from the abovementioned model with quarter-on-quarter change expected in future forecasts of macroeconomic data such as GDP, unemployment etc.

In order to minimise any overlapping effects between the two above mentioned models that may be amplified due to the abnormal behaviour of markets and other economic indicator shocks due to COVID-19 or the Russia-Ukraine conflict, the quarterly change in macroeconomic forecast data starts from reporting date onwards, i.e. quarterly change in economic indicator data from 30 June 2022 onwards.

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 Moody's Analytics.

Forecasts of future economic conditions

The Group applies macroeconomic scenarios sourced from Moody's Analytics 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 capture the non-linearity of expected credit losses under different scenarios for all credit portfolios. The scenarios generated include a central, or baseline, scenario and "alternative" scenarios to reflect upside and downside scenarios. The scenarios are constructed by the Moody's Analytics based on 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 Moody's Analytics. After their construction, the scenarios are each assigned probability weights. The scenarios are generated/refreshed on a quarterly basis.

The following tables presents the year-on-year growth rates for the key macroeconomic variables ("MEVs") provided by Moody's Analytics under the baseline and the alternative scenarios for the measurement of ECL for all portfolios as at 30 June 2022 and 31 December 2021. For the International Corporate Lending Portfolio, 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.

As mentioned above, ECL modelling incorporates the quarterly change in macroeconomic forecast data starting from reporting date onwards, i.e. from 30 June 2022 onwards. Such forecast data that is used for solely for the ECL modelling is derived from Moody's Analytics.

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

		International Lending and Treasury												Local Lending				Belgian Mortgages				Dutch Mortgages			
		UK				US				Eurozone				Malta				Belgium				Netherlands			
Key Drivers	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 %	Upside	3.2%	3.4%	1.6%	1.1%	2.5%	5.7%	2.1%	1.8%	3.0%	4.4%	2.2%	1.8%	7.5%	5.6%	2.3%	1.5%	2.6%	5.2%	1.7%	0.8%	–	–	–	–
	Baseline	3.2%	0.7%	1.6%	1.4%	2.5%	2.7%	2.8%	2.5%	3.0%	2.0%	2.5%	1.9%	7.5%	3.6%	2.6%	1.6%	2.6%	2.4%	2.0%	1.0%	–	–	–	–
	Downside 1	3.2%	-3.0%	3.2%	1.6%	2.5%	-0.3%	3.5%	3.1%	3.0%	-0.2%	3.4%	2.0%	7.5%	2.2%	3.1%	1.7%	2.6%	1.0%	2.6%	1.0%	–	–	–	–
	Downside 2	3.2%	-5.5%	1.8%	2.5%	2.5%	-2.2%	2.7%	3.4%	3.0%	-4.3%	3.1%	3.2%	7.5%	-2.9%	3.1%	2.9%	2.6%	-4.0%	2.6%	2.2%	–	–	–	–
UR – Average %	Upside	3.6%	3.7%	3.7%	3.9%	3.4%	2.9%	2.9%	3.1%	7.3%	6.9%	6.9%	7.0%	3.5%	3.6%	3.6%	3.8%	5.3%	4.6%	5.0%	5.8%	3.1%	2.8%	3.0%	3.3%
	Baseline	3.8%	4.2%	4.6%	4.7%	3.5%	3.5%	3.6%	3.8%	7.4%	7.3%	7.3%	7.3%	3.5%	3.6%	3.6%	3.8%	5.4%	5.0%	5.2%	5.6%	3.2%	3.1%	3.2%	3.3%
	Downside 1	4.0%	4.6%	4.8%	4.8%	4.4%	6.2%	4.2%	3.8%	7.5%	7.9%	7.9%	7.7%	3.6%	3.7%	3.7%	3.9%	5.4%	5.3%	5.5%	5.9%	3.2%	3.4%	3.4%	3.3%
	Downside 2	4.1%	6.3%	7.3%	7.3%	4.9%	7.7%	6.4%	5.4%	7.8%	9.5%	9.6%	8.9%	3.6%	4.0%	4.5%	4.5%	5.5%	6.8%	8.2%	8.4%	3.2%	4.4%	4.9%	4.0%
Stock Market Index – Growth %	Upside	6.7%	12.7%	0.2%	0.6%	2.3%	4.8%	1.2%	2.9%	-3.9%	18.3%	-1.7%	-1.5%	-5.7%	18.1%	1.7%	1.3%	4.6%	14.1%	-2.4%	-0.5%	–	–	–	–
	Baseline	6.7%	2.3%	2.8%	3.3%	2.3%	-1.1%	1.6%	4.1%	-3.9%	2.1%	3.0%	3.0%	-5.7%	3.9%	1.4%	4.9%	4.6%	1.1%	2.7%	4.0%	–	–	–	–
	Downside 1	6.7%	-0.8%	1.5%	4.2%	2.3%	-19.1%	5.2%	5.6%	-3.9%	-6.8%	4.9%	4.5%	-5.7%	-3.3%	1.9%	5.0%	4.6%	-6.3%	5.0%	5.1%	–	–	–	–
	Downside 2	6.7%	-17.6%	11.8%	9.5%	2.3%	-34.3%	11.7%	7.0%	-3.9%	-31.0%	25.0%	12.7%	-5.7%	-26.2%	13.5%	17.7%	4.6%	-27.2%	25.8%	12.5%	–	–	–	–
10 Yr Treasury Rate – Average %	Upside	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	0.8%	2.5%	3.0%	3.2%
	Baseline	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	0.6%	2.2%	2.6%	2.7%
	Downside 1	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	0.5%	1.7%	2.0%	2.5%
	Downside 2	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	0.4%	1.2%	1.3%	1.5%
House Price Index %	Upside	–	–	–	–	–	–	–	–	–	–	–	–	-4.2%	5.5%	9.4%	3.7%	-0.8%	8.4%	6.8%	3.4%	8.6%	0.9%	-0.3%	-2.6%
	Baseline	–	–	–	–	–	–	–	–	–	–	–	–	-4.2%	2.1%	5.9%	4.2%	-0.8%	6.7%	5.5%	3.3%	8.6%	-0.8%	-2.7%	-3.0%
	Downside 1	–	–	–	–	–	–	–	–	–	–	–	–	-4.2%	0.3%	2.9%	1.6%	-0.8%	4.9%	5.7%	2.7%	8.6%	-1.6%	-2.8%	-3.8%
	Downside 2	–	–	–	–	–	–	–	–	–	–	–	–	-4.2%	-4.5%	-7.5%	-4.9%	-0.8%	-2.3%	4.0%	2.0%	8.6%	-9.3%	-7.7%	-2.7%

In the aftermath of the outbreak of the COVID-19 pandemic and with the current Russia-Ukraine conflict, more rigorous monitoring of macroeconomic forecasts developed by Moody's Analytics is being performed by the Group in order to challenge the adequacy and reasonableness of the developed scenarios. The macroeconomic scenarios used in the Group's modelling of credit loss allowances reflect possible macroeconomic paths. Therefore, economic forecasts remain subject to a high degree of uncertainty in the current environment.

The scenarios have been benchmarked and assessed against the macroeconomic forecasts for the Euro area published by the ECB, in line with ECB guidance. Despite modelled macroeconomic scenarios from Moody's Analytics include reasonable epidemiological, economic, and geopolitical risk assumptions, management concluded that given the reduced prevailing uncertainty of the macroeconomic environment and path of economic recovery, scenario weights should be consistent with those of the December 2021 ECB Staff projections. Therefore, necessary adjustments were made to the number and probability weightings of macroeconomic forecasts from externally sourced modelled scenarios. The vintage of the scenarios is June 2022, reflecting current economic and geopolitical situation driving risks to the economy.

To align the outcome of the forecasts sourced from Moody's Analytics with the December 2021 ECB Staff projections, Management selected the four (2021: four) scenarios, out of the six scenarios developed by Moody's Analytics in which eurozone GDP paths most closely aligned with the three GDP paths published within the December 2021 ECB Staff projections. Specifically, as at 30 June 2022 and 31 December 2021, management selected to use the Baseline, the Upside, the Downside 1 and Downside 2 scenarios. The scenarios selection and weights were calibrated for the financial year ending December 2021, the scenario vintage was June 2022.

Model adjustments and management overlays

ECB guidance states that subjective model inputs and post-core model adjustments (overlays) may be used given the current level of uncertainties. These need to be directionally consistent with objective and verifiable evidence such as observable macroeconomic variables and forward-looking forecasts. Overlays should be supported by adequately documented processes and subject to strict governance oversight.

In line with the ongoing monitoring and review as part of the Group's internal model governance processes, senior management and the Board discussed, reviewed and approved the implementation of model adjustments to exposures within the International Corporate Lending portfolio to ensure that the level of credit loss allowances recognised at reporting date remains appropriate.

To ensure that the Group is adequately capturing the level of credit risk in its International Corporate Lending portfolio, an assessment was performed and it 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 captures by the models to reflect the increase in credit risk since origination.

7.5 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.

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.

7.5.1 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. These market prices are derived from Bloomberg.
- 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.

7.5.2 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 value of investment securities in inactive markets are based on:

- quoted prices of similar instruments, performing numerical procedures such as interpolation when input values do not directly correspond to the most active market trade parameters; or
- price quotations in respect of orderly transactions between market participants provided by reputable dealers.

Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange traded derivatives and simple over the counter derivatives such as interest rate swaps. Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determining fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

7.5.3 Financial instruments measured at fair value

The following table analyses financial instruments measured at fair value at the end of the reporting period, by 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 condensed consolidated interim statement of financial position.

	As at 30 June 2022				As at 31 December 2021			
	Level 1 €000	Level 2 €000	Level 3 €000	Total €000	Level 1 €000	Level 2 €000	Level 3 €000	Total €000
Assets								
Instruments measured at fair value through other comprehensive income								
- Treasury investment portfolio								
- Debt and other fixed income securities	**541,830**	**–**	**–**	**541,830**	650,217	–	–	650,217
- Securitisation investment portfolio								
- Debt and other fixed income securities	**–**	**–**	**377,705**	**377,705**	–	–	327,110	327,110
Instruments mandatorily measured at fair value through profit or loss								
- Securitisation investment portfolio	**–**	**–**	**581**	**581**	–	–	1,145	1,145
- Derivative financial instruments	**–**	**187,859**	**511**	**188,370**	–	37,126	511	37,637
Total financial assets	**541,830**	**187,859**	**378,797**	**1,108,486**	650,217	37,126	328,766	1,016,109
Liabilities								
Derivative financial instruments	**–**	**4,910**	**–**	**4,910**	–	1,131	–	1,131

As at 30 June 2022 and 31 December 2021, the fair value of debt securities within the Treasury Investment portfolio represents the closing bid price quoted in an active market, and such instruments are therefore categorised as Level 1 assets.

Level 2 assets principally comprise derivatives held for risk management that are fair valued based on valuation models with the key methodology utilised comprising the calculation of the net present value of a series of expected cash flows, taking into account the different terms of each specific contract/instrument (discounted cash flow approach). These models use as their basis independently sourced market parameters including, for example, interest rate yield curves. Market parameters are either directly observable or are implied from observable instrument prices. The model may perform numerical procedures in respect of pricing such as interpolation when input values do not directly correspond to the most active market trade parameters.

Level 3 assets include the following:

- The Group's investments in tranches of securitisation structures with a carrying amount of €377.7 million (31 December 2021: €327.1 million) are mainly rated AAA, and their fair value is determined using third party valuation models to estimate the net present value of a series of expected cash flows, taking into consideration instrument-specific contractual terms (discounted cash flow approach). Amongst other things, these models take into consideration the characteristics of the underlying portfolio of assets (including quality of underlying assets), historical portfolio performance, and the liability structure of the CLO transaction. These models also make use of independently sourced market parameters including, for example, interest rate yield curves.
- The Group's investment in the equity tranche of GH1 – 2019 with a carrying amount of €0.6 million (31 December 2021: €1.1 million), for which a fair value is determined using third party valuation models to estimate the net present value of a series of expected cash flows, taking into consideration instrument-specific contractual terms (discounted cash flow approach). Amongst other things, these models take into consideration the characteristics of the underlying portfolio of assets (including quality of underlying assets), historical portfolio performance, and the liability structure of the CLO transaction. These models also make use of independently sourced market parameters including, for example, interest rate yield curves.
- Tax warrants and contingent value notes resulting from a loan restructuring arrangement, classified as derivative financial instruments amounting to €0.5 (31 December 2021: 0.5 million).

In view of the nature of the Group's exposure to Level 3 assets and the valuation models used to determine the fair value, the directors determined that any changes in unobservable inputs to underlying models will not result in a significantly higher or lower fair value of such assets.

Accordingly, a sensitivity analysis of the fair value measurement to changes in unobservable inputs is not deemed relevant.

7.5.4 Transfers between levels

The Group recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the transfer has occurred.

There were no transfers between levels of the fair value hierarchy during the period from 1 January 2022 to 30 June 2022 and during the financial year ended 31 December 2021.

7.6 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 30 June 2022				
Assets	**Level 1 €000**	**Level 2 €000**	**Level 3 €000**	**Total fair values €000**	**Total carrying amount €000**
Loans and advances to customers	–	73,941	1,556,015	1,629,956	1,703,166
– International Lending portfolio	–	73,941	130,066	204,007	218,973
– Dutch Mortgage portfolio *	–	–	1,425,949	1,425,949	1,484,193
Investments	277,128	–	172,030	449,158	479,376
– Treasury portfolio	277,128	–	–	277,128	300,268
– Securitisation portfolio	–	–	172,030	172,030	179,108
Total financial assets	277,128	73,941	1,728,045	2,079,114	2,182,542
Liabilities					
Debt securities in issue	–	–	630,322	630,322	628,515
Subordinated liabilities	55,102	–	–	55,102	54,941
Total financial liabilities	55,102	–	630,322	685,424	683,456

* Total carrying amount is net of IFRS basis negative adjustment equivalent to €183.2 million.

	As at 31 December 2021				
Assets	Level 1 €000	Level 2 €000	Level 3 €000	Total fair values €000	Total carrying amount €000
Loans and advances to customers	–	99,247	1,840,757	1,940,004	1,878,636
– International Lending portfolio	–	99,247	163,321	262,568	272,771
– Dutch Mortgage portfolio *	–	–	1,677,436	1,677,436	1,605,865
Investments	106,937	–	179,309	286,246	286,469
– Treasury portfolio	106,937	–	–	106,937	107,373
– Securitisation portfolio	–	–	179,309	179,309	179,096
Total financial assets	106,937	99,247	2,020,066	2,226,250	2,165,105
Liabilities					
Debt securities in issue	–	–	663,606	663,606	658,293
Subordinated liabilities	56,668	–	–	56,668	54,994
Total financial liabilities	56,668	–	663,606	720,274	713,287

* Total carrying amount is net of IFRS basis negative adjustment equivalent to €37.1 million.

In addition to the above, in February 2021 MDB Group Limited issued €11 million fixed rate reset callable subordinated notes due on 10 February 2031.

The Notes bear a fixed rate of 9.75% per annum and thereafter at a fixed rate of interest which will reset on 10 February 2026 and were admitted to the

Official List of Euronext Dublin and to trading on the Global Exchange Market of Euronext Dublin.

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 30 June 2022, the carrying amount of this loan, included by the Bank within "Other liabilities", amounted to €10.2 million (31 December 2021: €10.1 million) and its fair value as at the same date was €10.4 million (31 December 2021: €10.9 million). The fair value was determined by projecting the cashflows to the first call date and discounting with January-end ESTR curves to obtain the spread over the said curve. In the absence of trades since issue of this these loans in February 2021, the fair value calculation takes into account the impact of the rise in interest rates throughout this period which is the most likely meaningful contribution to the change in fair value. The spread over the ESTR curves during this period was utilised to measure the present values of future cashflows.

The Level 1 fair values reflected in the tables above consist of the closing bid price quoted in an active market in respect of debt securities classified under the Treasury Investment portfolio and subordinated bonds issued by the Group.

The Level 2 and Level 3 fair value disclosures of the International Corporate Lending portfolio mainly comprise price quotations sourced from an online platform in respect of internationally traded loans and advances, consisting of the Group's international loan book with foreign corporates. Loans and advances to customers forming part of the International Corporate Lending portfolio amounting to €398.1 million (31 December 2021: €320.6 million), net of expected credit losses, and a corporate debt security within the Treasury Investment portfolio, with a carrying amount of €12.5 million (31 December 2021: €12.4 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 with a carrying amount of €179.1 million (31 December 2021: €179.1 million) which are mainly rated AAA, and for which a fair value is determined using third party valuation models to estimate the net present value of a series of expected cash flows, taking into consideration instrument-specific contractual terms (discounted cash flow approach). Amongst other things, these models take into consideration the characteristics of the underlying portfolio of assets (including quality of underlying assets), historical portfolio performance, and the liability structure of the CLO transaction. These models also make use of independently sourced market parameters including, for example, interest rate yield curves.
- Dutch mortgages with a carrying amount (including IFRS basis adjustment) of €1,484.2 million (31 December 2021: €1,605.9 million) included in Loans and advances to customers. In order to derive their fair value as at 30 June 2022 and 31 December 2021, the Group bootstraps the average of the top three interest rate quotes offered by Dutch government-backed mortgage loan lenders in the Netherlands for every mortgage fixed rate tenor to create 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 30 June 2022, the carrying amount for loans and advances to customers classified under the Local Business Lending portfolio amounting to €113.1 million (31 December 2021: €106.1 million) and Maltese mortgages amounting to €43.4 million (31 December 2021: €18.9 million) approximates their fair value because these loans are repriceable at the Group's discretion.

Furthermore, Belgian mortgages amounting to €8.6 million (31 December 2021: €nil) included in Loans and advances to customers were not reflected in the preceding table since the fair value is not deemed to differ significantly from their carrying amount at the reporting date given that the size of this portfolio and given it is still in its infancy with these mortgages having been originated in 2022.

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 30 June 2002, all exposures classified under loans and advances to financial institutions amounting to €285.1 million (31 December 2021: €198.8 million), and balances with central banks amounting to €193.0 million as at 30 June 2022 (31 December 2021: €328.6 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 30 June 2022 amounting to €512.3 million (31 December 2021: €273.3 million) and 'Amounts owed to customers' of the Group amounting to €2.8 billion (31 December 2021: €2.7 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.

8. Capital and reserves

Share capital

	30 June 2022 No.	31 December 2021 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

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

Issued share capital is stated net of share issue expenses amounting to €0.7 million (31 December 2021: €0.7 million).

Rights and entitlements attached to ordinary shares

The holders of Ordinary 'A' shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at general meetings of the Company. Ordinary 'B' shareholders are not entitled to vote and do not carry any dividend entitlement. The holders of the Ordinary 'A' shares and the holders of the Ordinary 'B' shares shall be equally entitled to receive notice of general meetings of the Company.

The directors of the Company , do not recommend the payment of a dividend as they deem that despite the strong capital and liquidity ratios, the Group should conserve its capital to fuel further business growth.

Share premium

Share premium as at the reporting date represents the issue of shares in prior periods as follows:

			Share Premium	
Issue date	Number of shares	Premium per share €	30 June 2022 €000	31 December 2021 €000
5 August 2009	39,520,969	0.3407	**13,464**	13,464
31 March 2010	1,214,991*	0.2400	**292**	292
			13,756	13,756

*Converted to one share on 27 June 2014

Shareholders' contributions

The terms and conditions of the contributions granted render these instruments equity in nature in accordance with the requirements of IAS 32: Financial Instruments - Presentation:

- The Company has no obligation to bear any servicing cost or transfer any economic benefits of any kind to the Contributor or any other person in return; and
- The Company has no obligation to repay the contributions.

The contributions are also eligible as own funds in terms of the Capital Requirements Regulation.

Reserve for general banking risks

Banking Rule ("BR") 09 issued by the MFSA requires banks in Malta to hold additional reserves for general banking risks in respect of non-performing loans. This reserve is required to be funded from retained earnings. As at 30 June 2022, the reserve for general banking risks of the Group was equivalent to €3.8 million (31 December 2021: €3.8 million). This reserve, which is distributable subject to the formal consent of the Banking Regulator, represents 100% of the regulatory allocation by virtue of paragraph 38 of the Banking Rule.

Other reserves

A. Fair value reserve

The fair value reserve is attributable to the cumulative net change in the fair value of investments measured at fair value through other comprehensive income, until the investment is derecognised, net of deferred taxation. Refer to reclassification done on 1 July 2022 as described in note 11.

B. Legal reserve

As at 30 June 2022 and 31 December 2021, other reserve of the Group also consists of legal reserves amounting to €0.2 million that is required to be maintained by MeDirect Belgium in line with Article 7:211 of the Belgian Companies Code which requires MeDirect Belgium to assign at least 5% of MeDirect Belgium's net profits to the legal reserve until such legal reserve amounts to 10% of MeDirect Belgium share capital.

C. Other reserve

On 6 May 2015, the Group entered into an agreement to acquire the remaining 35% shareholding of Charts Investment Management Service Ltd for a cash consideration of €1.7 million. The subsidiary was principally engaged in providing stockbroking and corporate finance services and other authorised investment services under a Category 3 licence. As a result of the acquisition of the non-controlling interest, during the financial year ended 31 March 2016, the carrying amount of the non-controlling interest of €0.4 million has been derecognised. The difference between proceeds and the carrying amount of the non-controlling interest has been reflected as an adjustment to equity.

All reserves at the reporting date, except for the Company's retained earnings and the shareholders' contribution, are non-distributable.

9. Contingent liabilities and commitments

Guarantee obligations

As at 30 June 2022, the Group had cash secured guarantee obligations amounting to €3.3 million (31 December 2021: €2.4 million).

Commitments to lend

Commitments to lend represent undrawn formal standby facilities, credit facilities and other similar commitments to lend. As at 30 June 2022, the Group had undrawn commitments of €181.2 million (31 December 2021: €208.4 million) under revolving credit facilities. In addition, lending commitments in relation to the Group's Dutch Mortgage portfolio amounted to €68.7 million (31 December 2021: €72.1 million), in relation to the Maltese Mortgage portfolio amounted to €42.9 million (31 December 2021: €37.5 million) and the Belgian Mortgage portfolio amounted to €26.7 million (31 December 2021: nil). As at 30 June 2022, undrawn facilities on term loans of the Group amounted to €41.0 million (31 December 2021: €58.3 million).

Commitments to purchase

As at 30 June 2022, the Group had commitments to purchase facilities on term loans amounting to €4.0 million (31 December 2021: €11.0 million).

10. Related party transactions

There were no material changes in related party transactions from those detailed in the financial statements for the financial year ended 31 December 2021.

No further related party transactions materially affected the financial position or liquidity of the Group.

11. Events after the reporting date

In June 2022, the Group changed the business model for managing those investments within the treasury 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 in the first half of 2022 the Group completed its plan to achieve sound diversification through various asset classes, through the commencement of the Belgium mortgages business.

The Group's diversification strategy that commenced 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.

In December 2021 the Group ceased the intragroup funding arrangements between MeDirect Belgium and MeDirect Malta through Grand Harbour I. This allowed a change in the management of the liquidity of both banks.

The above developments resulted in a change in the business model of the treasury and securitisation investments portfolios. These investments are now categorised as hold to collect and as a result effective as from 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.

The following table provides an overview of the reclassification that was accounted for on 1 July 2022:

	Carrying amount prior to reclassification €000	Carrying amount subsequent to reclassification €000
Assets		
Investments – Treasury 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

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

12. MDB Group Regulatory information

	Capital management			Liquidity management	
Key regulatory ratios	Tier 1 capital ratio	Total capital ratio	Leverage ratio	LCR	NSFR
30 June 2022	13.6%	17.3%	4.4%	247%	129%
Post reclassification on 1 July *	15.3%	19.0%	4.9%	247%	130%
31 December 2021	15.7%	19.2%	4.9%	363%	134%

* Refer to reclassification described in note 11.

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