

MDB Group Limited

Pillar 3 disclosures report – Annual report  
31 December 2021

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## 1 Introduction (Article 431 (1), (2) CRR)

This Pillar 3 report provides disclosures for the consolidated MDB Group (the “Group”) as required by the global regulatory framework for capital and liquidity, which was established by the Basel Committee on Banking Supervision, also known as Basel III. The Basel III capital adequacy framework consist of three complementary pillars:

- Pillar 1 (‘minimum capital requirements’) provides a framework for measuring minimum capital requirements for the credit, market and operational risks faced by banks;
- Pillar 2 (‘supervisory review’) addresses the principles of the supervisory review process, emphasising the need for a qualitative approach to supervising banks. This requires banks to estimate their own capital through an Internal Capital Adequacy Assessment Process (ICAAP). The ICAAP and Internal Liquidity Adequacy Assessment Process (ILAAP) are subject to supervisory review from the Regulator, through the Supervisory Review and Evaluation process (SREP).
- Pillar 3 (‘market discipline’) requires banks to publish a range of qualitative and quantitative disclosures to the market aimed at providing further insight on the capital structure, capital adequacy and risk management practices.

These Disclosures have been prepared in accordance with the requirements in Article 433 of Part Eight of the EU Regulation 876/2019 of the European Parliament and of the Council of 20 May 2019 amending regulation (EU) No 575/2013 (Capital Requirements Regulation 2 – “CRR 2”). A reference has been added in cases where the information addressing Pillar 3 requirements is included in other parts of the Annual Report. The frequency of Pillar 3 disclosures is determined by the Commission Implementing Regulation (EU) 2021/637 of 15 March 2021 laying down implementing technical standards with regard to public disclosures by institutions. In this respect, refer to the Group’s Semi-Annual and Quarterly Pillar 3 disclosure reports.

Appendix A contains a list of tables and templates disclosed and indicates the section in which they are integrated into the report. All tables and templates are defined according to the names as per EBA guidelines. Appendix B contains a list indicating the location of the information disclosed in the Pillar 3 Disclosures or the Annual Report and Financial Statements, in accordance with the relevant articles of Part Eight of the CRR or why such disclosure is not applicable for the Group.

The Pillar 3 Disclosures complement the Annual Report focusing primarily on the supervisory perspective, providing an overview of the Group’s capital adequacy, risk weighted assets, leverage and other material risks such as but not limited to: credit risk, counterparty credit risk, market risk, liquidity risk, and operational risk.

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

The Group is required to disclose its return on assets pursuant to paragraph 31 of BR 07, “Publication of Annual Report and Audited Financial Statements of Credit Institutions Authorised under the Maltese Banking Act (Cap. 371)”. In this respect, the Group’s return on assets for the financial year ended 31 December 2021 amounted to a negative 0.4%.

### 1.1 Pillar 3 Disclosure Policy (Article 431 (3) CRR)

As required under Article 431 (3) of CRR, the Group maintains a Pillar 3 Disclosures Policy, in order to comply with the requirements laid down in Part Eight of the CRR, the Malta Financial Services Authority (“MFSA”) Banking Rule (“BR”) 07, ‘*Publication of Annual Report and Audited Financial Statements of Credit Institutions Authorised under the Maltese Banking Act (Cap. 371)*’ and any associated EBA guidelines and technical standards. The Pillar 3 Disclosures Policy defines overall objectives, roles, and responsibilities with regards to preparation, verification, and approval processes. The policy is reviewed every twelve months, last approved in July 2021.

#### Basis of preparation

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

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

The information provided in this Pillar 3 report is unaudited but reasonable assurance has been provided by the Bank’s Internal audit function. Refer to section “Governance process – verification and sign-off”.

Unless otherwise states the amounts have been rounded to euro millions. Due to rounding, numbers presented throughout this document may not add up precisely to the totals provided and percentages may not precisely reflect the absolute figures. In the tables , parts that have been greyed out indicate information that is not required.

In all tables where the term 'capital requirements' is used, this represents the minimum total capital charge set at 8% of risk weighted assets ('RWAs') by article 92 of the Capital Requirements Regulation.

#### Scope of application

These Pillar 3 disclosures (the "Disclosures") are in respect of MDB Group Limited (the "Regulatory Parent" or "MDB Holding"), and its subsidiaries, together referred to as the "Group" or "MDB Group". The Group is regulated under the Single Supervisory Mechanism ("SSM"). The SSM is the system of banking supervision in Europe, the main aim of which is to ensure the safety and soundness of the European banking system and to increase financial integration, stability and consistency of supervision. Under the SSM, the Group is regulated by a Joint Supervisory Team comprising the European Central Bank ("ECB"), the National Bank of Belgium and the Malta Financial Services Authority ("MFSA"). The Group is classified as an "Other Systemically Important Institution", and MeDirect Malta is considered a core domestic bank by the Central Bank of Malta.

The Legal Entity Identifier ("LEI") code of MDB Group Limited is 213800TC9PZRBHMJW403.

MDB Group Limited's subsidiary, MeDirect Malta has been authorised to waive its requirement to comply with Part Eight of the CRR on an individual basis, in terms of Article 6 (3) of the CRR. On the other hand MeDirect Belgium is exempt from full disclosure requirements laid down in Part Eight of the CRR, however being a "small and non-complex" institution" it is required to publish the disclosure requirements as per Article 433b CRR on an annual basis.

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

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

The JST receives information on the capital adequacy requirements and sets capital requirements for the Group. At a consolidated Group level, capital is calculated for prudential regulatory reporting purposes using the Basel III framework of the Basel Committee on Banking Supervision ('Basel'), as implemented by the European Union ('EU') in the revisions to the Capital Requirements Regulation.

#### Frequency of disclosures (Article 433 and 433a CRR)

In December 2020, EBA published the final Implementing Technical Standards (ITS) on institutions' public disclosures as per its mandate under Article 434 of the CRR 2 to introduce uniform formats and associated instructions for disclosure requirements in order to optimise the Pillar 3 policy framework.

The new ITS aims to reinforce market discipline, by increasing consistency and comparability of institutions' public disclosures, and to implement the CRR 2 regulatory changes in alignment with the revised Basel Pillar 3 standards. These requirements introduced a comprehensive set of disclosure templates, tables and related instructions in order to ensure alignment and consistency with the Basel Committee's updated Pillar 3 framework.

In December 2020, the EBA has updated the mapping of quantitative disclosure data and supervisory reporting, which aims at facilitating institutions' compliance and improving the consistency and quality of the information disclosed. The EBA also published a file summarising the frequency at which each type of institution should disclose each template and table, in accordance with the CRR 2.

New disclosure requirements became effective as per end of June 2021. Moreover, as required by the CRR and also through newly published EBA guidelines, the Group is required to publish quarterly, semi-annual and annual Pillar 3 disclosures in line with the frequency as established within the March 2021 Commission Implementing Regulations. The MDB Group publishes these disclosures according to the frequency required for large and listed institutions. In line with Article 4 (146) CRR 2, the Group is defined as a large institution since 'it has been identified as another systemically important institution (O-SII) in accordance with Article 131(1) and (3) of Directive 2013/36/EU'.

Disclosures in this Pillar 3 include comparative periods in accordance with the requirements of EBA ITS. For those disclosures required only on an annual basis, the comparative period will be to the prior year, except for newly adopted disclosures as of 31 December 2021, whereby the Group does not provide comparative information. For those disclosures only required on a semi-annual basis, the comparative period is 30 June 2021. Disclosures required on a quarterly basis generally include comparative information for 30 September 2021 and in certain cases 30 June 2021.

In line with regulatory requirements and the Group's policy, the Pillar 3 Disclosures are published on the Group's website within a reasonable period after the publication of the Group's annual financial statements.

#### Means of disclosures (Article 434 CRR)

As required by the CRR, the Group will continue to make available its Annual Report and financial statements and the Pillar 3 disclosure reports in the Investor Relations section of the Group's website (<https://www.medirect.com.mt/about-us/investor-relations>).

#### Non-material, proprietary or confidential information (Article 432 CRR)

In line with the Group's Policy based on Article 432 CRR and CRR II, the Group may omit certain disclosures due to these disclosures being immaterial, proprietary, or confidential. No information was omitted due to being considered proprietary or confidential.

#### COVID-19 disclosure templates

In June 2020, EBA published the "Guidelines on reporting and disclosure of exposures subject to measures applied in response to the Covid-19 crisis". These additional reporting and disclosure requirements were introduced, on a temporary basis, and at present extended until 31 December 2022, to introduce standardised reporting on exposures with a specific Covid-19 classification. On a semi-annual basis, these three templates are included in the Pillar 3 reports. In scope of these templates are the loans and advances that are subject to legislative and non-legislative moratoria (also referred to as subject to 'EBA compliant moratoria') and the (newly originated) loans and advances that are subject to public guarantee schemes introduced in response to the Covid-19 crisis.

#### Governance process – verification and sign-off

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

### **1.2 Key metrics**

*(Article 447 (a - g) and Article 438 (b) CRR)*

The table EU KM1 provides key regulatory metrics and ratios as well as related input components as defined by the amended versions of CRR and CRD. They comprise own funds, RWAs, capital ratios, additional requirements based on SREP, capital buffer requirements, leverage ratio, liquidity coverage ratio and net stable funding ratio. They serve as high level metrics and form part of our holistic risk management across individual risk types in addition to the Group's specific internal risk metrics. Based on this they are fully integrated across strategic planning, risk appetite framework and stress testing concepts and are reviewed and approved by our Management Board at least annually.

**EU KM1 – Key metrics<sup>1</sup>**

		a	b	c
Amounts in €millions		31-Dec-21	30-Sep-21	30-Jun-21
	<b>Available own funds</b>			
1	Common Equity Tier 1 (CET1) capital	213	227	234
2	Tier 1 capital	213	227	234
3	Total capital	260	273	281
	<b>Risk-weighted exposure amounts</b>			
4	Total risk exposure amount	1,356	1,395	1,454
	<b>Capital ratios (as a percentage of risk-weighted exposure amount)</b>			
5	Common Equity Tier 1 ratio (%)	15.7%	16.2%	16.1%
6	Tier 1 ratio (%)	15.7%	16.2%	16.1%
7	Total capital ratio (%)	19.2%	19.6%	19.3%
	<b>Additional own funds requirements to address risks other than the risk of excessive leverage (as a percentage of risk-weighted exposure amount)</b>			
EU 7a	Additional own funds requirements to address risks other than the risk of excessive leverage (%)	3%	3%	3%
EU 7b	of which: to be made up of CET1 capital (percentage points)	1.7%	1.7%	1.7%
EU 7c	of which: to be made up of Tier 1 capital (percentage points)	2.3%	2.3%	2.3%
EU 7d	Total SREP own funds requirements (%)	11.0%	11.0%	11.0%
	<b>Combined buffer and overall capital requirement (as a percentage of risk-weighted exposure amount)</b>			
8	Capital conservation buffer (%)	2.5%	2.5%	2.5%
EU 8a	Conservation buffer due to macro-prudential or systemic risk identified at the level of a Member State (%)	0.0%	0.0%	0.0%
9	Institution specific countercyclical capital buffer (%)	0.04%	0.03%	0.03%
EU 9a	Systemic risk buffer (%)	0.0%	0.0%	0.0%
10	Global Systemically Important Institution buffer (%)	0.0%	0.0%	0.0%
EU 10a	Other Systemically Important Institution buffer (%)	0.5%	0.5%	0.5%
11	Combined buffer requirement (%)	3.0%	3.0%	3.0%
EU 11a	Overall capital requirements (%)	14.0%	14.0%	14.0%
12	CET1 available after meeting the total SREP own funds requirements (%)	4.7%	5.3%	5.1%
	<b>Leverage ratio</b>			
13	Total exposure measure	4,359	4,206	4,190
14	Leverage ratio (%)	4.9%	5.4%	5.6%
	<b>Additional own funds requirements to address the risk of excessive leverage (as a percentage of total exposure measure)</b>			
EU 14a	Additional own funds requirements to address the risk of excessive leverage (%)	0.0%	0.0%	0.0%
EU 14b	of which: to be made up of CET1 capital (percentage points)	0.0%	0.0%	0.0%
EU 14c	Total SREP leverage ratio requirements (%)	3.0%	3.0%	3.0%
	<b>Leverage ratio buffer and overall leverage ratio requirement (as a percentage of total exposure measure)</b>			
EU 14d	Leverage ratio buffer requirement (%)	0.0%	0.0%	0.0%
EU 14e	Overall leverage ratio requirement (%)	3.0%	3.0%	3.0%
	<b>Liquidity Coverage Ratio</b>			
15	Total high-quality liquid assets (HQLA) (Weighted value -average)	815	791	719
EU 16a	Cash outflows - Total weighted value	340	322	281
EU 16b	Cash inflows - Total weighted value	121	128	136
16	Total net cash outflows (adjusted value)	219	194	145
17	Liquidity coverage ratio (%) <sup>2</sup>	414.0%	457.7%	524.0%
	<b>Net Stable Funding Ratio</b>			
18	Total available stable funding	3,582	3,534	3,507
19	Total required stable funding	2,683	2,571	2,615
20	NSFR ratio (%)	133.5%	137.5%	134.1%

<sup>1</sup> Capital ratios and risk-weighted exposure amounts have been prepared on an IFRS 9 transitional basis.

<sup>2</sup> The Liquidity Coverage Ratio (LCR) reported in this table uses the simple average of the preceding 12 monthly periods ending on the quarterly reporting date as specified in the table. The Actual LCR reported in December 2021 was 363.4%.

*Transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds (Article 473a CRR)*

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

		31-Dec-21	30-Sep-21	30-Jun-21	31-Mar-21	31-Dec-20
	<i>Amounts in €millions</i>					
	<b>Available capital</b>					
1	Common Equity Tier 1 (CET1) capital	213	227	234	241	244
2	Common Equity Tier 1 (CET1) capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	208	222	227	235	236
3	Tier 1 capital	213	227	234	241	244
4	Tier 1 capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	208	223	227	235	236
5	Total capital	260	273	281	291	285
6	Total capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	256	269	275	285	277
	<b>Risk-weighted assets</b>					
7	Total risk-weighted assets	1,356	1,395	1,454	1,620	1,643
8	Total risk weighted assets as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	1,356	1,397	1,455	1,621	1,644
	<b>Capital ratios</b>					
9	Common Equity Tier 1 (as a percentage of risk exposure amount)	15.7%	16.2%	16.1%	14.9%	14.8%
10	Common Equity Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	15.4%	15.9%	15.6%	14.5%	14.3%
11	Tier 1 (as a percentage of risk exposure amount)	15.7%	16.2%	16.1%	14.9%	14.8%
12	Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	15.4%	15.9%	15.6%	14.5%	14.3%
13	Total capital (as a percentage of risk exposure amount)	19.2%	19.6%	19.3%	18.0%	17.3%
14	Total capital (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	18.9%	19.3%	18.9%	17.6%	16.8%
	<b>Leverage ratio</b>					
15	Leverage ratio total exposure measure (€millions)	4,359	4,206	4,190	4,529	4,285
16	Leverage ratio	4.9%	5.4 %	5.6%	5.3%	5.7%
17	Leverage ratio as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	4.8%	5.3%	5.4%	5.2%	5.5%

The Group applies the full extent of the IFRS 9 transitional arrangements for capital as set out under CRR Article 473a (as amended via the CRR 'Quick Fix' revisions published in June 2020). Specifically, the Group has opted to apply both paragraphs 2 and 4 of CRR Article 473a (static and dynamic relief) and in addition to apply a 100% risk weight to the consequential Standardised credit risk exposure add-back as permitted under paragraph 7a of the revisions. The 'static-dynamic' approach allows for recalculation of the transitional adjustment periodically on Stage 1 and Stage 2 loans, so as to reflect the increase of the ECL provisions within the transition period. The only change in the application of Article 473 paragraph 2 and paragraph 4 being that when the Group implemented these transitional provisions, the Group's financial year ended on 31 March and thus the set of factors were adjusted to correspond to a 31 March financial year end. In December 2019 the Group changed its financial year end from March to December and thus from then onwards these were applied to a December year end.

As laid down in Regulation (EU) 2017/2395 and amended by Regulation (EU) 2020/873, the Group has opted to apply the transitional arrangements laid down in the same regulation to mitigate the impact of the introduction of IFRS 9 on own funds, including paragraph 4 of article 473a. Thus, during the transitional period ending 31 December 2024, the Group will be adding back a proportion of:

- (a) the Day 1 impact as a result of the introduction of IFRS 9, being the difference between IFRS 9 expected credit losses ("ECLs") on 1 April 2018 and IAS 39 provisions determined at 31 March 2018; and
- (b) the difference in the IFRS 9 ECLs determined as at 31 December 2019 and the ECLs determined on 'day 1' of the introduction of IFRS 9 (being 1 April 2018 for the Group) for Stage 1 (12-months ECLs) and Stage 2 (lifetime ECLs) assets; and
- (c) the difference in the IFRS 9 ECLs determined at reporting date and the ECLs determined as at 1 January 2020 for Stage 1 (12-months ECLs) and Stage 2 (lifetime ECLs) assets.

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

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

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



As noted in template IFRS 9-FL above, the impact of the transitional arrangement on the Group's capital ratio as at 31 December 2021 amounted to 31bps at the reporting period under review. This was a result of an add-back in capital of €4.1 million and a reduction of €0.3 million in risk-weighted assets. Similarly, the Group's leverage ratio is 9 bps greater in view of the transitional arrangement applied that is not deemed to be a material change.

*Temporary treatment of unrealised gains and losses measured at fair value through other comprehensive income (Article 468 CRR)*

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

### 1.3 Attestation by the Directors

The directors confirm that this Pillar 3 disclosures report, to the best of our knowledge, complies with Part Eight of the CRR 2, including, where relevant, any associated EBA guidelines and technical standards, and has been prepared in compliance with the Group's internal governance process including formal policies, internal processes and systems and internal control environment.

On behalf of the board



Michael Bussey  
Chairman



Arnaud Denis  
Chief Executive Officer

5 July 2022

## 2 Risk management, objectives and policies

### 2.1 General information on risk management, objectives and policies

Risk management is an integral part of the Group's strategic planning and management processes. Risks are identified in the context of the business model and strategy of the Group, and within the parameters of the approved risk appetite using methodologies developed to identify the exposure of the Group to risk and uncertainty. The Group's Risk Management Function is actively involved in all material risk management decisions and is adequately structured to deliver a holistic view of the whole range of risks faced by the Group in its strategic decision-making.

The Group operates within the 'Three Lines of Defence' model as a core part of its approach to risk management; each of these three lines plays a distinct role within the Group's wider governance framework.

#### Risk strategy

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

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

<b>PROMOTE SUSTAINABLE GROWTH</b>	<ul style="list-style-type: none"> <li>To protect and act as guardians for the sustainability of the Group's financial standing, capital and liquidity adequacy, reputational standing, operational continuity, and customer and stakeholder protection</li> </ul>
<b>ENABLE STRATEGIC OBJECTIVES</b>	<ul style="list-style-type: none"> <li>To enable the Group to prudently deliver its strategic objectives, within its defined risk appetite</li> </ul>
<b>STRONG RISK CULTURE</b>	<ul style="list-style-type: none"> <li>Instil a sound risk culture through clearly defined risk policies, balanced objectives, risk-adjusted returns practices, alongside communication, training and awareness programmes across all stakeholders</li> </ul>
<b>ROBUST RISK MANAGEMENT PRACTICES</b>	<ul style="list-style-type: none"> <li>Develop, maintain and continually enhance effective risk management practices, tools and systems, on a proportional and risk-based approach</li> </ul>
<b>SOUND RISK IDENTIFICATION</b>	<ul style="list-style-type: none"> <li>Ensure suitable systems, methodologies and quantification tools are in place to appropriately assess and identify current and emerging inherent risks</li> </ul>
<b>EFFECTIVE RISK CONTROLS</b>	<ul style="list-style-type: none"> <li>Drive the implementation of suitable risk controls frameworks, including assessment of control effectiveness and residual risks</li> </ul>

FIGURE 1: RISK STRATEGY

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

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

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

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

#### Risk committee and number of meetings (Article 435 (2)(d) CRR (EU OVB)

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

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

### **2.1.1 Risk Management Function** *(Article 435 (1) (b) CRR) (EU OVA)*

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

The Group's risk management function falls under the responsibility of the CRO who is independent from the business lines. The CRO is responsible for a number of sub-functions that represent different risk areas namely, credit risk, operational Risk, risk analytics, financial and market risk, IT and information security risk, and data protection. Since December 2021, the Financial Crime Compliance Function was restructured, whereby the Head of Financial Crime Compliance no longer reports to the CRO but is now reporting to the Group CEO on an operational basis with a direct reporting line to the Group Board Risk Committee.

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

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

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

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

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

The CRO for MeDirect Belgium is based in Belgium and reports directly to the Board of Directors for MeDirect Belgium. The two CROs work closely together in order to ensure adequate flow of information within the Group structure.

As at 31 December 2021, the Group's risk management function comprised of the following teams under the management of the CRO. Their responsibilities were divided as follows:

Risk Management Function	Main responsibilities
<b>Risk Analytics</b>	<p>The team provides risk management oversight of the Group's capital and liquidity risk through complementary reporting for both Board level and Executive level audiences, as well as stress testing and performance tracking of the Group's asset and liability portfolios, including off-balance sheet commitments.</p> <p>The function is also responsible for management of capital and liquidity risk policies, and for the development and maintenance of risk measurement tools and models, in particular those used for stress testing purposes. The team is responsible for key internal capital and liquidity risk management documents, specifically the Group's ICAAP, ILAAP and Recovery Plan. In addition, the function also leads any regulatory and external stress tests the Group is required to participate in.</p> <p>Risk Analytics are also responsible for developing and tracking a dashboard of relevant Climate &amp; Environmental Risk ("CER") within the existing risk reporting frameworks of the Group, with continuous enhancement over time.</p>
<b>Financial &amp; Market Risk</b>	<p>The Financial and Market Risk team oversees all Interest Rate Risk in the Banking Book (IRRBB) and FX risk, including assessment and analysis of respective asset and liability behavioural modelling related assumptions. It is responsible for leading the ongoing development of market risk models including model design, calibration, stress testing and shock analysis of both earnings and income related interest rate risk scenarios, risk reporting and related model governance. Its main focus includes the development of the IRRBB framework, stress testing methodologies, scenario assumptions and market risk capital utilisation. The team actively interacts with Risk Analytics, the ALM department and the Group ALCO and provides insight into capital planning, funding plans and product pricing.</p> <p>In a broader extent, the market and financial risks management are overseen by the ALCO committees (Group and Belgium) that are responsible for identifying, managing and controlling all of the Group's balance sheet risks and capital management in executing its chosen business strategy. Balance sheet risks are managed by setting limits, monitoring exposures and implementing controls across the dimensions of capital, credit, FX, funding and liquidity. They are responsible for the implementation of ALCO strategy and policy for the group's balance sheet. Financial and Market Risk are also responsible for tracking top and emerging market risks relevant Climate &amp; Environmental Risk (CER) within the existing risk management framework.</p> <p>The role also performs the management and monitoring of the financial risks for MeDirect Belgium.</p>
<b>Credit Risk</b>	<p>The Credit Risk function highlights and analyses the core risk issues on each investment ahead of approval under the Delegated Credit Authority Limits Policy and/or the Management Credit Committee. The Credit Risk function is additionally responsible for reviewing and assigning internal credit classifications, making recommendations for credit provisioning and/or write offs and the annual review of the Group's credit policy and associated credit framework. Credit Risk are also responsible for tracking top and emerging risks relevant to CER within the existing risk management framework, ensuring CER are embedded into Credit Policy for origination and portfolio monitoring activities.</p> <p>The International Corporate Lending team based in London is also responsible for the management and monitoring of the structured finance portfolio and was also responsible for the oversight of the GH1 structure.</p> <p>The credit risk function based in Belgium is also responsible for the oversight of the Dutch mortgages related credit risk.</p> <p>The credit risk function based in Malta is responsible for analysing and approving corporate and retail lending in Malta under the approved delegated authority limits.</p>
<b>Operational Risk</b>	<p>The Operational Risk Management function provides the framework for the business to identify, assess and mitigate operational risks. It therefore manages the operational risk landscape of the Group and its solo entities. The team is responsible for the ongoing management of the Group's Operational Risk Management Framework covering five main pillars, namely: the identification and categorisation of operational risks, measurement and monitoring of operational risks, reporting of operational risks, incident management process and business continuity. The function also facilitates the risk &amp; control self-assessments ("RCSAs") process and the control testing methodology. The Operational Risk Management Function is also responsible to manage the Reputational Risk Management Framework and the Anti-Fraud Policy. This function also supports the Group in other key risk deliverables such as the Group's ICAAP, ILAAP and Recovery Plan, Risk Appetite and Internal Controls Reporting. Operational Risk are also responsible for tracking top and emerging operational risks relevant to CER within the existing risk management framework, including business continuity and incident management procedures.</p>
<b>IT Security Risk</b>	<p>The team is primarily responsible for implementing the Information security strategy of the Group by ensuring that the Group adheres to international information security best practices, which includes identifying and keeping visibility of IT security risks affecting the Group.</p> <p>Responsibilities include the implementation and ongoing management of IT security technologies, coordinating and following up on vulnerability assessments and penetration tests, and managing information security incidents.</p> <p>The IT Security function also carries out security reviews to ensure that the Group is in line with the IT Security policy requirements, delivers information security awareness and liaises with external auditors and regulatory bodies where necessary.</p>
<b>Data Protection Risk</b>	<p>The Data Protection function holds the responsibility of the Group's Data Protection Officer ("DPO") who is responsible for the Group's Data Protection Policy, the Group Voice and Teams Recording Policy and the Group's Data Retention and Archiving Policy. It focusses on advising the Group and all its employees about their obligations to comply with Data Protection Regulations, namely 'GDPR', train its staff and conduct internal controls. This function shall maintain a data inventory for all its key business processes where there is extensive processing of personal data. This function is also responsible for tracking top and emerging risks relevant to CER within the existing risk management framework.</p>

### 2.1.2 Overview of the management of key risks (Article 435 (1) (b) CRR) (EU OVA)

Risks are identified in the context of the business model and strategy of the Group, and within the parameters of the risk appetite of the Board. Other objectives should also be taken into consideration, such as operational objectives and business targets; financial reporting objectives and compliance objectives.

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

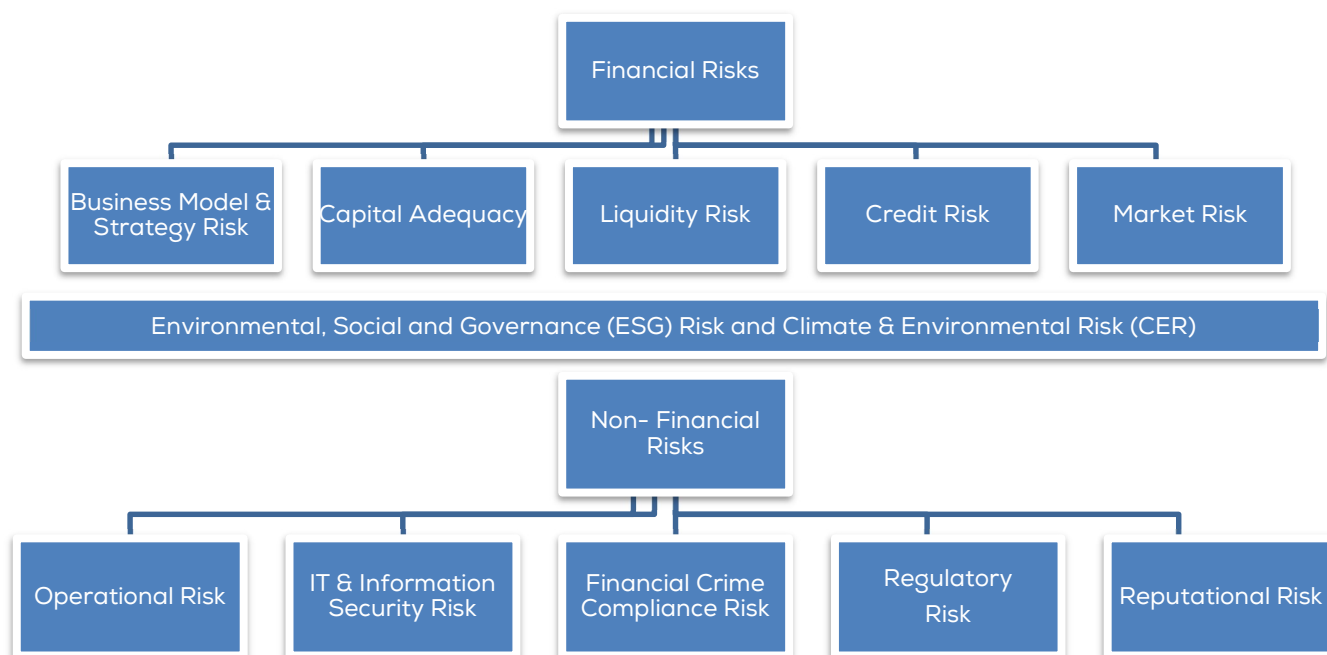


FIGURE 2: FINANCIAL AND NON-FINANCIAL RISKS

Where deemed applicable, the Risk Management Function integrates climate-related and environmental risks within its risk identification process as an overarching theme through both its Financial and Non-Financial Risks. By doing this, the Group will comprehensively analyse the ways in which climate-related and environmental risks drive the different risk areas.

The Risk Management Function has developed methodologies to identify the exposure of the Group to risk and uncertainty. Each of the Group's risk functions are responsible for assessing and identifying key risks and themes within their areas of responsibility. Once the key risk exposures and themes are identified, then each respective risk function also evaluates the ability of the Group to adequately control or mitigate the risk, avoid the risk, or transfer the risk where possible. The Risk Management Function also actively involves both business lines and functions to ensure a holistic assessment of risk identification is undertaken, otherwise referred to as top-down and bottom-up approaches.

### 2.1.3 Risk appetite

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

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

#### 2.1.4 Risk appetite triggers

The main component of the RAF is the Risk Appetite Statement (“RAS”) which is interlinked with the Group’s strategic and financial plans, as well as remuneration practices. In line with the Group’s Risk Appetite Policy, the RAS evaluates material risks of the Group in order to produce both qualitative and quantitative metrics, covering financial risks and non-financial risks and providing both entity and business lines specific details.

Risk appetite limits define the quantitative levels of the risk appetite expressed for specific risks, where quantification is viable, to ensure that the actual levels of risk are within the agreed-upon risk appetite. The Risk Appetite notification thresholds determine the level of risk exposure above which risks are addressed and below which risks may be accepted at Executive Management level.

Capital adequacy	
Risk Metric	Actual (December 2021)
CET 1 Capital Ratio	15.7%
Tier 1 Capital Ratio	15.7%
Total Capital Ratio	19.2%
Leverage Ratio	4.9%
Liquidity	
Risk Metric	Actual (December 2021)
Liquidity Coverage Ratio (LCR)	363.4%
Net Stable Funding Ratio (NSFR)	133.5%

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

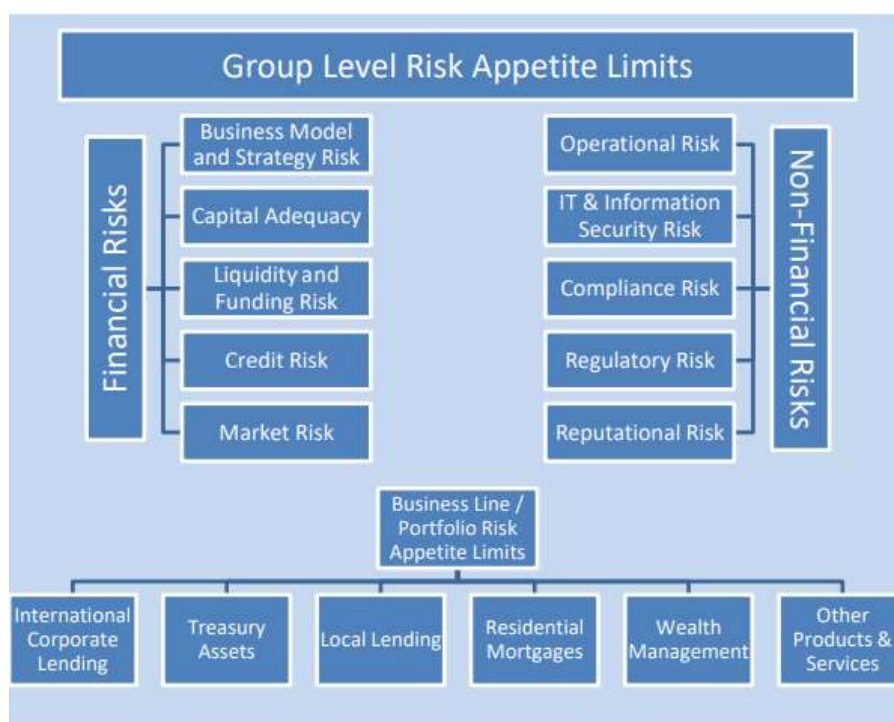


FIGURE 3: GROUP LEVEL RISK APPETITE LIMITS

The Group has also established a set of Key Risk Indicators (“KRIs”) that are additional risk metrics intended to supplement the risk appetite limits. These are monitored as part of the holistic risk management across risk types and are intended to measure and reflect the negative impact on the Group’s performance.

In all circumstances, the Group sets its RALs within its Risk capacity, meaning it limits its appetite within the maximum level of risk the Group is able to assume given its capital base, its risk management and control capabilities, and its regulatory constraints.

### 2.1.5 Risk monitoring and reporting

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

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

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

In line with ECB Guidelines on Climate-Related and Environmental Risks, the Risk Management Function is also expected to report aggregated risk data that reflects their exposures to climate-related and environmental risks with a view to enabling the management body and relevant sub-committees to make informed decisions. In view of this, the Risk Management Function is actively working on enhancing the Risk Management Report to include such data, where applicable.

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

#### Board oversight

The Board Risk Committee is responsible for reviewing the Group's risk in sufficient detail that it can assess whether they are consistent with the Group's risk appetite, and for reviewing management's proposed course of action if not. It may then endorse these plans or require them to be altered, as appropriate. It is also responsible for assessing the Group's high-level controls, limits, and risk aggregation and reporting framework to ensure that these are sufficient to maintain the level of risk within its appetite.

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

#### Reporting to the Board and Board Risk Committee

The Board and Board Risk Committee receive a comprehensive Group risk report for each month, compiled by the Risk Management Function with an executive summary written by the CRO. The content, scope and frequency of the risk disclosures provided to the Board and the Board Risk Committee were determined following discussions with the Board and the Board Risk Committee respectively.

The CRO's executive summary is qualitative in nature and covers each of the Group's material risks. This commentary is also supported by a much more detailed report, the Group risk management report. This report is prepared on a consolidated basis as well as for MeDirect SA. The risk management reports are mainly divided into two sections: Risk shaping matters and Risk Oversight.

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

#### Financial Risks:

- 1) **Balance sheet overview (Business model and strategy risk):** provides an overview of the evolution of the Group's asset and liability portfolios over a period of time.
- 2) **Capital adequacy:** shows the Group's RWA evolution over time and how the Group's capital ratios can be affected by a range of stress and shock scenarios, both idiosyncratic and market-wide stresses. It also shows the impact on capital ratios from RCF utilisation.
- 3) **Liquidity risk:** provides details on the core liquid asset buffer and treasury asset composition over time. It also shows Maximum Cumulative Outflow ("MCO") reports showing stressed liquidity positions of two different severities over a range of time horizons from overnight to twelve months, as well as key assumptions that have been used in deriving these positions. This is done for the Group and its' subsidiaries.
- 4) **Credit risk:** provides details on a portfolio level, covering each of the asset classes of the Group. Credit risk information is analysed across the credit cycle, covering credit approvals and originations, credit performance on each lending portfolio, broken down by internal classification and borrowers classified as other than Regular, deteriorating credit performance and changes on classification over the month, with focus on those exposures that are classified as Under Surveillance, and Doubtful exposures and impairment levels, where applicable. It also shows the NPL ratio over time, including all its' components and any major changes over the prior month for the Group and its' subsidiaries. Credit risk KRIs for the ICL portfolio and CER for the mortgage portfolios are also shown in this section.
- 5) **Market risk:** provides details on the Interest Rate Risk in the Banking Book (IRRBB) covering progression of the IRRBB metrics and the repricing gap, as well as oversight of the level of Foreign Exchange Risk limits (FX risk) monitored by the Group.



#### Non-Financial Risks:

- 1) **Operational risk:** includes details about operational risk event including volume by causal categories and by impact categories, as well as gross operational losses month on month. This section includes an action log or commentary on the status of high risk impact IT incidents split by entity.
- 2) **IT and information security risk:** includes a risk commentary and assessment of the major IT Security risk areas monitored and reported by the Risk Management function, covering systems and technology; policies; monitoring and testing; and user awareness. A sub-risk under IT and Information Security Risk is the Data Protection Risk, which includes the risk of failing to comply with Data Protection Regulations, namely 'GDPR'. The risk of data protection and data leakage is a prominent area of risk for banks to manage, both in terms of electronic data; such as customer databases or market sensitive internal reporting; and physical information; such as printed copies of customer details or physical copies of confidential documents or contracts.
- 3) **Compliance risk:** provides information on the compliance monitoring plan and other management information covering requests from the regulator and the number of suspicious transaction reports raised during that month.
- 4) **Regulatory risk:** provides a runway of the major regulatory changes and regulatory deadlines expected over the next quarters. It also provides a brief overview of the main regulatory updates that have been announced during that month. It tracks regulatory submissions, queries and/or requests for information from various regulatory bodies and supervisors received during the month, as well as supervisory dialogues for the reporting month and for the following month. Finally, it provides an overview of supervisory reviews and inspections.
- 5) **Reputational risk:** currently the risk management function is introducing a group-wide reputational risk management framework that will also include a number of KRIs and incident management for risk monitoring purposes.

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

#### Other regular reports

Alongside the monthly Group risk management report, the EXCO members also receive a risk report on a weekly basis outlining the status of key risks of the Group, including changes from the previous week. The weekly risk report is prepared on a consolidated basis as well as for MeDirect Belgium. These Risk reports prove that the Group has a comprehensive risk reporting structure in place covering all the relevant risks. These also act as a centralised and critical means for reporting enterprise-wide risks facing the Group.

Flash reports are also distributed internally with the ALCO members and senior management on a daily and weekly basis. These reports include details of the liquidity position of the Group such liquidity asset buffer, liquidity and capital ratios, off balance sheet commitments, movements in deposits and maturity of deposit outflow notices. These reports are prepared on a consolidated basis as well as for MeDirect Belgium.

Aside from internal reporting requirements, the Group is also subject to regulatory reporting such as Common Reporting ("CoRep") and Financial Reporting ("FinRep") as well as public disclosure requirements as stipulated in Part Eight of the CRR 2.

#### Risk culture

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

#### **2.1.6 Internal escalation process**

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

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

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

If the Group were to breach its risk appetite, the Group has Capital Conservation Plans, Contingency Funding Plans, and if required, a Group Recovery Plan that outlines a number of management actions that the Executive Committee and the Board should take at different levels of severity. In certain cases, the Crisis Management Group may also be convened. Breaches of any of the risk policies are reported to the Committee that oversees the policy such as MCC or ALCO, with the possibility of escalation to Board Committees as outlined in the respective policies.



### **2.1.7 Stress testing**

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

Stress testing is used to assess the effect of a given scenario, or shock, on the Group's statement of financial position, income statement and regulatory capital, leverage and liquidity ratios, and as a result the Group's ability to sustain any potential loss. In addition, stress testing is also used as a complementary framework to other measures of risk such as Economic Capital ("EC") and Value-at-Risk ("VaR"), if applicable.

The outcome of the stress testing determines the Group's capacity to sustain any potential loss in an adverse scenario and circumstances in the context of the Internal Capital Adequacy Assessment Process ("ICAAP") and the Internal Liquidity Adequacy Assessment Process ("ILAAP").

In addition to the traditional internal and regulatory stress testing exercises, the Group also engages in reverse stress testing by addressing the related question of how severe an adverse event is before the Group is not able to survive it. Reverse stress testing is used as a regular risk management tool in order to improve the awareness of current and potential vulnerabilities faced by the Group. Reverse stress tests are also used as part of the Group's business planning and risk management to understand the viability and sustainability of the Group's business model and strategy.

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

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

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

### **2.1.8 COVID-19 global pandemic outbreak**

The macroeconomic impact brought about by the COVID-19 pandemic led to a dramatic increase in impairment levels during the financial year ending 31 December 2020 due to the unprecedented impact on the Group's International Corporate Lending portfolio. The reduced impairment losses experienced in 2021 have demonstrated that the Group's prudent approach to provisioning was appropriate to cover future expected losses.

### **2.1.9 Risk governance structure**

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

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

#### **The Board of Directors**

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

The list of members who served on the Board of Directors can be found in the respective "Board of Directors" section of MDB Group Limited Annual Report and Financial Statements for the financial year ended 31 December 2021.

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

The Board has established the following committees:

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

#### Audit committee

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

#### Risk committee

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

#### Nominations and remuneration committee

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

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

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

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

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

#### Executive Management Committee (EXCO)

The Board delegates responsibility for the day-to-day management of the Regulated Group to the Group Chief Executive Officer who chairs the Malta Executive Committee ("MT EXCO"). The Malta EXCO is responsible for the oversight of the execution and implementation of the strategy as approved by the Board. A specific EXCO for MeDirect Belgium is also in place in line with the Belgium Banking Act. EXCO represents the principal forum responsible for Group's business model and regulatory environment across the different jurisdictions by managing the efficient running of operations. EXCO serves as an internal advisory body with a direct reporting line to the Board via the CEO.

The local Executive Committees remain the decision making bodies with regards to approval of strategic initiatives.

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

- Management Credit Committees ("MCC");
- Management Risk Committee ("MRC");
- Asset and Liability Committee ("ALCO");
- Operations Committee ("OPSCO");
- Compliance and Client Acceptance Committee ("CCAC");
- Investment Services and Commercial Committee ("ISCC"); and
- ESG Committee.

### Internal control functions

#### *A) Risk team*

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

The Group's Risk Management Function consists of eighteen roles in total across Malta, Belgium and London. Staff turnover levels have remained very low and below market levels. Average tenure in the risk function is relatively strong, with a high level of loyalty evidenced from longer standing team members. The Belgium CRO resigned and departed MeDirect Belgium in March 2021, with the new CRO being appointed in August 2021. The Group CRO resigned in December 2021 with the new Malta CRO appointed in December 2021.

#### *B) Compliance team*

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

As a result of this, in 2021, the Compliance Function was split into two distinct functions; Regulatory Compliance and Financial Crime Compliance. This decision was taken by the Group to further strengthen and enhance the expertise within both functions. Both functions have also grown significantly in terms of resource allocation. A regulatory technology specialist also supports both functions. In line with the split of the Compliance Function described above, as of 30 April 2021, the Group Head of Compliance was replaced by a new Head of Financial Crime Compliance who joined the MeDirect Malta in Q1 2021 and the Head of the Regulatory Compliance who is responsible for all Regulatory Compliance matters. All regulatory approvals were obtained in October 2021.

In respect of MeDirect Belgium, the Compliance team was further strengthened through the appointment of a new Head of Compliance in 2020 who is now also supported by another Regulatory Compliance Officer. In the area of Financial Crime, the Deputy Head of Compliance and AMLCO has been further supported through the appointment of a new Financial Crime Officer.

#### *C) Legal team*

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

#### *D) Internal audit team*

Over the past 3 years the Group has gradually strengthened the Internal Audit Function (IAF) by adding more expert and management staff across Malta, Belgium, and London. Keeping pace with the continued expansion of the Belgian based business lines and proactively steering the enhancement of the skillset of the internal audit function, the team was in 2021 further strengthened through various appointments, mainly based within the Brussels office, encompassing a change in the local Head of Internal Audit and the recruitment of an additional Senior Manager and Senior Officer. This staff complement was in place by February 2022, bringing the Internal Audit function to eleven employees across the Group. At Group level there was also the transition of the Chief Audit Executive role.

#### *E) Regulatory affairs and corporate governance team*

The Regulatory Affairs and Corporate Governance function was officially formed during 2020 having initially three new staff members join the function. At present, this function comprises of six staff members.

The Regulatory Affairs function acts as an initial filter for regulatory updates or announcements and a trigger to the change management process. This function is responsible for the coordination of responses to information requests or queries that the Group, including MeDirect Belgium, receives from various regulatory bodies, including the Joint Supervisory Team ("the JST"), the National Bank of Belgium ("NBB"), the Malta Financial Services Authority ("MFSA"), the Central Bank of Malta ("CBM"), and the Single Resolution Board ("SRB"), and acts as the main liaison between the Group and the JST. The Regulatory Affairs function coordinates the supervisory dialogue meetings that are held periodically between the Group and the JST. The Group is subject to an annual Supervisory Review and Evaluation Process ("SREP") by the JST and may also be subject to on-site inspections ("OSIs") where the function acts as the main point of contact on behalf of the Group. The Regulatory Affairs team ensures that action plans to address regulatory requests are endorsed internally and that remedial action is being taken accordingly.

The Corporate Governance function ensures that good governance practices are in place and aligned with legislations and regulatory guidelines and supporting the Chairman of the Group on Board and Board Committee matters. The function acts as a central point of contact for both internal and external outsourcing arrangements and ensures that robust processes are in place for the management of such arrangements. A centralised record-keeping structure for all internal policies is maintained accompanied by governance processes to facilitate the approval and upkeep of documents across the Group.

### Group corporate governance framework

The key elements of the Group's Banking entities within the Regulated Group, as described in the Group's Corporate Governance Framework describe the structure, management, and transparency between the Banking entities along with a number of associated internal frameworks and key policies that support good governance practices across the Group that aligns with both national and EU law, regulations and best practices. The framework is reviewed annually or whenever there are material changes to the business model or internal structure of the Group.

### Policy standards

The Group maintains a centralised policy library that provides the required level of transparency to internal stakeholders to support the operational wellbeing of the Group. A policy standard sets out the Group's approach and best practices on the development of new or revision of existing internal documents. Annual reviews ensure that internal documents stay relevant and aligned with regulations and internal organisational developments. Training and awareness are also scheduled on an annual basis to ensure staff is kept updated with developments that may comprise of new or amendments to existing internal processes and controls.

#### **2.1.10 Risk management of the Group's regulated subsidiaries**

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

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

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

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

*(Article 435 (1) (a) – (d) CRR)*

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

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

The Risk Management Function has developed methodologies to identify the exposure of the Group to risk and uncertainty. Each of the Group's risk functions are responsible for assessing and identifying key risks and themes within their areas of responsibility. Once the key risk exposures and themes are identified, each respective risk function also evaluates the ability of the Group to adequately control or mitigate the risk, avoid the risk, or transfer the risk where possible. The Risk Management Function also actively involves both business lines and functions to ensure a holistic assessment of risk identification is undertaken, otherwise referred to as top-down and bottom-up approaches

#### **2.2.1 Credit risk**

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

### Credit risk profile

The Group's credit risk emanates from four main sources: from its corporate lending activities, its mortgage lending activities, its investment in the Securitisation portfolio, including the 5% vertical risk retention held in relation to the securitisation that was originated by the Group, and from its treasury activities. The Group's corporate lending activity is mainly composed of its international syndicated corporate loans portfolio, as well as a much smaller portfolio of corporate lending in Malta for which it has a lower risk appetite.

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

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

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

#### Counterparty credit risk

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

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

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

#### Credit risk quantification and assessment

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

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

#### Credit risk management and control

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

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

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

All credit frameworks are approved by the Chief Risk Officer and overseen by the Board Risk Committee. At minimum, all credit frameworks incorporate the following credit risk themes:

- asset restrictions and definitions, including minimum credit quality, permitted obligor domiciles as well as any required structural features such as seniority or collateral type;
- any limits, restrictions or conditions to the MCC's or delegated approval authority;
- proposed credit monitoring processes and frequency;
- any specific provisioning approaches over and above the Group's standard credit provisioning policy (incorporating the accounting principles of IFRS 9), including the treatment of non-performing, default and forborne loans;
- to the extent that the Group has discretion in this regard, details on the method or methods used to calculate the risk weights applied to exposures for prudential reporting purposes; and
- documentation standards, including in particular the expected contents of credit memorandum and the extent (in respect of obligors with a public credit rating) to which third-party credit ratings may be used as a substitute for, or support the business unit's own analysis.

The Group also operates with a Management Credit Committee (MCC) that is responsible for approving credit and investment recommendations and making other credit and investment decisions within its authority as delegated by the Board. Its purpose is to approve credit and investment recommendations and oversee the credit and investment strategies and objectives of the Group's lending portfolios.

Internal policies and frameworks are reviewed at least on an annual basis to keep abreast with ever changing market conditions and regulatory landscape. During the year ended 31 December 2021, improvements to credit processes have focussed on 1) addressing residual findings from the ECB on-site inspection on credit risk that were not addressed in 2019-20, which included; Enhancing the loan management system to increase the level of loan portfolio reporting and controls, 2) to reflect evolving EBA and other relevant regulatory guidelines in relation to COVID-19 and 3) the initial findings raised by the ECB off-site inspection on credit risk conducted during Q2 2021.

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

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

#### Collateral valuation

##### *A) Maltese Lending Portfolio*

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

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

Additionally, Loan-to-Value ('LTV') limits are applied to any credit extended to real estate related transactions or where real estate is pledged as collateral, given that underlying asset values can be subject to market volatility. This limit is calculated on the market value of the security, prior to the application of the relative haircut. Separate LTV limits are defined for Corporate lending and Malta mortgages, reflecting the different risks associated with the portfolios, in line with market standards.

The market value of the collateral is based on an assessment carried out by the Maltese Lending unit to determine whether the 'market value' of the collateral is the best estimate of the net realisable value of the said asset. The unit assesses the valuation in the context of market impact of liquidation of the said collateral on liquidity, buy-sell spread and market float of the same class of assets. For immovable property, forced sales discounts are applied to reflect the particular characteristics and conditions of the local market (e.g. type of property, time factor to realise collateral and location) so as to arrive at the best prudent estimate of the realisable value of the collateral.

For Corporate Lending customers, MeDirect Malta maintains an internally approved list of independent valuers that may be appointed by MeDirect Malta and reviewed in line with the collateral policy on an annual basis. As best practice, MeDirect Malta strives to have adequate rotation of appraisers from the approved list. In the event that Corporate customers provide their own valuation, MeDirect Malta ensures that such report is methodically confirmed by MeDirect Malta's appointed architect.

For mortgage customers, MeDirect Malta may accept customer's architect valuation provided on MeDirect Malta's standard form subject that the architect is an approved valuer with the Malta Chamber of Architects and Civil Engineers. In cases where MeDirect Malta decides to obtain an independent valuation, it will appoint an architect from its approved list.

The Group's independent valuers must possess the necessary qualifications, ability and experience to execute a valuation and who is independent from the credit decision process. The Group will ensure that the valuer has the necessary ability, experience and independence (to the property or borrower) prior to undertaking the review.

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

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

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

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

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

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

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

#### *B) Dutch Mortgages Portfolio*

The Group is active in the Dutch residential mortgage loans market through a collaboration with Blauwtrust Group ("BTG"). Both BTG and its subsidiaries are well-established in the Dutch market and originate, manage and service the portfolio of mortgage receivables that MeDirect Belgium purchases up to a maximum amount agreed between the parties.

Since September 2019, the Group is acquiring newly originated residential mortgage loan receivables through silent assignment, a technique commonly used in the Netherlands. Dutch Mortgage Portfolio Management BV ("DMPM"), a wholly owned subsidiary of BTG, has been selected as our outsourcing partner ("regiepartij"). DMPM offers investors like MeDirect Belgium a platform to invest in Dutch residential mortgage loans. Other BTG entities focus on third party servicing (Quion Groep), marketing (Connex) and distribution (De Hypothekers Associatie) of mortgages. The Lender of Record (LoR) HollandWoont is an entity owned and directed by DMPM and operates under their legal responsibility.

The newly originated mortgage loans by HollandWoont are prime Dutch mortgage loans, secured by a residential (owner occupied) property. In addition, the loans benefit from the Nationale Hypotheek Garantie ("NHG"), a guarantee provided by a private non-profit fund (Waarborgfonds Eigen Woning or "WEW"), itself guaranteed by the Dutch government.

To benefit from the NHG, borrowers have to comply with certain conditions. For the lenders, the NHG covers up to 90% of the losses that remain after a foreclosure. It covers outstanding principal, accrued unpaid interest and disposal costs minus the sales revenue ("residual losses"). Coverage amount is set at 100% of the total eligible loan, based on a 30-year amortizing loan profile.

Notwithstanding, there are scenarios in which the NHG does not apply such as:

- Unsecured exposure risk, amortisation profile risk, underwriting risk, fraud risk;
- Reduction in the amount of NHG-eligible collateral;
- Default of the WEW or the WEW losing government backing

The properties securing the mortgage loans are valued either by independent valuers and based on full internal inspection of the property, or by (model) desktop valuations, which are validated by a valuation agent. All valuation reports must comply with the terms and conditions of the NHG (in order to become NHG-eligible). In case of a newly build property, the property value is derived from the cost of the new build property (construction costs plus the land purchase price). The values of the collateral are indexed on a quarterly basis using regional property price indices, resulting in indexed property values.

From a legal point of view, the LoR faces the borrowers and is responsible for all outsourced activities, including: underwriting and execution of the processes related to approval and management of the mortgage loans. MeDirect Belgium carries the credit risk and must ensure the outsourced activities meet its standards.

### Credit governance and approval process

#### *A) International Corporate Lending Portfolio and Malta Lending Portfolio*

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

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

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

With these objectives in mind, responsibilities around the origination of new assets (origination of international corporate loans was ceased during the first three quarters of 2021 in line with the Group de-risking strategy but recommenced in Q4 2021) are divided as follows:

- Business units are responsible for identifying and sourcing lending opportunities and for all discussion with external parties, whether the proposed borrower itself or an intermediary such as the lead bank in a lending syndicate. They are also responsible for performing primary credit analysis on a proposed extension of credit (to include an impartial summary of all relevant information), for recommending a course of action and for co-ordinating the decision-making process. Where public investment-grade (i.e. BBB-/Baa3) credit ratings are available in respect of a bond issuer or other obligor, business units may reflect the underlying rating agency analysis in lieu of performing their own detailed independent credit analysis where this is permitted by the associated credit framework.
- The Risk Management Function is responsible for reviewing this primary credit analysis, for ensuring that any open items are discussed and resolved in advance of the formal decision-making forum and for providing its own recommendation on the appropriate course of action. For avoidance of doubt, the Risk team may not rely on external credit ratings as a substitute for performing its own credit analysis and assessment.
- The Internal Audit Function is responsible for periodic and thematic reviews of credit policies and the associated credit processes, in order to assess and review their effectiveness and adherence to them by both the business units (1<sup>st</sup> line of defence) and the Risk Management Function (2<sup>nd</sup> line of defence). The Internal Audit Function may also, at its own discretion, seek the involvement of third party audit firms to support any internal credit audits and reviews related activities.

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

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

#### *B) CLO Activities*

The Group has two type of investments in CLOs, namely:

- The Grand Harbour 2019-1 CLO issued and previously managed by MDB ("CLO Issuance"); and
- MDB investments in CLOs managed by other institutions ("3<sup>rd</sup> party CLOs").

##### *i) The Grand Harbour 2019-1 CLO issued and previously managed by MDB ("CLO Issuance")*

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

In January 2021, FIL Investment Management Limited ("Fidelity") was granted delegated authority to manage the Grand Harbour 2019-1 CLO, effective from 1 March 2021. The transfer forms part of MeDirect Malta's aim to downsize progressively its International Corporate Lending portfolio and to accelerate its asset diversification strategy.

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



The roles and responsibilities of each team are outlined below:

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

#### *ii) 3<sup>rd</sup> party CLO investments*

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

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

#### *C) Dutch Mortgages Portfolio*

##### *i) Operating model*

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

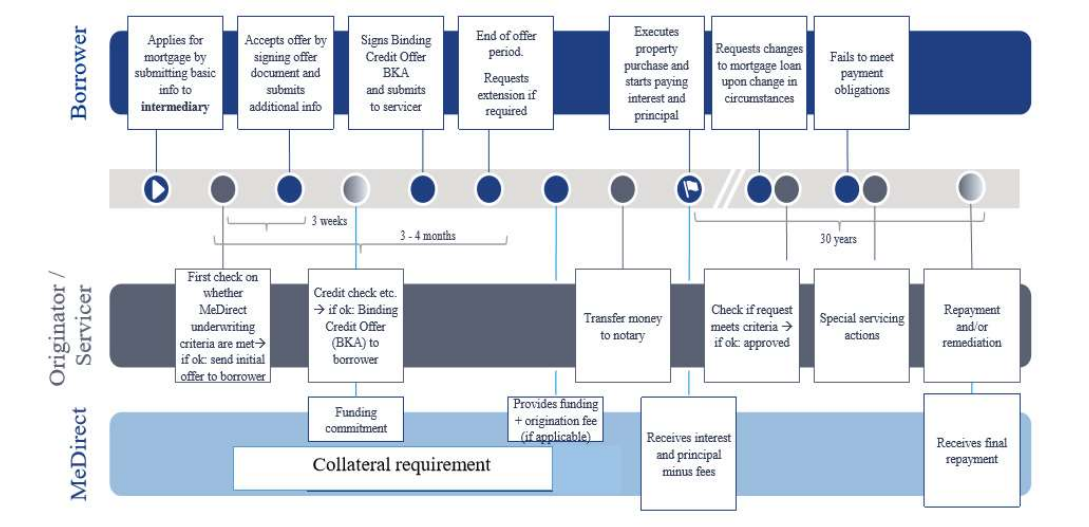
Within BTG several entities act as subservicers for MeDirect Belgium:

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

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

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

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



**FIGURE 4: DUTCH MORTGAGES OPERATING MODEL**

#### *ii) Pricing*

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

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

#### *iii) Subscription and Pricing Committee*

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

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

#### *iv) New loans*

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

#### *v) Special servicing*

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

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

#### Credit classification and staging criteria

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

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

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

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

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

#### Credit hedging

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

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

#### Credit monitoring

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

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

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

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

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

#### *A) International corporate lending portfolio and Maltese lending portfolio*

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

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

At the start of Q4 2021, the Group recommenced investing in assets for the International Corporate Lending Portfolio as part of the wider de-risking strategy. This strategy is focussed on reinvesting funds within a certain total portfolio limit “corridor” in order to; improve diversification, reduce commitments to under-performing credits and achieve a greater granularity in the portfolio.

The Group has also in place a number of risk metrics to monitor the Malta Lending portfolios:

##### Corporate Lending

- Total Corporate Portfolio size;
- Single name concentration;
- Unsecured lending limit;
- Term; and
- Loan to Value (“LTV”) and Loan to Cost (“LTC”) ratios.

##### Retail Lending:

- Single name concentration;
- LTV at origination;
- Debt service to income ratio (“DSTI”) at origination; and
- Term.

The composition and quality of the Malta Lending portfolios are monitored through portfolio-related and asset quality KRIs and limits.

#### *B) Treasury and securitisation investments portfolio*

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

To support monitoring of risks associated with CLOs, the Group has several dashboards in place, including an aggregate dashboard covering 3<sup>rd</sup> party CLO investments.

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

In addition to the qualitative risk statement, risk appetite for investment in the senior tranches of CLOs managed by 3<sup>rd</sup> parties is expressed through the following limits and indicators:

- Only CLO tranches in Euro will be considered; and
- Only AAA rated tranches that are rated by at least 2 reputable rating agencies will be considered.

#### *C) Dutch mortgages portfolio*

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

##### *KPIs and KRIs used to monitor the Dutch Mortgages Portfolio*

The Group has also in place a number of KPIs and KRIs to monitor the Dutch NHG-Backed Mortgages as part of the daily and monthly reports that are received from the lender of record:

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

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

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

The following are the NHG scheme related risks:

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

i) Unsecured exposure risk

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

ii) Amortisation profile risk

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

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

iii) Underwriting risk

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

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

iv) Collateral valuation risk

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

v) Fraud Risk

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

vi) NHG suspensory conditions

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

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

*Further advances*

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

*Other risks*

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

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

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

### Deteriorating credits and forborne exposures

The default internal credit classification at the point of origination is “Regular”. This applies across all business lines and all lending portfolios, regardless of the underlying credit risk or probability of default for each instrument. Each respective MCC as outlined in each credit framework is responsible for monitoring the credit performance of each credit exposure. The Group has processes and procedures in place to identify deteriorating credit and forborne exposures.

For the International Corporate Lending Portfolio, the Group uses an external credit risk-modelling provider that is appropriate for benchmarking its corporate lending portfolio. For the Maltese Lending assets, the Group does not use external credit ratings (as all exposures are unrated) or rely on an external risk-modelling providers for benchmarking its Maltese Lending portfolio as no robust database or provider exists for the asset class. The Group therefore will use the evidence of past-due information as the primary quantitative driver of significant increase in credit risk (“SICR”) triggers, alongside qualitative forward-looking SICR assessments.

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

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

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

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

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

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

### Non-performing and default exposures

The Group’s credit policy outlines the Group’s approach to identifying non-performing, impaired and default exposures, as well as provisioning and write-off criteria as defined in accordance with EBA Guidelines Article 178 of Regulation (EU) No 575/2013, the ECB guidance to banks on non-performing loans (March 2017) and the EBA report for non-performing and forborne exposures (October 2018). In addition, credit policy takes into consideration the ECB announcements concerning relief measures that will be implemented as a response to the COVID-19 pandemic, and ESMA and EBA statements on the impact on accounting reporting linked to IFRS 9 and the definition of Default and Forbearance. All published in March 2020.

The Group is required to identify Non-Performing Exposures (“NPEs”) and to assess the recoverability of the recognised exposure. Assessment is made at an obligor (rather than facility) level. This implies that in those cases where a particular debtor has multiple facilities with the Group, the Group considers whether there are indications of unlikelihood to pay at the level of the debtor, irrespective of the different levels of losses that can be incurred in respect of the different facilities resulting from different levels of seniority. Therefore, the probability of default is measured at the level of the debtor, while the loss given default measures the loss incurred by the different tranches.

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

#### Definition of default

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

#### Definition of impaired

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

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

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

In light of the Covid-19 outbreak, the Group adopted a revised approach to the assessment of UTP triggers taking guidance from the EBA statement on the application of the prudential framework regarding Default, Forbearance and IFRS 9 in light of Covid-19 measures dated 25 March 2020. As of Q3 2021, the Group reverted to its pre-covid approach and triggers for UTP assessment which have been enhanced to categorise a number of UTP triggers as 'hard' triggers which automatically lead to a downgrade to Stage 3.

### **2.2.2 Capital adequacy** (Article 438 CRR)

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

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

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

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

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

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

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

- CET 1 ratio;
- Tier 1 capital ratio;
- Total capital ratio;
- Leverage ratio; and
- Minimum Requirement for Own Funds and Eligible Liabilities (MREL).

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

The Group has zero tolerance for breaching its Overall Capital Requirement (OCR) plus the Pillar II Guidance (P2G) as a result of actions that are within its control. The Group additionally has a very-low risk appetite for breaching its OCR in stressed conditions, although it accepts that in sufficiently adverse scenarios, it might not be able to meet its P2G and combined buffer requirements. The Group therefore ensure that an adequate management buffer is in place to allow it to comply with the OCR and P2G in business-as-usual conditions, and to stay above its Total SREP Capital Requirement ("TSCR") under adverse conditions. The Group adopts very stringent procedures and processes to ensure that these minimum requirements are met, and it has therefore set risk appetite limits above its OCR and P2G.

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

The Group is willing to accept some volatility to this ratio if suitable lending or investment opportunities arise, provided that the overall goal of maintaining significant headroom to the regulatory minimum is not threatened. The Group anticipates that as strategic diversification business plans evolve, particularly into the residential mortgage market, it will run a lower leverage ratio than its peers, although conscious that this is due to a material exposure to a low-risk line of business.

The Group has no appetite of breaching its MREL requirements and will hence monitor its MREL position to ensure it is able to manage MREL compliance on a forward-looking basis and ensure clear and timely communication to the resolution authority to support the Group's resolvability.

### 2.2.3 Liquidity and Funding risk

#### Liquidity risk management strategies and processes (Article 435 (1) (a) CRR) (EU OVA & EU LIQA)

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

The Group's liquidity risk management principles are documented in the Liquidity Risk Management Policy. The Liquidity Risk Management Framework defines the related roles and responsibilities, liquidity and funding risk appetite and escalation process, key performance indicators, risk management techniques and how it is integrated within risk management and decision making of the Group. It covers the oversight of liquidity risk across business lines and legal entities, risk analysis of the composition and maturity of assets and liabilities, oversight of intraday liquidity management and risk assumptions on the liquidity and marketability of assets.

#### Policies for hedging and mitigating liquidity risk (Article 435 (1) (d) CRR) (EU OVA & EU LIQA)

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

Liquidity and funding risk appetite limits inform the Group of the potential for, or an actual deterioration of its capacity to meet its current and foreseen liquidity and funding needs. In addition, certain liquidity risk appetite metrics measure and oversee the contingency funding capacity and availability of such management actions, in order to assess and oversee that the Group has appropriate liquidity buffers in place to mitigate both adverse and severe liquidity scenarios.

#### Liquidity risk management structure and organisation (Article 435 (1) (b) CRR) (EU OVA & EU LIQA)

##### *Liquidity risk identification*

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

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

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

- *Retail funding risk:* The risk of a potential demand on liquidity from customer deposit flight;
- *Wholesale funding risk:* The risk that wholesale funding is reduced or withdrawn suddenly. Additionally, being an unrated small Maltese Group, there is low capacity to negotiate funding lines;
- *Off balance sheet risk:* The risk of an unexpectedly heavy series of utilisation on committed undrawn credit facilities;
- *Maturity mismatch:* A mismatch occurs as banks borrow short-term and lend on a much longer-term basis;
- *Currency mismatch:* Liquidity risk exposures arising from the use of foreign currency deposits to fund domestic currency assets as well as the funding of foreign currency assets with domestic currency;
- *Intraday liquidity risk:* The risk that the Group is unable to meet payment obligations at the time expected, thereby affecting its own liquidity and that of other parties;
- *Intragroup liquidity risk:* The risk that the entity that provides funding to another entity may be unable to continue providing this funding;
- *Contingency liquidity risk:* The risk of not having enough contingency funding options in stressed situations. It is also, the risk that assets cannot be sold in the market quickly or only by incurring a heavy discount, or the risk that funding cannot be raised against these assets, and the risk that committed funding lines are impacted/reduced/with higher haircuts;
- *Short-term liquidity risk:* The risk of an inadequate level of assets which the potential to be used as collateral or are eligible at central banks and as such may potentially be additional sources of liquidity; and
- *Funding concentration risk:* The risk that the Group is overly reliant on one/small number of funding sources or tenor/structure.

##### *Liquidity risk quantification and assessment*

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

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

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



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

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

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

#### *Liquidity risk management and controls*

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

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

#### *Funding strategy*

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

For liquidity management purposes, the Group's balance sheet, both assets and liabilities, is managed on a day-to-day basis by the Treasury and ALM function, under the leadership of the Group and MeDirect Bank SA Chief Financial Officers. The Group's funding strategy is that management of its day-to-day liquidity position should not require actions that potentially compromise its medium-term or long-term objectives.

The Group should establish a funding strategy that provides effective diversification in the sources and tenor of funding. The Group should diversify available funding sources in the short-, medium- and long-term as part of its funding plan, in conjunction with its budgeting and planning processes. Funding plans should take into account correlations between sources of funds and market conditions. The diversification strategy should include limits by counterparty, secured versus unsecured market funding, instrument type, securitisation vehicle, currency and geographic market.

The Group's funding strategy for business as usual activities is facilitated by maintaining a positive funding gap and by monitoring the Group's maturity ladder, which is used by the Group to determine the availability of liquid assets to meet the liquidity gaps across a range of time buckets. The Group ensures it maintains a significant buffer of HQLAs that can be readily converted into cash or are eligible to be pledged as collateral in order to raise wholesale repo funding to meet liabilities as they fall due. Additionally, the Group may choose to widen the composition of its contingency buffer to hold other unencumbered liquid assets which can be sold or used as collateral without resulting in excessive losses or discounts.

#### *Liquidity risk management buffers*

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

#### *Liquidity stress testing and Contingency funding planning*

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

#### *Liquidity risk governance*

The Group's overall liquidity and funding position is managed in the normal course of business by its Treasury and Asset and Liability Management ("ALM") team, under the oversight of the ALCO, the Management Risk Committee ("MRC") and the Board Risk Committee.

The Group's Risk Management Function ensures that all liquidity risks are identified, measured, overseen and appropriately reported. Additionally, the Risk Management Function has the responsibility of defining potential adverse liquidity scenarios that should be considered for assessing the Group's exposure to these scenarios and for assessing the effectiveness of contingency funding plan measures. Risk is also responsible for ensuring that all significant risks related to liquidity are appropriately identified and clearly incorporated in the Group's risk management and reporting framework. The Group's Risk Management Function is actively involved in all material risk management decisions and is adequately structured to deliver a holistic view of the whole range of risks faced by the Group in its strategic decision-making. Analysis of liquidity risk is the joint responsibility of the Group's Treasury and Risk functions under the oversight of the ALCO and of the Board Risk Committee.

*Scope and nature of liquidity risk measurement and reporting system (Article 435 (1) (d) CRR) (EU OVA & EU LIQA)*

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

Consistent with its practice in other areas of risk analysis and reporting, and also consistent with Principle 10 of the Basel Committee's "Principles for effective risk data aggregation and risk reporting", the Group performs and reports on these projections monthly, to allow for in-depth review and analysis at ALCO and the Board Risk Committee. Reliable management reporting provides the Executive Committee and the Board with timely and forward-looking information on its liquidity position. Reporting of risk measures is done on a frequent basis and compares current liquidity exposures to established limits to identify any emerging pressures and limit breaches.

The Group has in place a number of quantitative risk appetite metrics to be able to monitor liquidity risk:

- LCR;
- NSFR;
- Core Liquid Asset Buffer;
- Net Deposit Outflows in 1 day and over 1 week;
- Encumbrance Ratio (Total assets and excluding RMBS);
- Me1-Me3-Me6 on notice; and
- Cost of wholesale funding.

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

*Qualitative information on LCR (Article 451a CRR) (EU LIQ B)*

*The Liquidity Coverage Ratio*

The LCR is intended to promote the short-term resilience of a bank's liquidity risk profile over a 30 day stress scenario. The ratio is defined as the amount of High Quality Liquid Assets ("HQLA") that could be used to raise liquidity, measured against the total volume of net cash outflows, arising from both contractual and modelled exposures, in a stress scenario.

This requirement has been implemented into European law, via the Commission Delegated Regulation (EU) 2015/61, adopted in October 2014. Compliance with the LCR was required in the EU from 1 October 2015.

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

*Funding and liquidity sources*

In line with Principle 17 in the BCBS guidelines, the Group's objective is to maintain a prudent funding structure drawn from diverse funding sources in the short, medium and long-term. Potential funding sources may include, but are not limited to:

- Deposits from retail and corporate customers;
- Bond issuance, either secured (for example through RMBS structures), senior unsecured or subordinated;
- Issuance of capital instruments;
- Interbank funding (either secured, for example through repo or Total Return Swaps, or unsecured); and
- Central bank funding (although it is the Group's strategy not to rely on the Central Bank for funding in the normal course of events, but instead only used as a secondary source of financing).

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

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

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

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

MeDirect Malta also used deposit platforms to originate additional deposit funding capacity during 2021. The vast proportion of the deposits raised are 12-month fixed term deposits, therefore adding longer-term funding stability to both the Group and MeDirect Malta. This funding represents a small proportion of the Group's total funding but it conforms MeDirect's ability to avail from relatively easily accessible and flexible source of funding.

In December 2021, the MeDirect Malta and MeDirect Belgium Boards agreed to wind down GH I through the sale of loans to MeDirect Belgium and MeDirect Malta. In line with the instructions for the disposal of collateral dated 23 December 2021, MeDirect Belgium and MeDirect Malta jointly instructed GH I and the Collateral Manager to dispose of all collateral loan assets of GH I. Such collateral was traded on 23 December 2021 and subsequently recognised on the balance sheets of the respective Lenders.

#### *Derivative exposures*

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

#### *Currency mismatch in the LCR*

The Group LCR is calculated for Euro which has been identified as significant currency (having liabilities >5% of total group liabilities excluding regulatory capital and off balance sheet liabilities, with approximately 98% of total liabilities being in Euro) in accordance with the Commission Delegated Regulation (EU) 2015/61. In this respect, the LCR Regulation only requires the LCR to be met on a total currency basis, and is not required to be met on a currency by currency basis. The total LCR for the Group as at 31 December 2021 amounted to 363%.

#### *Other items in the LCR calculation that are not captured in the LCR disclosure template but that the institution considers relevant for its liquidity profile*

The Pillar 3 disclosure obligations require Banks to disclose the 12 months rolling averages each quarter. Nothing else is considered relevant for disclosure.

Quantitative information on LCR (Article 451a CRR)

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

**EU LIQ1: Quantitative information of LCR**

		a	b	c	d	e	f	g	h
	Amounts in €millions	Total unweighted value (average)				Total weighted value (average)			
EU 1a	Quarter ending on:	31 December 2021	30 September 2021	30 June 2021	31 March 2021	31 December 2021	30 September 2021	30 June 2021	31 March 2021
EU 1b	Number of data points used in the calculation of averages	12	12	12	12	12	12	12	12
<b>HIGH-QUALITY LIQUID ASSETS</b>									
1	Total high-quality liquid assets (HQLA)					815	791	719	706
<b>CASH – OUTFLOWS</b>									
2	Retail deposits and deposits from small business customers, of which:	2,481	2,427	2,389	2,365	163	153	145	138
3	Stable deposits	2	1	1	1	-	-	-	-
4	Less stable deposits	1,616	1,524	1,443	1,374	163	153	145	138
5	Unsecured wholesale funding	182	170	113	118	73	65	41	44
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	-	-	-	-	-	-	-	-
7	Non-operational deposits (all counterparties)	182	170	113	118	73	65	41	44
8	Unsecured debt	-	-	-	-	-	-	-	-
9	Secured wholesale funding					13	16	21	16
10	Additional requirements	356	377	384	348	76	74	65	66
11	Outflows related to derivative exposures and other collateral requirements	28	28	19	19	28	28	19	19
12	Outflows related to loss of funding on debt products	-	-	-	-	-	-	-	-
13	Credit and liquidity facilities	327	349	365	330	48	45	47	47
14	Other contractual funding obligations	20	19	14	16	14	14	9	12
15	Other contingent funding obligations	-	-	-	-	-	-	-	-
16	TOTAL CASH OUTFLOWS					340	322	281	276
<b>CASH – INFLOWS</b>									
17	Secured lending (e.g. reverse repos)	15	17	19	21	9	8	4	8
18	Inflows from fully performing exposures	95	102	105	98	92	98	101	95
19	Other cash inflows	25	26	35	30	20	21	31	27
EU-19a	(Difference between total weighted inflows and total weighted outflows arising from transactions in third countries where there are transfer restrictions or which are denominated in non-convertible currencies)					-	-	-	-
EU-19b	(Excess inflows from a related specialised credit institution)					-	-	-	-
20	TOTAL CASH INFLOWS	135	145	159	150	121	128	136	130
EU-20a	Fully exempt inflows	-	-	-	-	-	-	-	-
EU-20b	Inflows subject to 90% cap	-	-	-	-	-	-	-	-
EU-20c	Inflows subject to 75% cap	135	145	159	150	121	128	136	130
<b>TOTAL ADJUSTED BUFFER</b>									
EU-21	LIQUIDITY BUFFER					815	791	719	706
22	TOTAL NET CASH OUTFLOWS					219	194	145	146
23	LIQUIDITY COVERAGE RATIO					414%	457%	524%	508%

As at 31 December 2021, the Group's LCR was well above both the regulatory minimum and the risk appetite set by the Group.

### The Net Stable Funding Ratio

The NSFR requires banks to maintain a stable funding profile in relation to their on- and off- balance sheet activities. The ratio is defined as the amount of Available Stable Funding (the portion of capital and liquidities expected to be a stable source of funding), relative to the amount of Required Stable Funding (a function of the liquidity characteristics of various assets held).

The following table provides an analysis of the data points used in the calculation of net stable funding ratio. The NSFR as of 31 December 2021 calculated in accordance with the CRR 2 stands at 133.5%, or €2.7 million of excess over regulatory minimum of 100%.

### EU LIQ2: Net Stable Funding Ratio

		a	b	c	d	e
As at 31 December 2021		Unweighted value by residual maturity at 31 December 2021				Weighted value
Amounts in €millions		No maturity	< 6 months	6 months to < 1yr	≥ 1yr	
<b>Available stable funding (ASF) Items</b>						
1	Capital items and instruments	230	-	-	48	278
2	Own funds	230	-	-	48	278
3	Other capital instruments		-	-	-	-
4	Retail deposits		2,215	94	278	2,445
5	Stable deposits		1,690	89	265	1,955
6	Less stable deposits		525	4	14	491
7	Wholesale funding:		545	80	674	853
8	Operational deposits		-	-	-	-
9	Other wholesale funding		545	80	674	853
10	Interdependent liabilities		-	-	-	-
11	Other liabilities:	1,131	38	-	5	5
12	NSFR derivative liabilities	1,131				
13	All other liabilities and capital instruments not included in the above categories		38	-	5	5
14	<b>Total available stable funding (ASF)</b>					<b>3,582</b>
<b>Required stable funding (RSF) Items</b>						
15	Total high-quality liquid assets (HQLA)					153
EU-15a	Assets encumbered for a residual maturity of one year or more in a cover pool		-	-	-	-
16	Deposits held at other financial institutions for operational purposes		-	-	-	-
17	Performing loans and securities:		147	44	2,600	2,227
18	Performing securities financing transactions with financial customers collateralised by Level 1 HQLA subject to 0% haircut		31	-	-	-
19	Performing securities financing transactions with financial customer collateralised by other assets and loans and advances to financial institutions		91	-	-	11
20	Performing loans to non- financial corporate clients, loans to retail and small business customers, and loans to sovereigns, and PSEs, of which:		4	23	498	441
21	With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk		2	1	55	27
22	Performing residential mortgages, of which:		22	21	1,595	1,322
23	With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk		21	20	1,465	1,208
24	Other loans and securities that are not in default and do not qualify as HQLA, including exchange-traded equities and trade finance on-balance sheet products		-	-	507	453
25	Interdependent assets		-	-	-	-
26	Other assets:	-	227	-	155	288
27	Physical traded commodities				-	-
28	Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs		-	-	8	7
29	NSFR derivative assets		37	-	-	37
30	NSFR derivative liabilities before deduction of variation margin posted		1	-	-	-
31	All other assets not included in the above categories		188	-	147	243
32	Off-balance sheet items		289	-	-	14
33	<b>Total RSF</b>					<b>2,683</b>
34	<b>Net Stable Funding Ratio (%)</b>					<b>133.5%</b>

		a	b	c	d	e
As at 30 June 2021		Unweighted value by residual maturity at 30 June 2021				Weighted value
Amounts in €millions		No maturity	< 6 months	6 months to < 1yr	≥ 1yr	
<b>Available stable funding (ASF) Items</b>						
1	Capital items and instruments	254	-	-	48	301
2	Own funds	254	-	-	48	301
3	Other capital instruments		-	-	-	-
4	Retail deposits		2,019	96	313	2,304
5	Stable deposits		1,657	90	299	1,959
6	Less stable deposits		361	6	14	344
7	Wholesale funding:		517	81	702	893
8	Operational deposits		300	39	14	-
9	Other wholesale funding		218	42	688	893
10	Interdependent liabilities					
11	Other liabilities:	2,761	35	-	9	9
12	NSFR derivative liabilities	2,761				
13	All other liabilities and capital instruments not included in the above categories		35	-	9	9
14	<b>Total available stable funding (ASF)</b>					<b>3,507</b>
<b>Required stable funding (RSF) Items</b>						
15	Total high-quality liquid assets (HQLA)					150
EU-15a	Assets encumbered for a residual maturity of one year or more in a cover pool		-	-	-	-
16	Deposits held at other financial institutions for operational purposes		-	-	-	-
17	Performing loans and securities:		177	20	2,566	2,187
18	Performing securities financing transactions with financial customers collateralised by Level 1 HQLA subject to 0% haircut		33	-	-	-
19	Performing securities financing transactions with financial customer collateralised by other assets and loans and advances to financial institutions		123	-	-	12
20	Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, and PSEs, of which:		2	-	595	507
21	With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk		-	-	-	-
22	Performing residential mortgages, of which:		20	20	1,547	1,308
23	With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk		18	19	1,410	1,181
24	Other loans and securities that are not in default and do not qualify as HQLA, including exchange-traded equities and trade finance on-balance sheet products		-	-	424	361
25	Interdependent assets		-	-	-	-
26	Other assets:	-	228	1	148	258
27	Physical traded commodities				-	-
28	Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs		-	-	7	6
29	NSFR derivative assets		(3)	-	-	(3)
30	NSFR derivative liabilities before deduction of variation margin posted		3	-	-	-
31	All other assets not included in the above categories		228	1	141	254
32	Off-balance sheet items		387	-	-	19
33	<b>Total RSF</b>					<b>2,615</b>
34	<b>Net Stable Funding Ratio (%)</b>					<b>134.1%</b>

## 2.2.4 Business model and strategy risk

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

The Group acknowledges that reported earnings inherently carry some level of volatility and seasonality. Hence, even though they are not always the best indicator of the Group's performance, they do represent a useful risk metric. As many of the risk factors have inter-dependencies and will be influenced primarily as a result of other risks covered elsewhere in the Risk Appetite Statement, KPIs are governed by the Group's Financial KPI Policy.

The Group's KPIs include what the Group considers to be an adequate range of risk-adjusted-return indicators that are proportionate to the size and business model of the Group. The KPIs are monitored and reported within the Group's monthly financial reporting process and overseen by the Board of Directors. The monitoring of these measures ensures that the business model performance is consistent with the expectations of the stakeholders; to withstand unexpected shocks; and earnings (and cash flows) are consistent with funding strategies.

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

## 2.2.5 Market risk

*(Disclosures related to market risk according to EU MRA)*

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

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

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

### Market risk identification, quantification and assessment

The Group assumes three types of market risk, namely:

#### A) Interest Rate Risk

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

Exposure to the IRRBB is differentiated by various sub-categories such as:

- Gap risk (repricing risk);
- Option risk;
- Basis risk; and
- Yield risk (exposure to the parallel and non-parallel interest rate curve shifts).

The Group measures its exposure adopting both contractual and behavioural views (where items without deterministic maturity are assigned certain level of stickiness). The impact of the automatic options embedded in the banking book structure is assessed under  $\Delta NII$ ,  $\Delta EVE$  and PV01 sensitivity.

The Group's exposure to interest rate risk arises predominantly from repricing risk emanating from its asset/liability structure. Specifically, a lag exists between the Group's loans which reprice periodically (generally every three months), the mortgage loans portfolio characterised by its long term structure and its associated hedging portfolio and the term structure of customer deposits. The exposure to interest rate risk is managed through a hedging strategy which uses a series of plain vanilla interest rate swaps that form a run-off profile matching a mortgage portfolio run-off profile with behavioural pre-payment assumptions. There is also a possible impacts of the Mark-to-Market ("MtM") value arising from fixed rate assets if the interest rates increase in case of realisation. As the balance sheet management strategy is not to realise those investments by setting an adequate liquidity and hedging strategy, the materialisation of this risk in the income statement remains low.

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

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

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

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

#### B) Foreign Exchange (FX) Risk

The Group is mainly exposed to currency risk on foreign exchange movements relating to the GB Pound and US Dollar, originating from the Group's corporate banking business. The Group hedges this risk by ensuring that its foreign currency-denominated liabilities are matched with corresponding assets in the same currency. Any mismatches that arise are monitored closely within strict risk appetite limits.

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

### C) CVA Risk

Under CRD V/CRR 2, institutions are required to hold additional own funds due to the CVA risk arising from Over-The-Counter (“OTC”) derivatives, thus resulting in an additional capital charge when entering into such OTC trades. This charge is designed to cover losses arising from the situation where a counterparty’s financial position would worsen and thereby the market value of its derivatives obligation would decline, even though there is no actual default. Thus, the CVA charge tries to cover the risk of deterioration in the creditworthiness of a counterparty.

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

#### Market risk management and controls

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

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

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

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

#### Market risk monitoring and reporting

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

The Group monitors the following quantitative market risk metrics:

- Primary FX unhedged exposure;
- $\Delta$ NII under six regulatory scenarios and four management scenarios;
- $\Delta$ EVE under six regulatory scenarios and four management scenarios; and
- PV01 to Own Funds.

$\Delta$ NII and  $\Delta$ EVE metrics are both evaluated under six regulatory scenarios on both EVE and NII and four management scenarios.

On a monthly basis, the historical evolution of the  $\Delta$ NII and  $\Delta$ EVE are examined and reported in the monthly risk pack. The market risk metrics are presented with additional explanatory variables on the variations and sensitive areas to interest rate risks such as maturity and repricing gap analysis, sensitivities by time buckets and the effect of the hedging portfolio.

The market risk metrics also include primary FX unhedged exposures which is marginal.

Additionally in 2021, reports on the sensitivity of the positions classified as Fair Value through Other Comprehensive Income (“FVOCI”) to spread shocks were developed as a consequence of the increase of this category.

### **2.2.6 Operational risk**

Operational risks can arise from all business lines and from all activities which are carried out by the Group. Failure to manage these risks may result in a direct or indirect financial loss, reputational damage, regulatory breaches or may even have a negative impact on the management of other risks such as credit, liquidity or market risk.

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

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



### Operational risk identification and categorisation

The Group carries out a structured analysis of the current and emerging risks that the Group is facing, in order to understand and manage these risks as appropriate. There are various operational risk subtypes, including but not limited to fraud (internal/external), business disruption due to reduced or non-availability of a systems, inadequate outsourcing arrangements, the Group's inability to attract, retain, train and develop the right people, failed or inadequate business processes, data risk and project execution risk.

### Risk control self-assessments

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

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

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

During 2021, RCSA workshops were carried out with all the Business Units across the Group. Following the roll out in 2020, of the Enterprise, Risk and Compliance tool (ERIC) operational risk tool, the 2021 RCSAs were refreshed directly in the system by the respective business owners. The following operational risk themes were identified and discussed during the 2021 workshops:

- Fraud risk, which may arise from a number of activities, carried out internally or externally. Internal fraud is a civil or criminal activity carried out by at least one internal party, such as an employee or distribution associate, which is often as a result of collusion, rogue trading, insider trading, financial reporting fraud, misappropriation of assets, or identity theft. External fraud is the civil or criminal activity carried out by customers, contractors or third parties (excluding cyber-attacks) Examples of such type of fraud include: collusion, fraud, misuse of position, misappropriation of assets and identity theft.
- Infrastructure risk, which may arise from reduced or non-availability of any aspect of a fully functioning business environment including: corporate facilities, physical assets, human resources and/or technology, security, failures in licence management and insufficient software/application support. The Group has identified two sub-categories within this risk: i) physical safety, which refers to the risk of damage to non-IT physical assets, physical data, corporate facilities or human resources, and ii) business continuity, which is required if the Group experiences business disruption that may be experienced from reduced availability or non-availability of business activity due to issues related to facilities or human capital. System failures (hardware or software), disruption in telecommunication, power failure and other events impeding the normal day to day operations, can result in interrupted business and financial loss.
- Outsourcing and Other Third Parties risk refers to the failure to establish and manage adequate outsourcing arrangements, transactions or other interactions to meet the expected or contracted quality of service with external parties such as independent brokers, fund managers insurers and other parties. This risk may have serious consequences such as business disruption and reputational impacts. Regulatory oversight of outsourcing arrangements has become more prominent, particularly since the institution is viewed as systemically important. This risk may also arise from internal parties, where the Group fails to establish and manage adequate outsourcing arrangements, transactions or other interactions with service providers within the Group, for example: failure to meet agreed quality of service levels, inadequate contracting, poor relationship governance, service provider failure. The Group's outsourcing policy provides guidelines in line with regulatory requirements, which amongst other things, defines responsibilities and what activities can be outsourced.
- People risk reflects the ability of the Group to manage the capacity and capability levels of one of its core assets: its employees. The Group assesses this risk in the context of recruitment of people with the right skill-set, development of its employees with the right training and behaviour, being able to retain key employees, as well as maintaining robust succession plans. It also includes remuneration considerations, such as having adequate structures and engagement levels that help align the conduct of employees with the risk and strategic objectives of the Group.
- Process risk, may arise from inadequate or failed business processes that deliver products and services in order to grow shareholder value. Inadequate or failed processes may relate to aggregation of data and reporting, inadequate or failed transaction processing (including delays as well as errors), governance or general process management, financial or risk modelling, product development, product introduction, mergers and acquisitions, and the execution risk of failure to deliver change programmes or key strategic and regulatory projects.
- Data and internal model risk arises from failure in a process designed to ensure data entry impacting the ability of the management to meet data standards (data governance) and from failures in the maintenance of, and lack of assurance of the accuracy and consistency of the data over its life-cycle (data integrity). Additionally, data used in modelling and the governance of models presents concurrent risks related to the integrity of model construction, validation and oversight.

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

#### Operational risk assessment and measurement (Article 446 CRR)

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

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

#### Operational risk control testing

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

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

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

Control testing focuses on:

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

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

#### Operational risk monitoring and reporting

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

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

- Significant operational losses;
- Fraud related incidents and losses;
- Outsourcing risk and SLA breaches;
- Staff attrition rates; and
- Critical system and single incident down time.

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

### **2.2.7 IT and information security risk**

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

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

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

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

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

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

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

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

### **2.2.8 Financial crime risk**

The Group continued to demonstrate its commitment to the highest standards of financial crime risk management in 2021. High compliance standards in the banking system continue to be a source of strength and competitive advantage, as MeDirect Malta works diligently to support growth in Malta's economy by facilitating new business.

In 2021, the Group continued to focus on embedding its financial crime risk management control framework, and sustain its capability through ongoing training, oversight and governance. Additionally, through a program of monitoring and analytics, the Group sought to proactively identify risks to safeguard both the bank and the financial system. MeDirect believes that the enforcement of high compliance standards is a competitive advantage, and essential to our success and that of the jurisdiction.

#### **Anti-Money Laundering, Combatting Financing of Terrorism / Proliferation Financing (AMLCFT) and Sanctions risks**

In 2021, the Group continued to improve our AML/CFT and sanctions risk management capabilities and to integrate those capabilities into our day-to-day operations:

- MeDirect continue investing in the next generation of tools to fight financial crime through the application of appropriate systems and analytics;
- The Group measure the risks by reference to identified metrics, incident assessments, regulatory feedback and the judgement and assessment of our financial crime risk team;
- The Group monitor performance against our financial crime risk appetite statements and metrics, the results of the monitoring and control activities of the second line of defence functions, and the results of internal and external audits and regulatory inspections;
- MeDirect manages the risks by establishing and communicating appropriate policies and procedures, training employees, including the Board of Directors, and monitoring activity to help ensure their observance; and
- The Group mitigates the risks through effective controls and/or remediation work where required.

#### **Anti-bribery and corruption**

The Group remains committed to high standards of ethical behaviour and have zero tolerance towards bribery and corruption. The Group has in place a Group Anti-Bribery and Corruption compliance programme and policy which require all employees including the Board of Directors and Associated Persons to comply with the principles in the policy in the performance of their services for or on behalf of the Group. All Group entities and individuals are required by the Group policy to apply controls in order to protect against bribery and corruption risks. All Group staff undergo mandatory anti-bribery and corruption training annually.

As part of its risk management, the Group performs an annual assessment of its inherent and residual risk to understand if any new risks have been identified and ratings revisited accordingly. Risk evaluation takes into consideration various pillars and associated controls.

### Regulatory compliance risk

Apart from Financial Crime Compliance Risk, the Group also faces Regulatory Compliance Risk that it needs to monitor. Regulatory risk arises from the risks associated with breaching the Group's duty to its customers and inappropriate market conduct, as well as breaches to regulatory licensing and rules. The Group identifies risks in the below areas:

- **MiFID risk:** the risk associated with the provision of investment services by delivering poor or unfair outcomes to customers. In addition to this, the Group must also abide by the non-conduct related MiFID matters.
- **Market abuse:** this risk arises from certain behaviour, such as "insider dealing" and market manipulation, which are considered to be abusive and harmful to market behaviour and are therefore deemed to be unlawful. Market Abuse is subject to the EU Market Abuse Regulation and firms are subject to various relevant obligations, such as the reporting of suspicious transactions through "Suspicious Transaction and Order Reporting" (STOR).
- **Credit Mortgage risk:** the risk of providing customers with mortgages which are not in line with their needs and wants.

#### **2.2.9 Regulatory risk**

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

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

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

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

- **Regulatory change risk** that may result from delayed implementation of a new regulation or misinterpretation of the requirements of a new regulation or an update to existing regulation.
- **Regulatory reporting risk**, which arises from failing to meet regulatory reporting requirements and deadlines. Reporting requirements are becoming more extensive, more frequent, and more complex, with regulators demanding more timely and accurate reporting.
- **Regulatory engagement risk**, which includes the lack of communication with the supervisor and regulatory bodies, inconsistencies in the submission of necessary information addressing regulatory requests, erroneous or inappropriate submission of data and documentation, and failure to meet regulatory deadlines.

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

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

### 2.2.10 Reputational risk

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

#### Reputational risk management strategies and processes (Article 435 (1) (a) CRR) (EU OVA)

MeDirect seeks to ensure that reputational risk is as low as reasonably practicable. Reputational risk cannot be precluded as it can be driven by unforeseeable changes in perception of our practices by our various stakeholders (e.g. public, clients, shareholders and regulators). MeDirect strives to promote sustainable standards that will enhance profitability and minimise reputational risk.

The Group does not knowingly conduct business or organise its operations to put its reputation at risk and is also committed to manage climate and environmental risks (CER) and ESG risks. The Group seeks to mitigate this risk by primarily avoiding activities that inherently attract higher risk of reputational damage.

The two sub-categories for reputational risk are the following:

- General public reputational risk and Jurisdiction risk; and
- Customer reputational risk.

#### Reputational risk management structure and organisation (Article 435 (1) (b) CRR) (EU OVA)

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

It is the collective responsibility of all employees of the Group to identify, manage and mitigate reputational risks that may arise. Certain criteria should be considered in the assessment of Reputational risk when 1) material strategic decisions are taken 2) creating new products and services and 3) establishing or reviewing relationship with third party providers of critical and non-critical activities.

Refer to the Statement of compliance with the principles of good corporate governance, that reports on the extent that MeDirect has adopted the Code of Principles of Corporate Governance, and the Non-Financial information report, that includes a description of the main policies and rules that are followed within MeDirect, in the December 2021 Annual Report and Financial Statements.

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

#### Scope and nature of reputational risk measurement and reporting systems (Article 435 (1) (c) CRR) (EU OVA)

It is the responsibility of all business units and functions (i.e. the 1<sup>st</sup> Line of Defence) to ensure appropriate reputational Key Risk Indicators ("KRIs") are in place and regularly monitored, where high or very high reputational risks are identified. In addition, where material reputational risks exist, specific risk appetite limits should be considered and proposed as key-risk indicators within the Group Risk Appetite statement.

Where KRIs are implemented within the Group's Risk Appetite statement, it is the responsibility of the Group's Operational Risk Team (2<sup>nd</sup> Line of Defence) to oversee and monitor the risk levels and ensure appropriate oversight and escalation is in place.

Where material reputational risk incidents are observed, there should be prompt and timely escalation to the Operational risk team and the Chief Risk Officer. All reputational risk incidents should be recorded within the Group's Operational Risk Incidents database.

#### Policies for hedging and mitigating reputational risk (Article 435 (1) (d) CRR) (EU OVA)

The Reputational Risk Framework is governed by the Reputational Risk Policy that is owned by the Operational Risk Management team. The purpose of the Reputational Risk Policy is to ensure an aligned Group wide approach to managing reputational risk. It aims to act as a unified framework adopted across all entities and business units.

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

### 2.2.11 Sustainability, climate-related and environmental risks

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

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

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

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

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

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

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

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

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

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

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

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

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

MeDirect's efforts in this area were well-received and recognised by the market as we significantly improved our sustainability rating given by one of the top international providers of sustainability ratings EcoVadis. Our sustainability rating moved from bronze to silver within the last year. This rating positions MeDirect's overall score in the top 15 per cent of all companies rated by EcoVadis and in the top 21 per cent of companies within the industry that the banking group operates in.

## 2.3 Risk statement

### Declaration on the adequacy of risk management arrangements approved by the Board (Article 435 (1)(e) CRR) (EU OVA)

The Board confirms, for the purpose of Article 435 CRR, that our risk management systems and arrangements are adequate with regard to our risk profile and strategy, and maintains appropriate resources to implement selected enhancements.

*Concise risk statement approved by the Board (Article 435 (1)(f) CRR) (EU OVA & EU LIQA)*

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

During 2021, despite the challenging macroeconomic environment and COVID-19 uncertainty, MeDirect continued to be very successful in attracting high calibre talent both in Malta and in Belgium.

The Group's risk management approach focuses on ensuring continued financial soundness and safeguarding the interests of our stakeholders, while remaining agile to seize value-creating business opportunities in a fast-changing environment. The Group is committed to upholding high standards of corporate governance, sound risk management principles and business practices to achieve sustainable, long-term growth.

The Group has a comprehensive risk management framework in place that is robust and fit-for-purpose, which outlines the steps to assess, manage and monitor all risks faced today and in the future. The risk management practices continue to evolve and improve to enable better outcomes for all stakeholders and to consider any changes and new and emerging risks. At the centre of the risk management framework is a strong risk culture and continuously increasing the overall maturity of risk awareness. The Group has also intensified its focus on ESG initiatives with special focus on CER risks by integrating ESG principles into its business and raising awareness within the organisation.

Despite the challenges faced by the COVID-19 pandemic, MeDirect has ensured the ongoing effectiveness of its risk management framework, especially to support and enable the current diversification and transformation strategy. This risk management framework has ensured that new and proposed business lines, areas of growth, changes in technology and management decisions are well governed and sustainable. The Group's risk management framework has been robustly delivered in 2021 despite the challenges faced and the capital and liquidity positions continue to be at healthy levels, well above the minimum regulatory requirements.

As part of its strategic transformation, MeDirect continued to transform its balance sheet by diversifying and optimising its lending portfolios through the transition from the historical pan-European International Corporate Lending business, that has been more exposed to the impact of COVID-19, to the residential mortgage market. MeDirect's ICL portfolio has reduced to €0.6 billion at year end 2021, with the capital release used to strengthen the Group's capital ratios and to reinvest in mortgage products in the Netherlands and more recently in Malta and Belgium.

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

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

### 3 Scope of application of the regulatory framework

#### Name of the institution (Article 436 (a) CRR)

MDB Group Limited is the parent company of the MDB Group (the “regulatory group”). The MDB Group is subject to the CRR and all subsidiaries are fully consolidated.

#### Reconciliation of regulatory own funds to the balance sheet according to IFRS (Article 437 (a) CRR)

The consolidation of the Group's financial statements is based on the IFRS requirements, whereas the prudential consolidation in the statement of capital is based on the CRR 2. All entities within the Group are subject to full consolidation both for accounting and regulatory purposes. There is no difference in the basis of consolidation for accounting and prudential purposes.

#### EU CC2: Reconciliation of regulatory own funds to balance sheet in the audited financial statements

Amounts in €millions		a & b		c
		Balance sheet as in published financial statements and under regulatory scope of consolidation		Reference
		As at 31 December 2021	As at 30 June 2021	
	<b>Assets</b>			
1	Balances with central banks and cash	329	191	
2	Derivative financial instruments	38	22	
3	Loans and advances to financial institutions	199	252	
4	Loans and advances to customers	2,324	2,344	
5	Investments - Treasury portfolio	770	784	
6	Investments – Securitisation portfolio	507	417	
7	Property and equipment	9	10	
8	Intangible assets	13	14	D
9	Non-current assets classified as held for sale	2	2	
10	Current tax assets	1	1	
11	Deferred tax assets	18	19	E
12	Prepayments and accrued income	14	18	
13	Other assets	15	23	
14	<b>Total assets</b>	<b>4,240</b>	<b>4,097</b>	
	<b>Liabilities</b>			
1	Derivative financial instruments	1	3	
2	Amounts owed to financial institutions	273	253	
3	Amounts owed to customers	2,961	2,793	
4	Debt securities in issue	658	683	
5	Subordinated liabilities	65	65	F
6	Current tax liabilities	-	-	
7	Deferred tax liabilities	1	1	
8	Provisions for liabilities and other charges	1	2	
9	Accruals and deferred income	25	26	
10	Other liabilities	20	17	
11	<b>Total liabilities</b>	<b>4,005</b>	<b>3,842</b>	
	<b>Shareholders' Equity<sup>3</sup></b>			
1	Called up issued share capital	56	56	A
2	Share premium	14	14	A
3	Shareholders' contributions	136	136	B
4	Reserve for general banking risks	4	3	B
5	Other reserves	-2	1	
6	Retained earnings	28	45	C
7	<b>Total shareholders' equity</b>	<b>235</b>	<b>255</b>	

<sup>3</sup> The balance sheet components are used in the calculation of the regulatory capital in table EU CC1 - Own funds disclosure. This table shows items at their accounting values which might be subject to adjustments in the calculation of regulatory capital.



Reconciliation of regulatory own funds to the IFRS balance sheet (Article 436 (c,d) CRR)

As indicated below, Table EU LI1 outlines the difference in the basis of consolidation for accounting and regulatory purposes. It further provides an allocation of items reported under the scope of regulatory consolidation split between the different regulatory risk frameworks in Part Three of the CRR.

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

As at 31 December 2021		a	b	c	d	e	f	g
		Carrying values as reported in published financial statements	Carrying values under scope of prudential consolidation	Carrying values of items				
				Subject to the credit risk framework	Subject to the CCR framework	Subject to the securitisation framework	Subject to the market risk framework	Not subject to own funds requirements or subject to deduction from own funds
<i>Amounts in €millions</i>								
	Breakdown by asset classes according to the balance sheet in the published financial statements							
1	Balances with central banks and cash	329	329	329	-	-	-	-
2	Derivative financial instruments	38	38	-	38	-	-	-
3	Loans and advances to financial institutions	199	199	168	31	-	-	-
4	Loans and advances to customers	2,324	2,324	2,324	-	-	-	-
	Investments							
5	- Treasury portfolio	770	770	770	-	-	-	-
6	- Securitisation portfolio	507	507	-	-	507	-	-
7	Property and equipment	9	9	9	-	-	-	-
8	Intangible assets	13	13	4	-	-	-	9
9	Non-current assets classified as held for sale	2	2	2	-	-	-	-
10	Current tax assets	1	1	1	-	-	-	-
11	Deferred tax assets	18	18	10	-	-	-	8
12	Prepayments and accrued income	14	14	14	-	-	-	-
13	Other assets	15	15	15	-	-	-	1
14	<b>Total assets</b>	<b>4,241</b>	<b>4,241</b>	<b>3,647</b>	<b>69</b>	<b>507</b>	<b>-</b>	<b>18</b>
	Breakdown by liability classes according to the balance sheet in the published financial statements							
1	Derivative financial instruments	1	1	-	1	-	-	-
2	Amounts owed to financial institutions	273	273	-	-	-	-	273
3	Amounts owed to customers	2,961	2,961	-	-	-	-	2,961
4	Debt securities in issue	658	658	-	-	-	-	658
5	Subordinated liabilities	65	65	-	-	-	-	65
6	Current tax liabilities	-	-	-	-	-	-	-
7	Deferred tax liabilities	1	1	-	-	-	-	1
8	Provisions for liabilities and other charges	1	1	-	-	-	-	1
9	Accruals and deferred income	25	25	-	-	-	-	25
10	Other liabilities	20	20	-	-	-	-	20
11	<b>Total liabilities</b>	<b>4,005</b>	<b>4,005</b>	<b>-</b>	<b>1</b>	<b>-</b>	<b>-</b>	<b>4,004</b>

As at 31 December 2020		a	b	c	d	e	f	g
		Carrying values as reported in published financial statements	Carrying values under scope of prudential consolidation	Carrying values of items				
				Subject to the credit risk framework	Subject to the CCR framework	Subject to the securitisation framework	Subject to the market risk framework	Not subject to own funds requirements or subject to deduction from own funds
Amounts in €millions								
	Breakdown by asset classes according to the balance sheet in the published financial statements							
1	Balances with central banks and cash	491	491	491	-	-	-	-
2	Derivative financial instruments	2	2	-	2	-	-	-
3	Loans and advances to financial institutions	264	264	224	40	-	-	-
4	Loans and advances to customers	2,021	2,021	2,021	-	-	-	-
5	Investments							
6	- Treasury portfolio	859	858	858	-	-	-	-
7	- Securitisation portfolio	293	293	-		293		
8	Property and equipment	12	12	12	-	-	-	-
9	Intangible assets	16	16	7	-	-	-	9
10	Non-current assets classified as held for sale	2	2	2	-	-	-	-
11	Current tax assets	2	2	2	-	-	-	-
12	Deferred tax assets	19	19	13	-	-	-	5
13	Prepayments and accrued income	17	17	17	-	-	-	-
14	Other assets	48	48	47	-	-	-	1
15	<b>Total assets</b>	<b>4,042</b>	<b>4,042</b>	<b>3,692</b>	<b>42</b>	<b>293</b>	<b>-</b>	<b>15</b>
	Breakdown by liability classes according to the balance sheet in the published financial statements							
1	Derivative financial instruments	14	14	-	14	-	-	-
2	Amounts owed to financial institutions	352	352	-	-	-	-	352
3	Amounts owed to customers	2,750	2,750	-	-	-	-	2,750
4	Debt securities in issue	554	554	-	-	-	-	554
5	Subordinated liabilities	55	55	-	-	-	-	55
6	Current tax liabilities	-	-	-	-	-	-	-
7	Deferred tax liabilities	1	1	-	-	-	-	1
8	Provisions for liabilities and other charges	4	4	-	-	-	-	4
9	Accruals and deferred income	33	33	-	-	-	-	33
10	Other liabilities	24	24	-	-	-	-	24
11	<b>Total liabilities</b>	<b>3,787</b>	<b>3,787</b>	<b>-</b>	<b>14</b>	<b>-</b>	<b>-</b>	<b>3,772</b>

Table EU-LI2 provides a reconciliation between assets carrying values under the regulatory scope of consolidation and the exposures used for regulatory purposes, split in line with the regulatory risk framework. This is explained by the inclusion of the off-balance sheet amount whilst adjusting for provisions and differences due to credit conversion factor (CCF) and credit risk mitigation techniques.

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

As at 31 December 2021		a	b	c	d	e
		Total	Items subject to			
			Credit risk framework	Securitisation framework	CCR framework	Market risk framework
Amounts in €millions						
1	Assets carrying value amount under the scope of prudential consolidation (as per template LI1)	4,223	3,647	507	69	-
2	Liabilities carrying value amount under the scope of prudential consolidation (as per template LI1)	(1)	-	-	(1)	-
3	Total net amount under the scope of prudential consolidation	4,221	3,647	507	67	-
4	Off-balance-sheet amounts	390	384	-	6	
5	Differences in valuations	(1)	(1)	-	-	
6	Differences due to different netting rules, other than those already included in row 2	-	-	-	-	
7	Differences due to consideration of provisions	-	-	-	-	
8	Differences due to the use of credit risk mitigation techniques (CRMs)	(33)	-	-	(33)	
9	Differences due to credit conversion factors	(258)	(258)	-	-	
10	Differences due to Securitisation with risk transfer	-	-	-	-	
11	Other differences	(1)	(1)	-	-	
12	Exposure amounts considered for regulatory purposes	4,319	3,770	507	41	-

As at 31 December 2020  <i>Amounts in €millions</i>		a	b	c	d	e
		Total	Items subject to			
			Credit risk framework	Securitisation framework	CCR framework	Market risk framework
1	Assets carrying value amount under the scope of prudential consolidation (as per template LI1)	4,027	3,692	293	42	-
2	Liabilities carrying value amount under the scope of prudential consolidation (as per template LI1)	(14)	-	-	(14)	-
3	Total net amount under the scope of prudential consolidation	4,013	3,692	293	28	-
4	Off-balance-sheet amounts	747	745	-	2	
5	Differences in valuations	(1)	(1)	-	-	
6	Differences due to different netting rules, other than those already included in row 2	-	-	-	-	
7	Differences due to consideration of provisions	-	-	-	-	
8	Differences due to the use of credit risk mitigation techniques (CRMs)	(16)	-	-	(16)	
9	Differences due to credit conversion factors	(496)	(496)	-	-	
10	Differences due to Securitisation with risk transfer	-	-	-	-	
11	Other differences	-	-	-	-	
12	Exposure amounts considered for regulatory purposes	4,246	3,940	293	13	-

Differences in the scopes of consolidation (Article 436 (b) CRR)

The principles of consolidation for our regulatory group are identical to those applied in the IFRS financial statements.

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

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

a	b	c	d	e	f	g	h
Name of the entity	Method of accounting consolidation	Method of prudential consolidation					Description of the entity
		Full consolidation	Proportional consolidation	Equity method	Neither consolidated nor deducted	Deducted	
MDB Group Limited	Full consolidation	X					Holding company
MeDirect Bank (Malta) plc	Full consolidation	X					Credit institution
MeDirect Bank SA	Full consolidation	X					Credit institution
Medifin Leasing Limited	Full consolidation	X					IT leasing and support
Medifin Estates	Full consolidation	X					Property leasing
Grand Harbour I B.V.	Full consolidation	X					International corporate lending securitisation vehicle
BASTION 2020-1 NHG B.V.	Full consolidation	X					Dutch mortgages securitisation vehicle
BASTION 2021-1 NHG B.V.	Full consolidation	X					Dutch mortgages securitisation vehicle
MeHomeLoans B.V.	Full consolidation	X					Non trading company

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

- Off-balance sheet amounts and potential future exposure for counterparty risk: Off-balance sheet amounts subject to credit risk and securitisation regulatory frameworks include undrawn portions of committed facilities, various trade finance commitments and guarantees. A credit conversion factor ('CCF') is applied to these items and potential future exposures ('PFE') are added for counterparty credit risk.
- Differences in valuation: Impact of any value adjustment on the carrying amount of assets measured at fair value as per CRR article 34.
- Differences due to expected credit losses: The carrying value of assets is net of credit risk adjustments, while the regulatory exposure value is net of credit risk adjustments after application of IFRS 9 transitional provisions.
- Differences due to credit risk mitigation: Exposure value under the standardised approach is calculated after deducting credit risk mitigation whereas accounting value is before such deductions.
- Differences due to credit conversion factors: The effect of credit conversion factors in the exposure amounts for regulatory purposes.

Impediments to fund transfers (Article 436 (f) CRR) (EU LIB)

In line with the requirement of Article 436 of the CRR in accordance with directive 2013/36/EU, there is no current or foreseen material practical or legal impediment to the prompt transfer of own funds or to the repayment of liabilities between the parent undertaking and its subsidiaries. The ability of subsidiaries to pay dividends or advance monies to MDB Group Limited depends on, among other things, their respective local regulatory capital and banking requirements, exchange controls, statutory reserves, and financial and operating performance.

#### 4 Credit risk and credit risk mitigation (“CRM”)

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

##### 4.1 Credit quality analysis

The following tables provide a comprehensive picture of the credit quality of the Group's assets by exposure class as at 31 December 2021 in line with EBA guidelines on disclosures, by exposure class, industry and geography.

##### Performing and non-performing exposures and related provisions (Article 442 (c) CRR)

Table EU CR1, that replaced EBA-NPL 4, provides asset quality information of the Group's Debt Instruments and Off Balance Sheet exposures broken down by Supervisory Reporting counterparty classes.

The amounts shown are based on IFRS accounting values according to the regulatory scope of consolidation. The gross carrying amount reflects the exposure value including accumulated impairment, provisions and accumulated negative changes due to credit risk for non-performing exposures. An exposure is being classified as non-performing (defaulted) according to the criteria in Article 47a (3) (Article 178) of the CRR.

##### EU CR1: Performing and non-performing exposures and related provisions.

As at 31 December 2021		a	b	c	d	e	f
		Gross carrying amount/nominal amount					
		Performing exposures		Non-performing exposures			
		Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3	
Amounts in €millions							
005	Cash balances at central banks and other demand deposits	488	488	-	-	-	-
010	Loans and advances	2,267	2,127	140	162	46	108
020	Central banks	-	-	-	-	-	-
030	General governments	-	-	-	-	-	-
040	Credit institutions	39	39	-	-	-	-
050	Other financial corporations	238	186	51	69	-	61
060	Non-financial corporations	322	238	84	93	46	47
070	Of which SMEs	71	67	4	12	-	12
080	Households	1,668	1,664	5	-	-	-
090	Debt securities	1,279	1,278	1	-	-	-
100	Central banks	205	205	-	-	-	-
110	General governments	-	-	-	-	-	-
120	Credit institutions	554	554	-	-	-	-
130	Other financial corporations	508	507	1	-	-	-
140	Non-financial corporations	12	12	-	-	-	-
150	Off-balance-sheet exposures	412	371	41	5	-	5
160	Central banks	-	-	-	-	-	-
170	General governments	-	-	-	-	-	-
180	Credit institutions	31	31	-	-	-	-
190	Other financial corporations	118	112	6	-	-	-
200	Non-financial corporations	152	117	35	5	-	5
210	Households	111	111	-	-	-	-
220	<b>Total</b>	<b>4,446</b>	<b>4,264</b>	<b>182</b>	<b>167</b>	<b>46</b>	<b>113</b>

As at 31 December 2021		g	h	i	j	k	l	m	n	o
		Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions						Accumulated partial write-off	Collateral and financial guarantees received	
		Performing exposures – accumulated impairment and provisions			Non-performing exposures – accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions				On performing exposures	On non-performing exposures
Amounts in €millions										
005	Cash balances at central banks and other demand deposits	(3)	(3)	-	-	-	-	-	-	-
010	Loans and advances	(4)	(2)	(2)	(18)	(2)	(16)	(12)	1,751	11
020	Central banks	-	-	-	-	-	-	-	-	-
030	General governments	-	-	-	-	-	-	-	-	-
040	Credit institutions	-	-	-	-	-	-	-	-	-
050	Other financial corporations	(2)	(1)	(1)	(11)	-	(11)	(7)	14	-
060	Non-financial corporations	(2)	(1)	(1)	(7)	(2)	(4)	(5)	70	11
070	Of which SMEs	-	-	-	-	-	-	-	70	11
080	Households	-	-	-	-	-	-	-	1,668	-
090	Debt securities	-	-	-	-	-	-	-	-	-
100	Central banks	-	-	-	-	-	-	-	-	-
110	General governments	-	-	-	-	-	-	-	-	-
120	Credit institutions	-	-	-	-	-	-	-	-	-
130	Other financial corporations	-	-	-	-	-	-	-	-	-
140	Non-financial corporations	-	-	-	-	-	-	-	-	-
150	Off-balance-sheet exposures	(1)	-	-	(1)	-	(1)		-	-
160	Central banks	-	-	-	-	-	-		-	-
170	General governments	-	-	-	-	-	-		-	-
180	Credit institutions	-	-	-	-	-	-		-	-
190	Other financial corporations	-	-	-	-	-	-		-	-
200	Non-financial corporations	-	-	-	(1)	-	(1)		-	-
210	Households	-	-	-	-	-	-	-	-	
220	Total	(5)	(3)	(2)	(18)	(2)	(16)	-	1,751	11

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

		a	b	c	d	e	f
As at 30 June 2021		Gross carrying amount/nominal amount					
		Performing exposures		Non-performing exposures			
		Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3	
Amounts in €millions							
005	Cash balances at central banks and other demand deposits	381	381	-	-	-	-
010	Loans and advances	2,312	2,079	233	137	30	100
020	Central banks	-	-	-	-	-	-
030	General governments	-	-	-	-	-	-
040	Credit institutions	37	37	-	-	-	-
050	Other financial corporations	287	197	90	54	-	46
060	Non-financial corporations	402	261	141	83	30	54
070	Of which SMEs	80	69	11	10	-	10
080	Households	1,586	1,584	2	1	-	1
090	Debt securities	1,203	1,203	-	-	-	-
100	Central banks	-	-	-	-	-	-
110	General governments	207	207	-	-	-	-
120	Credit institutions	566	566	-	-	-	-
130	Other financial corporations	418	418	-	-	-	-
140	Non-financial corporations	12	12	-	-	-	-
150	Off-balance-sheet exposures	439	391	49	12	-	12
160	Central banks	-	-	-	-	-	-
170	General governments	-	-	-	-	-	-
180	Credit institutions	-	-	-	-	-	-
190	Other financial corporations	170	155	16	-	-	-
200	Non-financial corporations	145	112	33	12	-	12
210	Households	124	124	-	-	-	-
220	<b>Total</b>	<b>4,336</b>	<b>4,053</b>	<b>282</b>	<b>149</b>	<b>30</b>	<b>111</b>

As at 30 June 2021

	g	h	i	j	k	l	m	n	o
	Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions						Accumulated partial write-off	Collateral and financial guarantees received	
	Performing exposures – accumulated impairment and provisions		Non-performing exposures – accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions					On performing exposures	On non-performing exposures
	Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3				
<i>Amounts in millions</i>									
005 Cash balances at central banks and other demand deposits	-	-	-	-	-	-	-	-	-
010 Loans and advances	(6)	(2)	(4)	(10)	(2)	(8)	-	1,674	10
020 Central banks	-	-	-	-	-	-	-	-	-
030 General governments	-	-	-	-	-	-	-	-	-
040 Credit institutions	-	-	-	-	-	-	-	-	-
050 Other financial corporations	(2)	(1)	(2)	(6)	-	(6)	-	10	-
060 Non-financial corporations	(3)	(1)	(2)	(3)	(2)	(2)	-	79	9
070 Of which SMEs	-	-	-	-	-	-	-	79	9
080 Households	-	-	-	-	-	-	-	1,586	1
090 Debt securities	-	-	-	-	-	-	-	-	-
100 Central banks	-	-	-	-	-	-	-	-	-
110 General governments	-	-	-	-	-	-	-	-	-
120 Credit institutions	-	-	-	-	-	-	-	-	-
130 Other financial corporations	-	-	-	-	-	-	-	-	-
140 Non-financial corporations	-	-	-	-	-	-	-	-	-
150 Off-balance-sheet exposures	(1)	-	-	(2)	-	(2)		-	-
160 Central banks	-	-	-	-	-	-		-	-
170 General governments	-	-	-	-	-	-		-	-
180 Credit institutions	-	-	-	-	-	-		-	-
190 Other financial corporations	-	-	-	-	-	-		-	-
200 Non-financial corporations	-	-	-	(2)	-	(2)		-	-
210 Households	-	-	-	-	-	-		-	-
<b>220 Total</b>	<b>(7)</b>	<b>(3)</b>	<b>(4)</b>	<b>(11)</b>	<b>(2)</b>	<b>(9)</b>	<b>-</b>	<b>1,674</b>	<b>10</b>

Residual maturity breakdown of credit exposure (Article 442 (g) CRR)

The table EU CR1-A, that replaced the table EU CRB-E, represents the net credit exposure by maturity and financial instrument. Here exposures refers to on-balance sheet items wherein the “net value of exposure” is calculated by deducting credit risk adjustments from the gross amount. The net exposure is split into 5 categories based on the residual contractual maturity. Below are the categories:

- On demand: where the counterparty has a choice of when the amount is repaid.
- Bucketing: 0 to 1 year, 1 to 5 years and more than 5 years
- No stated maturity: where an exposure has no stated maturity for reasons other than the counterparty having the choice of the repayment date.

The following table provides an ageing analysis of exposures as at 31 December 2021:

**EU CR1-A: Maturity of exposures**

	a	b	c	d	e	f
	Net exposure value <sup>4</sup>					
	On demand	<= 1 year	> 1 year <= 5 years	> 5 years	No stated maturity	Total
<i>Amounts in €millions</i>						
010 Loans and advances	67	97	527	1,717	-	2,408
020 Debt securities	-	290	949	40	-	1,279
030 <b>Total</b>	<b>67</b>	<b>387</b>	<b>1,476</b>	<b>1,756</b>	<b>-</b>	<b>3,687</b>

<sup>4</sup> Net exposure value: For on-balance-sheet items, the net value is the gross carrying value of the exposure less allowances/impairments. For off-balance-sheet items, the net value is the gross carrying value of exposure less provisions.

As at 30 June 2021		a	b	c	d	e	f
		Net exposure value					
<i>Amounts in €millions</i>		On demand	<= 1 year	> 1 year <= 5 years	> 5 years	No stated maturity	Total
010	Loans and advances	108	203	495	1,629	-	2,435
020	Debt securities	-	143	923	138	-	1,203
030	<b>Total</b>	<b>108</b>	<b>346</b>	<b>1,417</b>	<b>1,767</b>	<b>-</b>	<b>3,638</b>

In this respect, the Group's NPL ratio as at 31 December 2021 amounted to 6.7% (Dec 2020: 9.5%) as the impacts of the COVID-19 outbreak led to a number of new cases of NPEs during 2020 and 2021. In line with the EBA Guidelines on management of non-performing and forborne exposures (EBA/GL/2018/06), following the Group's NPL ratio exceeding 5%, the Group has developed and is implementing an NPE action plan, which was formally discussed and approved at Board level. The NPE action plan adopts a name by name approach to each NPE and sets out both a 'Base' and 'Downside' scenario for each obligor group indicating whether there is expectation of an NPE 'cure' or alternative exit from NPE status such as sale of the asset. The individual NPE strategies are under constant review and formalised at the end of each quarter as part of the quarterly portfolio review process. Management is providing an update to the Board on the level of NPEs on an ongoing basis.

The decrease in the NPL ratio was mainly driven by the Group's change in strategy and transformation programme, the Group is moving to a stronger credit profile following the reduction of its exposure to leveraged corporate lending and increasing its exposure to Dutch State-guaranteed residential mortgages and Malta mortgages where NPEs are expected to be considerably lower. The Group constantly monitors the quality of its loan portfolios in line with its credit policy.

In terms of Section 2.6 of the Guidance on non-performing loans issued by the ECB in March 2017, high NPL banks are required to disclose to the regulator its NPL strategy by submitting the first table provided in Appendix 7 of the same document. MeDirect has a well-documented NPL strategy which is updated at a minimum on a quarterly basis and shared with Senior stakeholders within the Bank.

#### Quality of non-performing exposures by geography (Article 442 (c+e) CRR)

Table EU CQ4 provides asset quality information on the Group's On Balance Sheet exposures and Off Balance Sheet exposures broken down by significant countries. The first column in this table represents the total Gross carrying/nominal amount and performing and non-performing exposures. The geographical distribution is based on the legal domicile of the counterparty or issuer.

The amounts shown are based on IFRS accounting values. The gross carrying amount reflects the exposure value including accumulated impairment, provisions and accumulated negative changes due to credit risk for non-performing exposures. An exposure is being classified as non-performing (defaulted) if it meets to the criteria in Article 47a (3) (Article 178) of the CRR.

**EU CQ4: Quality of non-performing exposures by geography\***

31 December 2021		a	b	c	d	e	f	g
		Gross carrying/nominal amount				Accumulated impairment	Provisions on off-balance-sheet commitments and financial guarantees given	Accumulated negative changes in fair value due to credit risk on non-performing exposures
			Of which non-performing	Of which subject to impairment				
Amounts in €millions				Of which defaulted				
010	On-balance-sheet exposures	3,709	162	162	3,709	22		-
020	Germany	307	24	24	307	7		-
030	France	231	12	12	231	-		-
040	United Kingdom	224	35	35	224	3		-
050	Ireland	485	-	-	485	-		-
060	Netherlands	1,787	-	-	1,787	1		-
070	Other countries	675	91	91	675	11		-
080	Off-balance-sheet exposures	416	5	5	416		1	
090	Malta	55	-	-	55		-	
100	Belgium	32	-	-	32		-	
110	United Kingdom	104	-	-	104		-	
120	Germany	106	-	-	106		-	
130	Italy	41	-	-	41		-	
140	France	78	5	5	78		1	
150	Total	4,125	167	167	4,125	22	1	-

The top 5 countries by exposure are listed in the table above, representing more than 65% of total exposure. Immaterial exposure to remaining countries is reflected in the 'other countries' category, with individual exposure of less than €675 million.

30 June 2021		a	b	c	d	e	f	g
		Gross carrying/nominal amount				Accumulated impairment	Provisions on off-balance-sheet commitments and financial guarantees given	Accumulated negative changes in fair value due to credit risk on non-performing exposures
			Of which non-performing	Of which defaulted	Of which subject to impairment			
Amounts in €millions								
010	On-balance-sheet exposures	3,653	137	137	3,653	15		-
020	United Kingdom	231	35	35	231	3		-
030	Germany	330	8	8	330	-		-
040	France	230	12	12	230	1		-
050	Netherlands	1,713	-	-	1,713	1		-
060	Ireland	407	-	-	407	-		-
070	Other countries	742	82	82	742	10		-
080	Off-balance-sheet exposures	451	12	12	451		2	
090	Malta	62	-	-	62		-	
100	United Kingdom	51	-	-	51		-	
110	France	29	-	-	29		-	
120	Netherlands	143	-	-	143		-	
130	United States	45	-	-	45		-	
140	Other countries	121	12	12	121		2	
150	Total	4,104	149	149	4,104	15	2	

**Credit quality of loans and advances to non-financial corporations by industry (Article 442 (c+e) CRR)**

Table EU CQ5 provides asset quality information on the Group's loans and advances to non-financial corporations broken down by industries. The first column in this table represents the total Gross carrying/nominal amount and performing and non-performing exposures. The industry classification is based on NACE codes. NACE is a European industry standard classification system for classifying business activities.

The amounts shown are based on IFRS accounting values. The gross carrying amount reflects the exposure value including accumulated impairment, provisions and accumulated negative changes due to credit risk for non-performing exposures. An exposure is being classified as non-performing (defaulted) if it meets to the criteria in Article 47a (3) (Article 178) of the CRR.



**EU CQ5: Credit quality of loans and advances to non-financial corporations by industry**

31 December 2021		a	b	c	d	e	f
		Gross carrying amount			Of which loans and advances subject to impairment	Accumulated impairment	Accumulated negative changes in fair value due to credit risk on non-performing exposures
			Of which non-performing	Of which defaulted			
<i>Amounts in €millions</i>							
010	Agriculture, forestry and fishing	-	-	-	-	-	-
020	Mining and quarrying	-	-	-	-	-	-
030	Manufacturing	60	12	12	60	1	-
040	Electricity, gas, steam and air conditioning supply	-	-	-	-	-	-
050	Water supply	-	-	-	-	-	-
060	Construction	31	1	1	31	-	-
070	Wholesale and retail trade	14	1	1	14	-	-
080	Transport and storage	8	-	-	8	-	-
090	Accommodation and food service activities	22	19	19	22	1	-
100	Information and communication	27	-	-	27	-	-
110	Professional, scientific and technical activities	139	15	15	139	1	-
120	Financial and insurance activities	-	-	-	-	-	-
130	Real estate activities	39	10	10	39	-	-
140	Administrative and support service activities	55	34	34	54	4	-
150	Public administration and defense, compulsory social security	-	-	-	-	-	-
160	Education	-	-	-	-	-	-
170	Human health services and social work activities	19	-	-	18	-	-
180	Arts, entertainment and recreation	-	-	-	-	-	-
190	Others	-	-	-	-	-	-
200	<b>Total</b>	<b>415</b>	<b>93</b>	<b>93</b>	<b>415</b>	<b>9</b>	<b>-</b>

30 June 2021		a	b	c	d	e	f
		Gross carrying amount			Of which loans and advances subject to impairment	Accumulated impairment	Accumulated negative changes in fair value due to credit risk on non-performing exposures
			Of which non-performing	Of which defaulted			
<i>Amounts in €millions</i>							
010	Agriculture, forestry and fishing	-	-	-	-	-	-
020	Mining and quarrying	-	-	-	-	-	-
030	Manufacturing	66	12	12	66	1	-
040	Electricity, gas, steam and air conditioning supply	-	-	-	-	-	-
050	Water supply	-	-	-	-	-	-
060	Construction	43	-	-	43	-	-
070	Wholesale and retail trade	14	2	2	14	-	-
080	Transport and storage	8	-	-	8	-	-
090	Accommodation and food service activities	20	18	18	20	1	-
100	Information and communication	49	9	9	49	1	-
110	Professional, scientific and technical activities	134	-	-	134	1	-
120	Financial and insurance activities	-	-	-	-	-	-
130	Real estate activities	35	10	10	35	-	-
140	Administrative and support service activities	74	33	33	74	1	-
150	Public administration and defense, compulsory social security	-	-	-	-	-	-
160	Education	-	-	-	-	-	-
170	Human health services and social work activities	28	-	-	28	1	-
180	Arts, entertainment and recreation	13	-	-	13	-	-
190	Others	-	-	-	-	-	-
200	<b>Total</b>	<b>486</b>	<b>83</b>	<b>83</b>	<b>486</b>	<b>7</b>	<b>-</b>

Credit quality of forborne exposures (Article 442 (c) CRR)

Table EU CQ1 provides an overview of asset quality information for forborne exposures broken down by supervisory reporting counterparty classes.

The amounts shown are based on IFRS accounting values. The gross carrying amount reflects the exposure value including accumulated impairment, provisions and accumulated negative changes due to credit risk for non-performing exposures. Exposures are being classified as forborne according to the criteria in Article 47b of the CRR. An exposure is being classified as non-performing (defaulted) according to the criteria in Article 47a (3) (Article 178) of the CRR.

**EU-CQ1: Credit quality of forborne exposures**

		a	b	c	d	e	f	g	h
31 December 2021		Gross carrying amount/nominal amount of exposures with forbearance measures				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		Collateral received and financial guarantees received on forborne exposures	
		Performing forborne	Non-performing forborne			On performing forborne exposures	On non-performing forborne exposures		Of which collateral and financial guarantees received on non-performing exposures with forbearance measures
				Of which defaulted	Of which impaired				
<i>Amounts in €millions</i>									
005	Cash balances at central banks and other demand deposits	-	-	-	-	-	-	-	-
010	Loans and advances	116	134	134	80	1	11	13	10
020	Central banks	-	-	-	-	-	-	-	-
030	General governments	-	-	-	-	-	-	-	-
040	Credit institutions	-	-	-	-	-	-	-	-
050	Other financial corporations	43	54	54	46	-	6	-	-
060	Non-financial corporations	71	80	80	34	1	5	11	10
070	Households	2	-	-	-	-	-	2	-
080	Debt Securities	-	-	-	-	-	-	-	-
090	Loan commitments given	20	-	-	-	-	-	-	-
100	<b>Total</b>	<b>137</b>	<b>134</b>	<b>134</b>	<b>80</b>	<b>1</b>	<b>11</b>	<b>13</b>	<b>10</b>

30 June 2021		a	b	c	d	e	f	g	h
		Gross carrying amount/nominal amount of exposures with forbearance measures				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		Collateral received and financial guarantees received on forborne exposures	
		Performing forborne	Non-performing forborne			On performing forborne exposures	On non-performing forborne exposures		Of which collateral and financial guarantees received on non-performing exposures with forbearance measures
	Amounts in €millions			Of which defaulted	Of which impaired				
005	Cash balances at central banks and other demand deposits	-	-	-	-	-	-	-	-
010	Loans and advances	164	114	114	84	3	9	15	9
020	Central banks	-	-	-	-	-	-	-	-
030	General governments	-	-	-	-	-	-	-	-
040	Credit institutions	-	-	-	-	-	-	-	-
050	Other financial corporations	70	34	34	34	1	6	-	-
060	Non-financial corporations	94	79	79	50	2	3	14	9
070	Households	1	-	-	-	-	-	1	-
080	Debt Securities	-	-	-	-	-	-	-	-
090	Loan commitments given	27	-	-	-	-	-	-	-
100	<b>Total</b>	<b>191</b>	<b>114</b>	<b>114</b>	<b>84</b>	<b>3</b>	<b>9</b>	<b>15</b>	<b>9</b>

Table EU-CQ2 that replaced EBA-NPL 2 shows the quality of forbearance through the loans and advances that have been forborne more than twice and the non-performing forborne loans and advances that failed to meet the non-performing exit criteria.

#### EU-CQ2: Quality of forbearance

31 December 2021 Amounts in €millions		a
		Gross carrying amount of forborne exposures
010	Loans and advances that have been forborne more than twice	-
020	Non-performing forborne loans and advances that failed to meet the non-performing exit criteria	-

30 June 2021 Amounts in €millions		a
		Gross carrying amount of forborne exposures
010	Loans and advances that have been forborne more than twice	-
020	Non-performing forborne loans and advances that failed to meet the non-performing exit criteria	-

#### 4.2 Exposures with renegotiated terms and the Group's forbearance policy

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

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

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

A concession is defined in the EBA final draft Implementing Technical Standards (2014) and refers to either of the following actions:

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

The revised terms usually applied by the Group include extending the maturity, amending the terms of loan covenants and partial write-offs where there is reasonable financial evidence to demonstrate the borrower's inability to repay the loan in full. The Group's Credit Committees regularly review underlying trading trends on obligors who have availed of on forbearance measures in order to assess potential 'curing' of such measures.

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

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

Credit policy takes into consideration the ECB announcements concerning relief measures that were implemented as a response to the COVID-19 pandemic, and ESMA and EBA statements on the impact on accounting reporting linked to IFRS 9 and the definition of Default and Forbearance. All published in March 2020.

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

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

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

#### 4.3 Impairment loss measurement guidelines

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

An exposure is “past due” when any amount of principal, interest or fee has not been paid at the date it was due. Past due but not impaired loans, as disclosed in note 2.2.4 of the December 2021 Annual report and financial statements, are those loans and advances for which contractual interest or principal payments are past due but the Group believes that impairment is not appropriate on the basis of the stage of collection of amounts owed to the Group.

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

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

The uncertainty in the macroeconomic environment increased substantially post the COVID-19 outbreak. The Group's provisioning approach is forward looking with a view of capturing current and future difficulties of borrowers. During 2020, the Group carried out an intensive and comprehensive review of the resilience of its International Corporate Lending portfolio under various economic scenarios, taking into consideration both direct and indirect risks.

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

Throughout 2021, the Group continued to monitor the evolution of COVID-19 and its impact on the macroeconomic environment and the Group's borrowers in order to assess the enduring impact of COVID-19 on the underlying business models.

For Local Business Lending assets, the Group is unable to use external credit ratings as all exposures are unrated. Exposures within the Local Business Lending portfolio are therefore managed at an individual exposure level for credit purposes, through relationship managers who have access to the customers and their financial information on a regular basis.

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

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

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

In respect of the Dutch and Maltese Mortgage portfolios, the key indicator of credit-impairment arises when exposures are past due by more than 90 days taking into account the materiality threshold for Retail exposures as per the EBA regulatory definition of default, with other unlikelihood to pay indicators, such as the extension of forbearance measures, also being taken into consideration. The ECL on Stage 3 exposures is equivalent to the LGD parameter multiplied by the exposure amount, with PD equivalent to 100%.

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

Financial assets purchased or originated at a deep discount, classified as Purchased or Originated Credit-Impaired ('POCI'), are seen to reflect incurred credit losses. A lifetime ECL is recognised on POCI assets. The Group does not expect to originate or purchase any financial assets that are credit-impaired. However, there might be rare instances where the Group originates new assets following a renegotiation or restructure for reasons relating to a borrower's distressed financial circumstances that otherwise would not have been considered, and which may result in the new assets to be deemed POCI.

#### Credit quality of performing and non-performing exposures by past due days (Article 442 (c-d) CRR)

Table EU CQ3, that replaced EBA -NPL3, provides asset quality information of the Group's on balance sheet exposures and off balance sheet exposures by past due days broken down by Supervisory Reporting counterparty classes.

The amounts shown are based on IFRS accounting values. The gross carrying amount reflects the exposure value including accumulated impairment, provisions and accumulated negative changes due to credit risk for non-performing exposures.

**EU CQ3: Credit quality of performing and non-performing exposures by past due days**

		a	b	c	d	e	f	g	h	i	j	k	l
31 December 2021		Gross carrying amount/nominal amount											
Amounts in €millions		Performing exposures			Non-performing exposures								
			Not past due or past due ≤ 30 days	Past due > 30 days ≤ 90 days		Unlikely to pay that are not past due or are past due ≤ 90 days	Past due > 90 days ≤ 180 days	Past due > 180 days ≤ 1 year	Past due > 1 year ≤ 2 years	Past due > 2 years ≤ 5 years	Past due > 5 years ≤ 7 years	Past due > 7 years	Of which defaulted
005	Cash balances at central banks and other demand deposits	488	488	-	-	-	-	-	-	-	-	-	-
010	Loans and advances	2,268	2,265	3	162	151	3	1	-	-	-	7	162
020	Central banks	-	-	-	0	-	-	-	-	-	-	-	-
030	General governments	-	-	-	0	-	-	-	-	-	-	-	-
040	Credit institutions	39	39	-	0	-	-	-	-	-	-	-	-
050	Other financial corporations	238	238	-	69	69	-	-	-	-	-	-	69
060	Non-financial corporations	322	322	-	93	82	3	1	-	-	-	7	93
070	Of which SMEs	71	71	-	12	1	3	1	-	-	-	7	12
080	Households	1,668	1,666	3	-	-	-	-	-	-	-	-	-
090	Debt securities	1,280	1,280	-	-	-	-	-	-	-	-	-	-
100	Central banks	-	-	-	-	-	-	-	-	-	-	-	-
110	General governments	205	205	-	-	-	-	-	-	-	-	-	-
120	Credit institutions	554	554	-	-	-	-	-	-	-	-	-	-
130	Other financial corporations	508	508	-	-	-	-	-	-	-	-	-	-
140	Non-financial corporations	12	12	-	-	-	-	-	-	-	-	-	-
150	Off-balance-sheet exposures	411			5								5
160	Central banks	-			-								-
170	General governments	-			-								-
180	Credit institutions	31			-								-
190	Other financial corporations	118			-								-
200	Non-financial corporations	152			5								5
210	Households	111			-								-
220	<b>Total</b>	4,447	4,033	3	167	151	3	1	-	-	-	7	167

		a	b	c	d	e	f	g	h	i	j	k	l
31 December 2020		Gross carrying amount/nominal amount											
		Performing exposures			Non-performing exposures								
			Not past due or past due ≤ 30 days	Past due > 30 days ≤ 90 days		Unlikely to pay that are not past due or are past due ≤ 90 days	Past due > 90 days ≤ 180 days	Past due > 180 days ≤ 1 year	Past due > 1 year ≤ 2 years	Past due > 2 years ≤ 5 years	Past due > 5 years ≤ 7 years	Past due > 7 years	Of which defaulted
		Amounts in €millions											
005	Cash balances at central banks and other demand deposits	649	649	-	-	-	-	-	-	-	-	-	-
010	Loans and advances	1,939	1,938	1	204	197	-	-	-	-	1	5	204
020	Central banks	-	-	-	-	-	-	-	-	-	-	-	-
030	General governments	-	-	-	-	-	-	-	-	-	-	-	-
040	Credit institutions	69	69	-	-	-	-	-	-	-	-	-	-
050	Other financial corporations	324	324	-	61	61	-	-	-	-	-	-	61
060	Non-financial corporations	471	471	-	142	135	-	-	-	-	1	5	142
070	Of which SMEs	68	68	-	10	4	-	-	-	-	1	5	10
080	Households	1,073	1,073	1	1	-	-	-	-	-	-	-	-
090	Debt securities	1,148	1,148	-	-	-	-	-	-	-	-	-	-
100	Central banks	-	-	-	-	-	-	-	-	-	-	-	-
110	General governments	230	230	-	-	-	-	-	-	-	-	-	-
120	Credit Institutions	612	612	-	-	-	-	-	-	-	-	-	-
130	Other financial corporations	294	294	-	-	-	-	-	-	-	-	-	-
140	Non-financial corporations	13	13	-	-	-	-	-	-	-	-	-	-
150	Off-balance-sheet exposures	702			13								13
160	Central banks	-			-								-
170	General governments	-			-								-
180	Credit Institutions	-			-								-
190	Other financial corporations	197			-								-
200	Non-financial corporations	199			13								13
210	Households	305			-								-
220	Total	4,438	3,735	1	217	197	-	-	-	1	5	5	217

As a result of the COVID-19 pandemic, assessments of lending portfolios and the underlying obligors continue to be made on an ongoing basis, and impairments revisited in light of the changed outlook. During 2021 MeDirect released €2.3 million of expected credit losses. This was driven primarily by the release of IFRS 9 Stage 1 and 2 provisions as a result of reductions in the International Corporate Lending portfolio and an improved macroeconomic outlook.

Based on the Group's detailed name by name portfolio analysis, provisions were taken on all borrowers whom have defaulted, as well as all non-defaulted borrowers that showed potential future characteristics of unlikelihood to pay. The Group also amended Stage 1 and Stage 2 provisions to reflect rating migrations and updates to the macroeconomic outlook. As a result of its forward looking approach to impairments, the Group believes that it has accounted for all currently expected credit losses for the financial year ended 31 December 2021.

Out of the €10.9 million past due more than 90 days stated in EU CQ3 above, all are considered as credit impaired. As stated earlier, those exposures classified as past due but not impaired, as disclosed in note 2.2.4 of the December 2021 Annual report and financial statements, would be treated as such as although contractual interest or principal payments is past due, the Group believes that impairment is not appropriate on the basis of the stage of collection of amounts owed to the Group. However, related credit losses, which may arise, would be partly covered by Stage 1 and Stage 2 credit loss allowances.

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

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

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

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

The Group operates a Standardised Approach for credit risk under its CRD V regulatory requirements. For the purpose of calculating IFRS 9 Stage 1 and Stage 2 ECLs, the Group used both:

- Moody's Risk Calc and Impairment Calc tools to generate internal implied rating; and
- Public ratings from the point of origination and through the lifetime of the financial asset for monitoring and capital calculation.

If an asset is transferred from IFRS 9 Stage 2 to Stage 3, a specific Lifetime ECL Impairment Assessment is undertaken. The Corporate Lending Portfolio utilises a Discounted Cash Flow ("DCF") model for assessing Enterprise Value ("EV") and in turn expected recovery amounts and level of specific impairment provision. As outlined in the internal policy, exposures are rarely secured by assets with an easily observable value, moreover the most likely exit strategy for the distressed business is the sale of the enterprise as a Going Concern. With this in mind, the specific impairments are calculated based on the prudent assessment of a going concern EV rather than an estimation of any collateral held. The DCF model output is derived from the following inputs:

- Weighted Average Cost of Capital ("WACC");
- 3-year P&L and cashflow forecasts; and
- The current debt structure.

There are no other amounts apart from the impairment allowances that are classified as specific or general credit risk adjustments. The Group does not account for any general credit risk adjustments.

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

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

#### Changes in stock of non-performing loans and advances (Article 442 (f) CRR)

The following table, that replaced EBA-NPL 8, provides an analysis of the changes in stock of non-performing loans and advances throughout the financial year. The gross carrying value is inclusive of accrued interest.

#### **EU CR2 - Changes in stock of non-performing loans and advances**

<i>Amounts in €millions</i>		Period from 1 July to 31 December 2021
		a Gross carrying amount
<b>010</b>	<b>Initial stock of non-performing loans and advances</b>	204
020	Inflows to non-performing portfolios	88
030	Outflows from non-performing portfolios	(130)
040	Outflows due to write-offs	(8)
050	Outflow due to other situations	(122)
<b>060</b>	<b>Final stock of non-performing loans and advances</b>	<b>162</b>

The decrease in the loans and debt securities that have defaulted or impaired since the last reporting period is attributable to a decrease in the impaired loans in the International Corporate Lending portfolio.



The following table shows the drivers of movements in the stock on non-performing loans and advances and related net accumulated reserves.

**EU CR2a: Changes in the stock of non-performing loans and advances and related net accumulated recoveries**

		Period from 1 July to 31 December 2021		Period from 1 January to 30 June 2021	
		a	b	a	b
		Gross carrying amount	Related net accumulated recoveries	Gross carrying amount	Related net accumulated recoveries
<i>Amounts in €millions</i>					
<b>010</b>	<b>Initial stock of non-performing loans and advances</b>	204		203	
020	Inflows to non-performing portfolios	88		33	
030	Outflows from non-performing portfolios	(130)		(99)	
040	Outflow to performing portfolio	-		-	
050	Outflow due to loan repayment, partial or total	(30)		(30)	
060	Outflow due to collateral liquidations	-	-	-	-
070	Outflow due to taking possession of collateral	-	-	-	-
080	Outflow due to sale of instruments	(36)	-	(23)	-
090	Outflow due to risk transfers	-	-	-	-
100	Outflows due to write-offs	(8)		(8)	
110	Outflow due to other situations	(56)		(38)	
120	Outflow due to reclassification as held for sale	-		-	
<b>130</b>	<b>Final stock of non-performing loans and advances</b>	<b>162</b>	<b>-</b>	<b>137</b>	<b>-</b>

#### 4.4 Credit risk mitigation

General qualitative information on credit risk mitigation (Article 453 (a-e) CRR) (EU CRC)

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

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

The Malta Corporate Lending portfolio largely consists of short-term lending against residential and commercial real estate for resale, therefore, the source of repayment and collateral are generally the same pool of assets. For this reason, the Group applies risk appetite Loan-to-cost and Loan-to-value limits to provide a buffer in case of any changes to the credit quality of the borrower since origination. In view of the speculative nature of such facilities, a risk weight of 150% is applied as detailed under Article 128 of the CRR.

The Malta Mortgages portfolio is offered to retail borrowers for the purchase of residential real estate in Malta. Such borrowing is provided in line with general market standards and governed by the Central Bank of Malta Directive 16, which covers maximum lending limits for different categories of borrowers and income considerations for debt service to income ratios. Risk weights are also applied in line with section 2 of the CRR.

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

The risk-weights for exposures secured by mortgages on residential property are set by Articles 123 to 125 of the Capital Requirements Regulation (CRR). Thus the valuation of the collateral is an important component to determine the portion of the Dutch mortgage exposure that should be considered to be secured by property and the portion, if any, of the Dutch mortgage exposure that should be treated as a retail exposure under article 123 of the CRR.

As from 31 March 2020, following changes to the Dutch National Mortgage Guarantee (NHG), when applying a risk weighting to mortgage loans, the Group is taking into account the terms and conditions that govern the National Mortgage Guarantee (NHG) scheme and, hence, the credit protection it provides. In the case of residential mortgage loans that are guaranteed by the NHG, the risk-weights for such exposures are amended in accordance with the credit risk mitigation framework of Part Three, Title II, Chapter 4 of the CRR, given that the NHG guarantee now meets the conditions of, in particular, Articles 213 to 215 of the CRR.

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

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

#### **4.4.1 Capital allocation and capital buffers for credit risk**

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

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

#### **4.4.2 Use of On- and off-balance sheet netting and set-off** (Article 453 (a) CRR)

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is the intention to settle on a net basis or realise the asset and settle the liability simultaneously. The level of offsetting within the Group is deemed to be minimal. Further information regarding the offsetting policies of the Group can be found in note 2.2.9 of the MDB Group Annual Report and Financial Statements for the financial period ended 31 December 2021.

#### **4.4.3 Main types of collateral, guarantor and credit derivative counterparties** (Article 453 (c-d) CRR)

For the Malta Lending portfolios, collateral held by the Group includes Special Hypothecs and Privileges over residential and commercial real estate, as well financial collateral such as debt securities, insurance and cash on deposit. Generally, the Group also takes a charge over all the borrowers existing and future assets under a General Hypothec.

The Group also holds collateral against mortgage loans under the Dutch mortgage portfolio in the form of hypothecary rights over immovable assets.

The financial guarantees received by the Group relates to the Dutch mortgage portfolio business as the loans are covered by the Nationale Hypotheek Garantie ("NHG") which covers up to 90% of the losses that remain after a foreclosure. The NHG Guarantee assumes that a mortgage loan amortises over a 30-year period regardless of the actual loan amortisation profile. Consequently, the credit protection amount of the NHG guarantee on mortgage loans decreases over time, assuming repayment of the guaranteed residential mortgage loan within 30 years and according to the annuity method. Thus, depending on the NHG terms and conditions that apply to the individual mortgage loan, the credit protection provided by the NHG guarantee may only be partial and is decreasing over time.

The Group was not involved in any credit derivative transactions during the year.

#### **4.4.4 Collateral evaluation and management** (Article 453 (b) CRR)

Most of the immovable property collateral received is located in Malta, and in the Netherlands (in the frame of the Dutch Mortgage business).

In relation to the Malta lending portfolio, collateral is considered as part of the credit decision process and pricing. In the event of a default, the Group may utilise the collateral as a source of repayment. Depending on its form, collateral can have a significant financial effect in mitigating exposure to credit risk. The Group follows Articles 124 to 126 of the CRR in order to determine whether exposures are fully and completely secured by immovable property, and which risk weight to apply in order to calculate the own funds requirement. In order to make use of the financial collateral for credit risk mitigation purposes, the Group follows the conditions set out in Chapter 4, Title I, Part Three of CRR, in particular applying Article 222 of the said regulation. Collateral that is not eligible in terms of CRR is not taken into consideration for credit risk mitigation.

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

Loan-to-Value limits are applied to any credit extended to real estate related transactions or where real estate is pledged as collateral, given that underlying asset values can be subject to market volatility. These limits are calculated on the market value of the security, prior to the application of the relative haircut as described below. A range of LTV Risk Appetite limits are applied to the Corporate and Retail portfolios, reflecting the different risks associated with the borrower type and purpose.

The value of collateral that is commercial real estate is monitored at a minimum once a year, while the value of residential real estate is reviewed at least once every three years. The Group monitors the value of all property held as collateral against the local Property Price Index as well by gauging asking prices of similar properties available on the market at origination and credit review stage.

For individually significant loans, including but not limited to those exceeding €3 million or 5% of the Group's own funds, the value of the property securing such loans shall be reviewed by an independent valuer at least every three years. If the market is subject to significant changes in conditions and publicly available information indicates that the value of the property may have declined materially relative to general market prices, an update of the valuation of the collateral shall be required.

Collateral haircuts are reviewed by the Group at least annually, in line with the Malta Lending Collateral Policy and may from time to time, be amended to ensure that the Group's business continues to act in accordance with best practices.

In relation to the Dutch mortgages receivables portfolio, collateral is considered as part of the credit decision process by the LoR, but not in the pricing, as the pricing is based on the NHG guarantee. In the event of a default, the LoR may utilise the collateral as a source of repayment. Collateral has a significant financial effect in mitigating exposure to credit risk. The Group follows Articles 123 to 125 of the CRR in order to determine whether exposures are fully and completely secured by immovable property, and which risk weight to apply in order to calculate the own funds requirement.

**Overview of credit risk mitigation techniques (Article 453 (f) CRR)**

The following table EU CR3 shows a breakdown of unsecured and secured credit risk exposures and credit risk exposures secured by various credit risk mitigants for all loans and debt securities including the carrying amounts of the total population which are in default. Unsecured exposures represent the carrying amount of credit risk exposures (net of credit risk adjustments ) that do not benefit from a credit risk mitigation technique, regardless of whether this technique is recognised in the CRR. Secured exposures represent the carrying amount of exposures that have at least one CRM mechanism (e.g. collateral and financial guarantees) associated with them. Exposure secured by various credit risk mitigants analysed in the other columns are the carrying amount of exposures (net of credit risk adjustments) partly or totally secured by collateral and financial guarantees (no credit derivatives in place), whereby only the secured portion of the overall exposure is presented. No overcollateralization is considered.

**EU CR3 – CRM techniques overview: Disclosure of the use of credit risk mitigation techniques**

31 December 2021		Unsecured carrying amount	Secured carrying amount			
				Of which <b>secured by collateral</b>	Of which <b>secured by financial guarantees</b>	Of which <b>secured by credit derivatives</b>
<i>Amounts in €millions</i>		a	b	c	d	e
1	Loans and advances	2,896	1,763	1,763	-	-
2	Debt securities	1,279	-	-	-	-
3	Total	4,175	1,763	1,763	-	-
4	<i>Of which non-performing exposures</i>	133	11	11	-	-
EU-5	<i>Of which defaulted</i>	133	11	11	-	-

31 December 2020		Unsecured carrying amount	Secured carrying amount			
				Of which <b>secured by collateral</b>	Of which <b>secured by financial guarantees</b>	Of which <b>secured by credit derivatives</b>
		<i>Amounts in €millions</i>		a	B	c
1	Loans and advances	2,773	2,109	2.109	-	-
2	Debt securities	1,148	-	-	-	-
3	Total	3,921	2,109	2.109	-	-
4	<i>Of which non-performing exposures</i>	187	10	10	-	-
EU-5	<i>Of which defaulted</i>	187	10	10	-	-

The following table, that replaced EBA\_NPL7, shows an analysis of loans and advances that are secured by immovable property, split by the LTV of the respective loans and advances as at 31 December 2021, in line with the EBA Guidelines on disclosure of non-performing and forborne exposures.

**EU CQ6: Collateral valuation – loans and advances**

31 December 2021		a	b	c	d	E
		Loans and advances				
			Performing	Non-performing		
				Of which past due > 30 days ≤ 90 days		Unlikely to pay that are not past due or are past due ≤ 90 days
Amounts in €millions						
010	<b>Gross carrying amount</b>	<b>2,430</b>	<b>2,268</b>	<b>3</b>	<b>162</b>	<b>151</b>
020	Of which secured	1,763	1,752	3	11	-
030	Of which secured with immovable property	1,763	1,752	3	11	-
040	Of which instruments with LTV higher than 60% and lower or equal to 80%	321	316		5	-
050	Of which instruments with LTV higher than 80% and lower or equal to 100%	1,175	1,174		-	-
060	Of which instruments with LTV higher than 100%	102	102		-	-
070	<b>Accumulated impairment for secured assets</b>	<b>22</b>	<b>4</b>	<b>-</b>	<b>18</b>	<b>18</b>
080	<b>Collateral</b>					
090	Of which value capped at the value of exposure	1,763	1,752	3	11	-
100	Of which immovable property	1,763	1,752	3	11	-
110	Of which value above the cap	220	208	-	13	-
120	Of which immovable property	219	207	-	13	-
130	<b>Financial guarantees received</b>	<b>1,462</b>	<b>1,461</b>	<b>2</b>	<b>-</b>	<b>-</b>
140	<b>Accumulated partial write-off</b>	<b>11</b>	<b>-</b>	<b>-</b>	<b>11</b>	<b>-</b>

Amounts in €millions		f	g	h	i	j	k	l
		Loans and advances						
		Non-performing						
		Past due > 90 days						
		Of which past due > 90 days ≤ 180 days	Of which past due > 180 days ≤ 1 year	Of which past due > 1 year ≤ 2 years	Of which past due > 2 years ≤ 5 years	Of which past due > 5 years ≤ 7 years	Of which past due > 7 years	
010	<b>Gross carrying amount</b>	<b>11</b>	<b>3</b>	<b>1</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>7</b>
020	Of which secured	11	3	1	-	-	-	7
030	Of which secured with immovable property	11	3	1	-	-	-	7
040	Of which instruments with LTV higher than 60% and lower or equal to 80%	6						
050	Of which instruments with LTV higher than 80% and lower or equal to 100%	-						
060	Of which instruments with LTV higher than 100%	-						
070	<b>Accumulated impairment for secured assets</b>	<b>7</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>7</b>
080	<b>Collateral</b>							
090	Of which value capped at the value of exposure	11	3	1	-	-	-	7
100	Of which immovable property	11	3	1	-	-	-	7
110	Of which value above the cap	12	6	2	-	-	-	4
120	Of which immovable property	12	6	2	-	-	-	4
130	<b>Financial guarantees received</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
140	<b>Accumulated partial write-off</b>	<b>11</b>	<b>11</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

30 June 2021		a	b			c	d	e
		Loans and advances						
		Performing		Of which past due > 30 days ≤ 90 days	Non-performing		Unlikely to pay that are not past due or are past due ≤ 90 days	
Amounts in €millions								
010	Gross carrying amount	2,450	2,312	1	137	130		
020	Of which secured	1,684	1,674	1	10	3		
030	Of which secured with immovable property	1,683	1,673	1	10	3		
040	Of which instruments with LTV higher than 60% and lower or equal to 80%	296	290		6	-		
050	Of which instruments with LTV higher than 80% and lower or equal to 100%	1,133	1,133		-	-		
060	Of which instruments with LTV higher than 100%	93	93		-	-		
070	Accumulated impairment for secured assets	15	6	-	10	9		
080	Collateral							
090	Of which value capped at the value of exposure	1,684	1,674	1	10	3		
100	Of which immovable property	1,685	1,673	1	10	3		
110	Of which value above the cap	207	195	-	11	6		
120	Of which immovable property	206	195	-	11	6		
130	Financial guarantees received	1,403	1,402	2	-	-		
140	Accumulated partial write-off	7	-	-	7	-		

		f	g	h	i	j	k	l
		Loans and advances						
		Non-performing						
Amounts in €millions		Past due > 90 days						
		Of which past due > 90 days ≤ 180 days	Of which past due > 180 days ≤ 1 year	Of which past due > 1 year ≤ 2 years	Of which past due > 2 years ≤ 5 years	Of which past due > 5 years ≤ 7 years	Of which past due > 7 years	
010	Gross carrying amount	7	-	-	-	-	-	7
020	Of which secured	7	-	-	-	-	-	7
030	Of which secured with immovable property	7	-	-	-	-	-	7
040	Of which instruments with LTV higher than 60% and lower or equal to 80%	6						
050	Of which instruments with LTV higher than 80% and lower or equal to 100%	-						
060	Of which instruments with LTV higher than 100%	-						
070	Accumulated impairment for secured assets	7	-	-	-	-	-	7
080	Collateral							
090	Of which value capped at the value of exposure	7	-	-	-	-	-	7
100	Of which immovable property	7	-	-	-	-	-	7
110	Of which value above the cap	5	-	-	1	-	-	4
120	Of which immovable property	5	-	-	1	-	-	4
130	Financial guarantees received	-	-	-	-	-	-	-
140	Accumulated partial write-off	7	7	-	-	-	-	-

The following disclosure on foreclosed assets obtained from non-performing exposures as at 31 December 2021 is in line with the EBA Guidelines on disclosure of non-performing and forborne exposures.

Collateral obtained by taking possession and execution processes (Article 442 (c) CRR)

No collateral was obtained by taking possession of tangible assets.

Quantitative information on the use of the standardised approach

*Standardised approach exposure by risk weight before and after credit risk mitigation (Article 444 (e) CRR and Article 453 (g-i) CRR)*

The following table shows our credit risk exposure before and post credit conversion factors and credit risk mitigation obtained in the form of eligible financial collateral and guarantees (no credit derivatives in place) based on the exposure at default values (EAD) in the standardised approach as well as related RWA and average risk weights broken down by regulatory exposure classes and a split in on- and off-balance sheet exposures.

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

31 December 2021		Exposures before CCF and before CRM <sup>5</sup>		Exposures post CCF and post CRM		RWAs and RWAs density	
	Exposure classes (Amounts in €millions)	On-balance-sheet exposures	Off-balance-sheet exposures	On-balance-sheet exposures	Off-balance-sheet exposures	RWAs	RWAs density (%)
		a	b	c	d	e	f
1	Central governments or central banks	358	-	1,826	8	21	1%
2	Regional government or local authorities	121	-	121	-	-	0%
3	Public sector entities	94	-	94	-	4	4%
4	Multilateral development banks	41	-	41	-	-	0%
5	International organisations	26	-	26	-	-	0%
6	Institutions	235	-	198	-	33	17%
7	Corporates	479	218	479	102	580	100%
8	Retail	167	102	114	3	88	75%
9	Secured by mortgages on immovable property	1,518	45	141	7	77	52%
10	Exposures in default	144	4	143	2	207	142%
11	Exposures associated with particularly high risk	35	15	35	-	52	150%
12	Covered bonds	422	-	422	-	42	10%
13	Institutions and corporates with a short-term credit assessment	-	-	-	-	-	-
14	Collective investment undertakings	-	-	-	-	-	-
15	Equity	-	-	-	-	-	-
16	Other items	37	-	37	3	37	91%
17	<b>TOTAL</b>	<b>3,676</b>	<b>384</b>	<b>3,676</b>	<b>126</b>	<b>1,142</b>	<b>30%</b>

31 December 2020		Exposures before CCF and before CRM		Exposures post CCF and post CRM		RWAs and RWAs density	
	Exposure classes (Amounts in €millions)	On-balance-sheet exposures	Off-balance-sheet exposures	On-balance-sheet exposures	Off-balance-sheet exposures	RWAs	RWAs density (%)
		a	b	c	d	e	f
1	Central governments or central banks	522	-	1,513	50	22	1%
2	Regional government or local authorities	133	-	133	-	-	0%
3	Public sector entities	107	-	107	-	4	4%
4	Multilateral development banks	41	-	41	-	-	0%
5	International organisations	26	-	26	-	-	0%
6	Institutions	293	-	254	-	41	16%
7	Corporates	728	345	727	165	892	100%
8	Retail	121	58	78	12	68	75%
9	Secured by mortgages on immovable property	1,002	296	93	10	56	54%
10	Exposures in default	160	11	160	6	215	130%
11	Exposures associated with particularly high risk	44	35	44	-	66	150%
12	Covered bonds	478	-	478	-	48	10%
13	Institutions and corporates with a short-term credit assessment	-	-	-	-	-	-
14	Collective investment undertakings	-	-	-	-	-	-
15	Equity	-	-	-	-	-	-
16	Other items	38	-	39	3	38	90%
17	<b>TOTAL</b>	<b>3,691</b>	<b>745</b>	<b>3,691</b>	<b>247</b>	<b>1,450</b>	<b>37%</b>

The preceding table does not cover derivative instruments exposures and CCP exposures as at 31 December 2021 with an exposure value of €15 million post CCF and CRM, of which the respective RWAs amounted to €10 million.

<sup>5</sup> **Exposures before CCF and CRM:** This represents the Group's on-balance-sheet and off-balance exposures (respectively) under the regulatory scope of consolidation (in accordance with Article 111 in the CRR), net of specific credit risk adjustments (as defined in the Commission Delegated Regulation (EU) No 183/2014) and write-offs (as defined in the applicable accounting framework), but before (i) the application of CCFs as specified in the same article and (ii) the application of CRM techniques specified in Part Three, Title II, Chapter 4 of the CRR.

The following table provides the exposure at default values (EAD) per regulatory exposure class are assigned to their standardised risk weights. Unrated items are split out separately.

#### EU CR5 – Standardised approach<sup>6</sup>

31 December 2021

31 December 2021		Risk weight										
Amounts in €millions		0%	10%	20%	35%	50%	75%	100%	150%	250%	Total	Of which unrated
		a	d	e	f	g	i	j	k	l	q	q
Exposure classes												
1	Central governments or central banks	1,826	-	-	-	-	-	-	-	8	1,834	1,834
2	Regional governments or local authorities	121	-	-	-	-	-	-	-	-	121	121
3	Public sector entities	74	-	20	-	-	-	-	-	-	94	94
4	Multilateral development Banks	41	-	-	-	-	-	-	-	-	41	41
5	International organisations	26	-	-	-	-	-	-	-	-	26	26
6	Institutions	31	-	173	-	-	-	2	-	-	206	63
7	Corporates	-	-	-	-	-	-	581	-	-	581	581
8	Retail exposures	-	-	-	-	-	118	-	-	-	118	118
9	Exposures secured by mortgages on immovable property	-	-	-	98	13	-	36	-	-	148	148
10	Exposures in default	-	-	-	-	-	-	22	123	-	145	145
11	Items associated with particular high risk	-	-	-	-	-	-	-	35	-	35	35
12	Covered bonds	-	420	2	-	-	-	-	-	-	422	-
13	Exposures to institutions and corporates with a short term credit assessment	-	-	-	-	-	-	-	-	-	-	-
14	Units or shares in collective investment undertakings	-	-	-	-	-	-	-	-	-	-	-
15	Equity exposure	-	-	-	-	-	-	-	-	-	-	-
16	Other items	4	-	-	-	-	-	37	-	-	40	40
17	Total	2,122	420	195	98	13	118	678	158	8	3,811	3,246

30 June 2021

30 June 2021		Risk weight										
	Amounts in €millions	0% a	10% d	20% e	35% f	50% g	75% i	100% j	150% k	250% l	Total q	Of which unrated q
Exposure classes												
1	Central governments or central banks	1,648	-	-	-	-	-	-	-	4	1,652	1,652
2	Regional governments or local authorities	122	-	-	-	-	-	-	-	-	122	122
3	Public sector entities	75	-	20	-	-	-	-	-	-	95	95
4	Multilateral development Banks	41	-	-	-	-	-	-	-	-	41	41
5	International organisations	26	-	-	-	-	-	-	-	-	26	26
6	Institutions	8	-	226	-	-	-	2	-	-	237	59
7	Corporates	-	-	-	-	-	-	716	-	-	716	716
8	Retail exposures	-	-	-	-	-	117	-	-	-	117	117
9	Exposures secured by mortgages on immovable property	-	-	-	80	14	-	32	-	-	126	126
10	Exposures in default	-	-	-	-	-	-	9	108	-	118	118
11	Items associated with particular high risk	-	-	-	-	-	-	-	43	-	43	43
12	Covered bonds	-	431	2	-	-	-	-	-	-	434	-
13	Exposures to institutions and corporates with a short term credit assessment	-	-	-	-	-	-	-	-	-	-	-
14	Units or shares in collective investment undertakings	-	-	-	-	-	-	-	-	-	-	-
15	Equity exposure	-	-	-	-	-	-	-	-	-	-	-
16	Other items	4	-	-	-	-	-	35	-	-	39	39
17	Total	1,923	431	249	80	14	117	794	152	4	3,765	3,153

<sup>6</sup> Amounts presented in this table represent exposure value after credit risk mitigants ('CRM') and credit conversion factor ('CCF') excluding IFRS 9 transitional adjustment. Missing columns relate to risk weight percentages that are not applicable to the Group.

#### 4.5 Settlement risk

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

##### Mitigation of settlement risk

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

#### 4.6 Equity exposures in the banking book (Article 438 (e) CRR)

The Group did not hold equity instruments as at the end of the reporting period.

As at 31 December 2020 the Group held equity instruments that had a carrying amount and exposure amount of €6.7 million, risk weighted at 150% resulting in risk weighted assets equivalent to €10 million. These equity exposures were classified as Fair Value Through Other Comprehensive Income and were held long term for capital gains purposes. The fair value of all equities corresponds to their market value and there were no material deviations between the two. Price changes in such equity instruments were accounted for as other comprehensive income. Unrealised gains on FVOCI equities were fully recognised in CET I prior to disposal. The total equity holding did not fall under the definition of "qualifying holding"<sup>7</sup> and was below the small trading book business threshold (Article 94 of CRR) given that it was less than 5% of total assets and therefore was not eligible to be part of a trading book. This equity was classified in the exposure category "Items associated with particular high risk".

These equity instruments were disposed off in 2021 resulting in a realised gain amounting to €1.3 million that was transferred from Other comprehensive income to Retained Earnings as disclosed in page 79 of the MDB Group Annual Report and Financial Statements.

#### 4.7 Exposures subject to measures applied in response to the COVID-19 pandemic

In 2020, the European Banking Association (EBA) issued a "Statement on the application of the prudential framework regarding default, Forbearance and IFRS 9 in light of COVID-19 measures", along with guidance on legislative and non-legislative moratoria. On 2 December 2020 after closely monitoring the developments of the COVID-19 pandemic and, in particular, the impact of the second COVID-19 wave and the related government restrictions taken in many EU countries. EBA reactivated its guidelines on legislative and non-legislative moratoria which applied until 31 March 2021.

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

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

The COVID-19 templates 1 and 2 provide an overview of active and expired loans and advances subject to EBA-compliant moratoria in the context of the COVID-19 pandemic as of 31 December 2021 and 30 June 2021.

COVID-19 template 1 provides details on loans and advances subject to EBA-complaint moratoria (legislative and non-legislative). The template provides a breakdown of the gross carrying amount and the related loss allowances by the status of the exposure (performing and non-performing). In addition, exposures for which a grace period of capital and interest payment was granted and exposures with forbearance measures are reported in the template. Performing exposures are 'instruments with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)'; and Non-performing exposures are those that are "unlikely to pay that are not past-due or past-due less than or equal to 90 days" are reported.

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<sup>7</sup> CRR defines "qualifying holding" as a direct or indirect holding in an undertaking which represents 10% or more of the capital or of the voting rights or which makes it possible to exercise a significant influence over the management of that undertaking.



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

As at 31 December 2021

Amounts in €thousands

	Total exposures	Gross Carrying Amount	
		Performing	
		Of which: exposures with forbearance measures	Of which: Instruments with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)
1 Loans and advances subject to moratorium	-	-	-
2 of which: Households	-	-	-
3 of which: Collateralised by residential immovable property	-	-	-
4 of which: Non-financial corporations	-	-	-
5 of which: Small and Medium-sized Enterprises	-	-	-
6 of which: Collateralised by commercial immovable property	-	-	-

As at 31 December 2021

Amounts in €thousands

	Total	Accumulated impairment, accumulated negative changes in fair value due to credit risk	
		Performing	
		Of which: exposures with forbearance measures	Of which: Instruments with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)
1 Loans and advances subject to moratorium	-	-	-
2 of which: Households	-	-	-
3 of which: Collateralised by residential immovable property	-	-	-
4 of which: Non-financial corporations	-	-	-
5 of which: Small and Medium-sized Enterprises	-	-	-
6 of which: Collateralised by commercial immovable property	-	-	-

As at 30 June 2021

Amounts in €thousands

	Total exposures	Gross Carrying Amount	
		Performing	
		Of which: exposures with forbearance measures	Of which: Instruments with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)
1 Loans and advances subject to moratorium	4,143	4,143	-
2 of which: Households	-	-	-
3 of which: Collateralised by residential immovable property	-	-	-
4 of which: Non-financial corporations	4,143	4,143	-
5 of which: Small and Medium-sized Enterprises	4,143	4,143	-
6 of which: Collateralised by commercial immovable property	4,138	4,138	-

As at 30 June 2021

Amounts in €thousands

	Total	Accumulated impairment, accumulated negative changes in fair value due to credit risk	
		Performing	
		Of which: exposures with forbearance measures	Of which: Instruments with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)
1 Loans and advances subject to moratorium	(25)	(25)	-
2 of which: Households	-	-	-
3 of which: Collateralised by residential immovable property	-	-	-
4 of which: Non-financial corporations	(25)	(25)	-
5 of which: Small and Medium-sized Enterprises	(25)	(25)	-
6 of which: Collateralised by commercial immovable property	(25)	(25)	-

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

The following COVID-19 template 2, provides details on EBA-compliant moratoria (legislative and non-legislative) for loans and advances that meet the requirements described in paragraph 10 of the EBA guidelines on moratoria. The template provides information on the number of obligors and gross carrying amount of loans and advances subject to different statuses of EBA compliant moratoria (requested/granted). In addition, the template contains a breakdown of those loans and advances that continue to be active moratoria by remaining period outstanding and the remaining gross carrying amount to be repaid of legislative moratoria as per the definition of the EBA Guidelines on moratoria.

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

As at 31 December 2021

As at 31 December 2021		Gross Carrying Amount								
Amounts in €thousands		Number of obligors	Total	Of which: legislative moratoria	Of which: expired	Residual maturity of moratoria				
						<= 3 months	> 3 months <= 6 months	> 6 months <= 9 months	> 9 months <= 12 months	> 1 year
1	Loans and advances for which moratorium was offered	31	30,059	-						
2	Loans and advances subject to moratorium (granted)	30	30,059	30,059	30,059	-	-	-	-	-
3	of which: Households		720	720	720	-	-	-	-	-
4	of which: Collateralised by residential immovable property		471	471	471	-	-	-	-	-
5	of which: Non-financial corporations		23,937	23,937	23,937	-	-	-	-	-
6	of which: Small and Medium-sized Enterprises		23,937	23,937	23,937	-	-	-	-	-
7	of which: Collateralised by commercial immovable property		16,532	16,532	16,532	-	-	-	-	-

As at 30 June 2021

As at 30 June 2021		Gross Carrying Amount								
Amounts in €thousands		Number of obligors	Total	Of which: legislative moratoria	Of which: expired	Residual maturity of moratoria				
						<= 3 months	> 3 months <= 6 months	> 6 months <= 9 months	> 9 months <= 12 months	> 1 year
1	Loans and advances for which moratorium was offered	31	30,554	-						
2	Loans and advances subject to moratorium (granted)	31	30,554	30,554	30,554	-	-	-	-	-
3	of which: Households		1,059	1,059	1,059	-	-	-	-	-
4	of which: Collateralised by residential immovable property		757	757	757	-	-	-	-	-
5	of which: Non-financial corporations		24,069	24,069	19,925	-	1,709	2,434	-	-
6	of which: Small and Medium-sized Enterprises		24,069	24,069	19,925	-	1,709	2,434	-	-
7	of which: Collateralised by commercial immovable property		16,499	16,499	12,361	-	1,704	2,434	-	-

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

The COVID-19 template 3 provides details on newly originated loans and advances as referred to in paragraph 15 of EBA GL 2020 07 that are subject to public guarantee scheme that Member States introduced in response to the COVID-19 pandemic. In the case of refinancing of previous debt with a new loan or of repackaging of several debts into a new loan, the new loan recognised in the financial statements is reported in this template provided that it is covered by a public guarantee scheme related to the COVID-19 pandemic. The template provides a breakdown of the gross carrying amount, the forbearance measures and the amount of public guarantees related to loans and advances and the inflows to non-performing exposures, if any.

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

Facilities amounting to €1.4 million guaranteed by the Malta Development Bank were granted to 2 borrowers in the professional, scientific and technical industry and the retail industry. These facilities were fully drawn as at 31 December 2021. The term of these two loans are 48 and 72 months respectively, and the guarantee is valid for 48 months. The guarantee for the 72 month term loan can be increased to cover the full term subject to additional terms and conditions.

As at 31 December 2021		Gross carrying amount		Maximum amount of the guarantee that can be considered	Gross carrying amount
Amounts in €thousands			of which: forborne	Public guarantees received	Inflows to non-performing exposures
1	Newly originated loans and advances subject to public guarantee schemes	1,399	-	1,259	-
2	of which: Households	-			-
3	of which: Collateralised by residential immovable property	-			-
4	of which: Non-financial corporations	1,399	-	1,259	-
5	of which: Small and Medium-sized Enterprises	889			-
6	of which: Collateralised by commercial immovable property	-			-

As at 30 June 2021		Gross carrying amount	Maximum amount of the guarantee that can be considered	Gross carrying amount	
Amounts in €thousands					of which: forborne
1	Newly originated loans and advances subject to public guarantee schemes	1,382	-	1,244	-
2	of which: Households	-			-
3	of which: Collateralised by residential immovable property	-			-
4	of which: Non-financial corporations	1,382	-	1,244	-
5	of which: Small and Medium-sized Enterprises	881			-
6	of which: Collateralised by commercial immovable property	-			-

## 5 Counterparty credit risk

### Internal capital and credit limits for counterparty credit risk exposures (Article 439 (a) CRR) (EU CCRA)

Counterparty credit risk (“CCR”) refers to the risk that the counterparty to a transaction could default before the final settlement of the transaction’s cash flows. The Group is primarily exposed to counterparty credit risk through derivative exposures, which have largely been limited to interest rate and currency hedges of the Group’s investment portfolio, and to other derivatives exposures that can be priced on a real time basis. As the Group has no trading book and derivatives operations are limited to risk management purpose, the exposure of the Group to counterparty risk is very limited with 99% of the exposure on two counterparties. One of the counterparty is Eurex, a Central Counterparty (CCP) which is required to manage its exposure towards each of their counterparties as defined in the Regulation of European Market Infrastructure (European Market Infrastructure Regulation (EMIR)) and in the European Securities and Markets Authority (ESMA) Technical Standards.

Four approaches may be used under CRD to calculate exposure values for CCR: mark-to-market, original exposures, standardised and IMM. Exposure values calculated under these approaches are used to determine RWAs. As of June 2021, the Group reported the CCR calculations using the Original Exposures Method (as defined in CRR II, Article 282).

Limits for CCR exposures are established on the basis of the principles for assigning credit limits as described in the sections “General qualitative information on credit risk (Article 435 (1) (a d) CRR (EU OCA and EU CRA)” and “General qualitative information on credit risk mitigation (Article 452 (1-e) CRR) (EU CRC)”. CCR exposures are also considered in the context of the overall credit exposure to the obligor and the group of borrowers under the one obligor principle.

### Management of wrong-way risk exposures (Article 439 (c) CRR (EU CCRA)

The regulation sets-out principles for prudent management of concentration risks and defines strict requirements for monitoring wrong-way risks by the CCPs. Wrong-way risk occurs when exposure to a counterparty is adversely correlated with the credit quality of that counterparty. Thus the counterparty exposure and the riskiness of the counterparty increases simultaneously.

In compliance with Article 291 (2) and (4) CRR the Group monitors wrong way risk, that is those situations where the probability of default of a particular counterparty is positively correlated to the exposure with the same counterparty. The second large exposure with a large financial institution is related to a back-to-back swap where the counterparty is between MeDirect and the securitisation vehicle of our Dutch mortgage loans portfolio for which only cash collateral is exchanged. The back-to-back structure and cash collateral agreement mitigate therefore the wrong-way risk.

### Credit derivative exposures (Article 439 (j) CRR)

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

### Collateral and credit reserves for counterparty credit risk (Article 439 (b) CRR) (EU CCRA)

Settlement and delivery risk are mitigated by the use of industry-standard documentation such as Loan Management Association (LMA) and International Swaps and Derivatives Association (ISDA) agreements, alongside associated Credit Support Annex (CSAs). A bilateral secured financing transaction bearing any counterparty credit risk not executed under a signed Global Master Repurchase Agreement (GMRA) or ISDA agreement, is outside the Group’s Risk Appetite. A master agreement allows for the close-out netting of rights and obligations arising under derivative transactions that have been entered into under such a master agreement upon the counterparty’s default, resulting in a single net claim owed by or to the counterparty.

In line with the Group’s Collateral Management Framework, the Group’s Treasury Function ensures that margin calls arising from repo and derivatives obligations are monitored and exchanged on a daily basis. Exposure to derivative counterparties and the related credit risk is mitigated through the use of netting and collateralisation agreements.

Any new counterparties and associated limits may be approved by the Treasury Management Credit Committee. This list of approved derivative counterparties and associated limits is included in the Group’s Risk Appetite Statement. The Group’s Treasury function monitors market feeds on a daily basis to ensure that any potential downgrade to credit ratings of its counterparties are captured in a timely manner. This ensures that exposure to such counterparties is limited to the current exposure, if necessary.

The Risk Appetite Statement covering the credit risk for the Treasury portfolio ensures wrong-way risk is mitigated. Wrong way risk results when the probability of default of a counterparty is positively correlated to the exposure with the same counterparty. The Risk Appetite Statement sets out the limits on the maximum exposures held in deposits and derivate exposures to counterparties. Limits are primarily based on the long-term credit rating of the counterparty.

### Collateral in the event of a rating downgrade (Article 439 (d) CRR) (EU CCRA)

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

CCR exposures by model approach and development (Article 439 (f,g,k) CRR)

In order to determine the potential future credit exposure, the notional amounts or underlying values, as applicable, are multiplied by the percentages stipulated in the CRR, Table 1 of Article 274(2)(c). These are based on contract type and residual maturities. The following table shows the methods used for calculating the regulatory requirements for CCR exposure including the main parameters for each method.

**EU CCR1: Analysis of CCR exposure by approach**

As at 31 December 2021		a	b	c	d	e	f	g	h
	Amounts in €millions	Replacement cost (RC)	Potential future exposure (PFE)	EEPE	Alpha used for computing regulatory exposure value	Exposure value pre-CRM	Exposure value post-CRM	Exposure value	RWEA
EU-1	EU - Original Exposure Method (for derivatives)	1	4		1.4	7	7	7	2
EU-2	EU - Simplified SA-CCR (for derivatives)	-	-		1.4	-	-	-	-
1	SA-CCR (for derivatives)	-	-		1.4	-	-	-	-
2	IMM (for derivatives and SFTs)			-	-	-	-	-	-
2a	Of which securities financing transactions netting sets			-		-	-	-	-
2b	Of which derivatives and long settlement transactions netting sets			-		-	-	-	-
2c	Of which from contractual cross-product netting sets			-		-	-	-	-
3	Financial collateral simple method (for SFTs)					31	31	31	-
4	Financial collateral comprehensive method (for SFTs)					-	-	-	-
5	VaR for SFTs					-	-	-	-
6	<b>Total</b>					<b>38</b>	<b>38</b>	<b>38</b>	<b>2</b>

CCR Credit Valuation Adjustment ("CVA") capital charge (Article 439 (h) CRR)

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

The CVA is calculated under the standardised method. Using the regulatory formula, capital required in respect of CVA risk as at 31 December 2021, is calculated to be €96 thousand on a total exposure of €6 million.

**EU CCR2: Transactions subject to own funds requirements for CVA risk**

As at 31 December 2021			a	b
Amounts in €millions			Exposure value	RWA
1	Total transactions subject to the Advanced method		-	-
2	(i) VaR component (including the 3× multiplier)			-
3	(ii) stressed VaR component (including the 3× multiplier)			-
4	Transactions subject to the Standardised method		6	1
EU-4	Transactions subject to the Alternative approach (Based on the Original Exposure Method)		-	-
5	<b>Total transactions subject to own funds requirements for CVA risk</b>		<b>6</b>	<b>1</b>

CCR exposures in the standardised approach (Article 444 (e) CRR)

The below table shows the counterparty credit risk exposure split by risk weights and regulatory exposure classes. This table excludes risk weighted exposure amounts derived from own funds requirements for CVA risk but includes exposures cleared through a CCP. Exposures cleared through a central counterparty (CCP) are presented separately in table EU CCR8.

**EU CCR3 – Standardised approach – CCR exposures by regulatory exposure class and risk weights**

31 December 2021		Risk weight											Total exposure value
Amounts in €millions		a	b	c	d	e	f	g	h	i	j	k	
Exposure classes		0 %	2 %	4 %	10 %	20 %	50 %	70 %	75 %	100 %	150 %	Others	
1	Central governments or central banks	-	-	-	-	-	-	-	-	-	-	-	-
2	Regional government or local authorities	-	-	-	-	-	-	-	-	-	-	-	-
3	Public sector entities	-	-	-	-	-	-	-	-	-	-	-	-
4	Multilateral development banks	-	-	-	-	-	-	-	-	-	-	-	-
5	International organisations	-	-	-	-	-	-	-	-	-	-	-	-
6	Institutions	31	-	-	-	7	-	-	-	-	-	-	38
7	Corporates	-	-	-	-	-	-	-	-	-	-	-	-
8	Retail	-	-	-	-	-	-	-	-	-	-	-	-
9	Institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	-	-	-	-	-	-
10	Other items	-	-	-	-	-	-	-	-	-	-	-	-
11	<b>Total exposure value</b>	<b>31</b>	-	-	-	<b>7</b>	-	-	-	-	-	-	<b>38</b>

CCR exposures after credit risk mitigation (Article 439 (e) CRR)

The following table presents information on our counterparty credit risk (CCR) exposure and the composition of collateral used in both derivative transactions and securities financing transactions (SFT).

Table EU CCR5 discloses a breakdown of all types of collateral posted or received to support or reduce CCR exposures related to derivatives and SFT. For SFT, collateral refers to both legs of the transaction as collateral received and collateral positioned.

**EU CCR5 – Composition of collateral for CCR exposures**

31 December 2021		a	b	c	d	e	f	g	h
Amounts in €millions		Collateral used in derivative transactions				Collateral used in SFTs			
Collateral type		Fair value of collateral received		Fair value of posted collateral		Fair value of collateral received		Fair value of posted collateral	
		Segregated	Unsegregated	Segregated	Unsegregated	Segregated	Unsegregated	Segregated	Unsegregated
1	Cash – domestic currency	-	-	-	-	-	-	-	-
2	Cash – other currencies	-	-	-	-	-	-	-	-
3	Domestic sovereign debt	-	-	-	-	-	-	-	-
4	Other sovereign debt	-	-	-	-	-	-	-	-
5	Government agency debt	-	-	-	-	-	31	-	-
6	Corporate bonds	-	-	-	-	-	-	-	-
7	Equity securities	-	-	-	-	-	-	-	-
8	Other collateral	-	-	-	-	-	-	-	-
9	<b>Total</b>	-	-	-	-	-	<b>31</b>	-	-

CCR exposures to central counterparties (Article 439 (i) CRR)

The following table presents an overview of our exposures and capital requirements to central counterparties arising from transactions, margins and contributions to default funds. As of 31 December 2021, MeDirect mainly reports exposures to qualifying central counterparties (QCCP) as defined in Article 4 (88) CRR.

## EU CCR8 – Exposures to CCPs

31 December 2021 Amounts in €millions		a	b
		Exposure value	RWEA
1	<b>Exposures to QCCPs (total)</b>		8
2	Exposures for trades at QCCPs (excluding initial margin and default fund contributions); of which	62	1
3	(i) OTC derivatives	62	1
4	(ii) Exchange-traded derivatives	-	-
5	(iii) SFTs	-	-
6	(iv) Netting sets where cross-product netting has been approved	-	-
7	Segregated initial margin	-	-
8	Non-segregated initial margin	33	1
9	Prefunded default fund contributions	14	6
10	Unfunded default fund contributions	-	-
11	<b>Exposures to non-QCCPs (total)</b>		-
12	Exposures for trades at non-QCCPs (excluding initial margin and default fund contributions); of which	-	-
13	(i) OTC derivatives	-	-
14	(ii) Exchange-traded derivatives	-	-
15	(iii) SFTs	-	-
16	(iv) Netting sets where cross-product netting has been approved	-	-
17	Segregated initial margin	-	-
18	Non-segregated initial margin	-	-
19	Prefunded default fund contributions	-	-
20	Unfunded default fund contributions	-	-

## 6 External credit assessment institutions

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

In accordance with the standardised approach, the Group uses credit assessments issued by External Credit Assessment Institutions ("ECAI's") in order to calculate the risk weighted exposure amounts for certain exposure classes, wherever such a credit assessment is available, in accordance with Part Three, Title II, Chapter 2 of the CRR. During the financial year ended 31 December 2021, the Group used the external ratings issued by the following 3 nominated ECAIs: S&P, Fitch and Moody's. The relevant ratings to use were determined in particular by Article 138 of the CRR, and these were mapped to the credit quality steps according to Regulation 2019/2028 which amended Implementing Regulation (EU) 2016/1799 "as regards the mapping tables specifying the correspondence between the credit risk assessments of external credit assessment institutions and the credit quality steps set out in Regulation (EU) No 575/2013..."

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

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

When calculating the risk-weighted value of the above exposures using ECAI risk assessments, the Group's systems identify the instrument in question and looks up the available ratings in our database according to the rating section rules. The systems then apply the following prescribed credit quality step mapping to derive from the rating the relative risk weight.

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

Fitch Rating	Credit Quality Step		Moody's Investors Service Rating	Credit Quality Step		S&P Global Ratings Europe Limited Rating	Credit Quality Step		Risk Weight
AAA	1		Aaa	1		AAA	1		0%
AA	1		Aa	1		AA	1		0%
A	2		A	2		A	2		20%
BBB	3		Baa	3		BBB	3		50%
BB	4		Ba	4		BB	4		100%
B	5		B	5		B	5		100%
CCC	6		Caa	6		CCC	6		150%
CC	6		Ca	6		CC	6		150%
C	6		C	6		C	6		150%
						D	6		150%

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



## 7 Exposure to interest rate risk in the banking book

### *Qualitative information on interest rate risk in the banking book (Article 448 (1) (c-g) CRR (EU IRRBBA)*

Interest rate risk in the banking book (IRRBB) is the current or prospective risk, to both the Group's capital and earnings arising from movements in interest rates, which affect the Group's non-trading book exposures. This includes gap risk, which arises from the term structure of banking book instruments and basis risk that described the impact of retained earnings in interest rate for financial instruments that are priced using different interest rate curves.

Interest rate risk that can be economically hedged is transferred to the Treasury team. Hedging is generally executed through natural hedging or through interest rate derivatives. Any interest rate risk that the Treasury team cannot economically hedge remains within the business.

The Group assesses and measures hedge effectiveness of a hedging relationship based on the change in the fair value of the derivative hedging instrument relative to the change in the fair value of the hedged item attributable to the hedged risk.

The Group manages its IRRBB exposures using economic as well as earnings based measures. The Treasury team is mandated to manage the interest rate risk with the Risk team as 2<sup>nd</sup> line of defence independently assessing and challenging the implementation of the framework and adherence to the risk appetite. The Internal Audit team in its role as the 3<sup>rd</sup> line of defence is accountable for providing independent and objective reasonable assurance on the adequacy of the design, operating effectiveness and efficacy of the risk management system and systems of internal control. The Group ALCO monitors the sensitivity of financial resources and associated metrics to key market parameters such as interest rate curves and oversees adherence to financial resources limits.

A summary of the Group's interest rate gap position on non-trading portfolios is found in the MDB Group Limited Annual Report and financial statements for the financial year ended 31 December 2021, in section 2.4.3 - Interest rate risk.

The management of interest rate risk attributable to interest rate repricing gap limits is supplemented by monitoring the sensitivity of the Group's financial assets and liabilities to various interest rate scenarios under the stress testing framework meanwhile the extent of the difference between risk factors on the asset side and liability side is monitored through the re-fixing gap analysis. As detailed in Section 2.2.5 on Market Risks, the metrics related to IRRBB are monitored and reported to ALCO on a monthly basis and to senior management on a weekly basis.

### *Changes in the economic value of equity and net interest income (Article 448 (a-b,d) CRR)*

The following table shows the impact on the Group's net interest income in the non-trading book as well as the change in economic value for the banking book positions from interest rate changes under the six standard scenarios defined by the European Banking Authority (EBA).

The  $\Delta NII$  and  $\Delta EVE$  are based on scenarios and assumptions prescribed by the EB Guidelines on the management of interest rate risk arising from non trading book activities (EBA/GL/2018/02):

- Parallel Up,
- Parallel Down,
- Steepener,
- Flatteners,
- Short rates shock up, and
- Short rates shock down.

The main assumptions used in the model utilised to measure the benchmarks referred to above are:

- Interest bearing assets are assumed to mature on their expected maturity and are not replaced for the  $\Delta EVE$  purposes (run off balance sheet);
- Interest bearing assets are assumed to mature on their expected maturity and are replaced on like for like basis for the  $\Delta NII$  purposes (constant balance sheet);
- The rate index on the Senior Secured Loan book is predominantly floored at zero and hence due to the prevailing euro negative rate environment the shift down scenario does not result in loss of interest income. On the other hand, the 1% shift up scenario will not yield 1% more income as the rate index lifts itself from below zero;
- The Dutch mortgages are assumed to follow a CPR curve over and above the contractual principal payment schedule;
- In addition to the legal floor on regulated savings accounts of MeDirect Belgium, there is an implicit zero floor option on retail customer deposits as the Group will not charge negative rates to the retail segment of its customer base;
- The  $\Delta NII$  and  $\Delta EV$  metrics includes the effect of changes in value of the contractual automatic options embedded in the banking book assets; and
- Customer deposits follow their behavioural schedule.
- Sensitivities to behavioural assumptions are measured on a quarterly basis as part of the ICAAP whereas the IRRBB measurement has been validated and adapted to cater for novel characteristics of new product lines.

These assumptions are in line with the general guidelines defined by the EBA.

An EVE value represents the present value of future banking book cashflows that could be distributed to equity providers under a managed run off scenario. EVE is a regulatory metric and limit of sensitivity as prescribed against Total Capital and Standard outlier test. Interest rate risk in the banking book will give rise to volatility in expected NII due to movements in interest rates. One way to measure interest rate risk in the banking book is to assess this volatility using NII sensitivity analysis. There are no regulatory prescribed limits on NII sensitivity.

**EU IRRBB1 – Changes in the economic value of equity and net interest income under six supervisory shock scenarios**

	<i>Amounts in €million</i>	Changes of the economic value of equity		Changes if the net interest income	
		December 2021	December 2020	December 2021	December 2020
	<b>Supervisory shock scenarios</b>				
1	Parallel up	13.8	(4.3)	18.9	17.4
2	Parallel down	4.2	(1.6)	(3.3)	(3.2)
3	Steeper	(1.4)	(16.1)		
4	Flattener	8.7	0.1		
5	Short rates up	9.3	4.0		
6	Short rates down	1.9	(2.1)		

In accordance with Article 448(1), point (d) CRR, there has been no significant changes in assumptions, methodology nor calculation in our IRRBB measurement. The general improvement in the EVE and NII sensitivities are driven by the increased proportion of hedged long dated fixed rate commitments.

In accordance with Article 448(1), point (g) CRR, the average repricing maturity assigned to non-maturity deposits from retail and non-financial wholesale counterparties inclusive/exclusive of non-core balance is 1.7/2.7 years respectively. The longest repricing maturity is 5 years.

The tables in Section 2.4.3 "Interest rate risk" of the Group's annual report and financial statements disclose the mismatch of the dates on which interest on financial assets and financial liabilities either will reset to market rates levels or the date on which the instruments mature. Actual cash-flows on reset dates may differ from contractual dates owing possible exercise of behavioural options such as prepayments. In addition, contractual terms may not be representative of the behaviour in respect of financial assets and liabilities.

## 8 Operational risk exposure (Article 446 CRR)

### 8.1 Operational risk – own funds requirements

Operational risk is the risk of loss resulting from people, inadequate or failed internal processes, data or systems, or external events. These risks arise during our day-to-day operations while taking financial risks. Non-financial risks may have an impact on our management of financial risks, for example, inaccurate financial reporting may lead to unexpected capital or liquidity risk, or a trading process failure may result in higher market risk taking. Notable sources of non-financial risks include external, non-authorised activities, errors and omissions including events characterised by a low probability but with a high impact in case of occurrence.

The Group currently uses the basic indicator approach to assess the operational risk regulatory capital requirements and accordingly allocates 15% of average gross income for a three year period in accordance with regulatory requirements. No combined use of different approaches is in place. The risk weighted assets in relation to operational risk as at 31 December 2021 amounted to €108.5 million. The following table reports our operational risk capital requirements as at 31 December 2021.

#### EU OR1 – Operational risk own funds requirements and risk-weighted exposure amounts

		a	b	c	d	e
As at 31 December 2021						
Banking activities		Relevant indicator			Own funds requirements	Risk exposure amount
Amounts in €millions		Year-3	Year-2	Last year		
1	Banking activities subject to basic indicator approach (BIA)	67	51	56	9	109
2	Banking activities subject to standardised (TSA) / alternative standardised (ASA) approaches	-	-	-	-	-
3	<u>Subject to TSA:</u>	-	-	-		
4	<u>Subject to ASA:</u>	-	-	-		
5	Banking activities subject to advanced measurement approaches AMA	-	-	-	-	-

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

$$\text{Aggregate capital requirement} = \sqrt{\sum_i \sum_j \rho_{i,j} \times RA_i \times RA_j}$$

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

## 9 Own funds

### Own Funds composition, prudential filters and deduction items (Article 437 (a, d-f) CRR)

#### 9.1 Total available capital

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

##### 9.1.1 Common Equity Tier 1 capital – composition

Common Equity Tier 1 capital includes:

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

##### 9.1.2 Common Equity Tier 1 capital – terms and conditions

- i. Ordinary share capital includes equity instruments which fall under the definition of Article 28(1) of the CRR, *Common Equity Tier 1 instruments*. The holders of 'A' ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of MDB Group Limited. 'B' ordinary shareholders are not entitled to vote or to receive any dividends distributed.
- ii. Share premium reserve is made up of premium paid by shareholders in excess of the nominal value of the 'A' ordinary shares. This reserve can only be applied in the paying up of unissued shares to be issued to members of MDB Group as fully paid bonus shares.
- iii. Shareholders' contributions ("Contributions") are amounts granted by the shareholders to MDB Group whereby MDB Group has no obligation to bear any servicing cost or transfer any economic benefits of any kind to the contributor or any other person in return and has no obligation to repay the Contributions. These terms and conditions of such Contributions render this instrument equity in nature in accordance with the requirements of IAS 32: Financial Instruments – Presentation.
- iv. Retained earnings are the part of the distributable items as per the CRR Article (4)(1)(128) definition, which are amounts of the profits at the end of the last financial year plus any profits brought forward and reserves available for that purpose before distributions to holders of own funds instruments less any losses brought forward, profits which are non-distributable pursuant to provisions in legislation or the institution's bye-laws and sums placed to non-distributable reserves in accordance with applicable national law or the statutes of MDB Group Limited. The balance in this reserve is net of tax.

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

- v. Reserve for general banking risks – in accordance with BR 09, the Group has allocated from its retained earnings, to a non-distributable reserve, an amount equivalent to 2.5% of the regulatory allocation for positions on which a specific impairment provision has been attributed. Refer to Note 16 "Capital and reserves" to the MDB Group Limited Annual Report and financial statements for the financial year ended 31 December 2021.
- vi. The fair value reserve includes the cumulative net change in the fair value of FVOCI investments, excluding impairment losses, until the investment is derecognised, net of deferred taxation. These relate to the hold to collect and sell ("HTC&S") category of EU-endorsed IFRS 9.

##### 9.1.3 Tier 2 capital

Tier 2 capital consists of subordinated liabilities in issue, which rank after the claims of all depositors (including financial institutions) and all other creditors. As at 31 December 2021, subordinated liabilities included within Tier 2 capital comprised the following debt securities issued which are unsecured and in the event of the winding-up of the issuer, these are subordinated to the claims of depositors and all other creditors of the issuer:

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

In February 2021 MDB Group Limited issued €11 million fixed rate reset callable subordinated notes due on 10 February 2031. The notes bear a fixed rate of 9.75% per annum. The proceeds of such Tier 2 Capital issuance were immediately delivered to MeDirect Malta through a qualifying Tier 2 loan instrument to MeDirect Malta for general corporate purposes, including to further reinforce and optimise our regulatory capital and to support the execution of our business strategy.

## 9.2 Own funds – other disclosures

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

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

### 9.2.1 Composition of Own Funds

(Article 437 (a, d-f) CRR)

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

The following table shows the composition of the own funds of the Group in accordance with Article 437 the CRR.

#### EU CC1 – Composition of regulatory own funds

		a		b
		31 December 2021	30 June 2021	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
<i>Amounts in €millions</i>				
<b>Common Equity Tier 1 (CET1) capital: instruments and reserves</b>				
1	Capital instruments and the related share premium accounts	69	69	A
2	Retained earnings	43	42	C
3	Accumulated other comprehensive income (and other reserves)	130	136	B
EU-3a	Funds for general banking risk	4	-	
4	Amount of qualifying items referred to in Article 484 (3) CRR and the related share premium accounts subject to phase out from CET1	-	-	
5	Minority interests (amount allowed in consolidated CET1)	-	-	
EU-5a	Independently reviewed interim profits net of any foreseeable charge or dividend	-	-	
6	<b>Common Equity Tier 1 (CET1) capital before regulatory adjustments</b>	<b>247</b>	<b>247</b>	
<b>Common Equity Tier 1 (CET1) capital: regulatory adjustments</b>				
7	Additional value adjustments (negative amount)	(1)	(1)	
8	Intangible assets (net of related tax liability) (negative amount)	(9)	(8)	D
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38 (3) CRR are met) (negative amount)	(8)	(11)	E
11	Fair value reserves related to gains or losses on cash flow hedges of financial instruments that are not valued at fair value	-	-	
12	Negative amounts resulting from the calculation of expected loss amounts	-	-	
13	Any increase in equity that results from securitised assets (negative amount)	-	-	
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	-	-	
15	Defined-benefit pension fund assets (negative amount)	-	-	
16	Direct, indirect and synthetic holdings by an institution of own CET1 instruments (negative amount)	-	-	
17	Direct, indirect and synthetic holdings of the CET 1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	-	-	
18	Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	-	
19	Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	-	

EU-20a	Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative	-	-	
EU-20b	of which: qualifying holdings outside the financial sector (negative amount)	-	-	
EU-20c	of which: securitisation positions (negative amount)	-	-	
EU-20d	of which: free deliveries (negative amount)	-	-	
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability where the conditions in Article 38-(3) CRR are met) (negative amount)	-	-	
22	Amount exceeding the 17,65% threshold (negative amount)	-	-	
23	of which: direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities	-	-	
25	of which: deferred tax assets arising from temporary differences	-	-	
EU-25a	Losses for the current financial year (negative amount)	(15)	-	
EU-25b	Foreseeable tax charges relating to CET1 items except where the institution suitably adjusts the amount of CET1 items insofar as such tax charges reduce the amount up to which those items may be used to cover risks or losses (negative amount)	-	-	
27	Qualifying AT1 deductions that exceed the AT1 items of the institution (negative amount)	-	-	
27a	Other regulatory adjustments	(1)	6	
28	<b>Total regulatory adjustments to Common Equity Tier 1 (CET1)</b>	<b>(34)</b>	<b>(14)</b>	
29	<b>Common Equity Tier 1 (CET1) capital</b>	<b>213</b>	<b>234</b>	
<b>Additional Tier 1 (AT1) capital: instruments</b>				
30	Capital instruments and the related share premium accounts	-	-	
31	of which: classified as equity under applicable accounting standards	-	-	
32	of which: classified as liabilities under applicable accounting standards	-	-	
33	Amount of qualifying items referred to in Article 484 (4) CRR and the related share premium accounts subject to phase out from AT1	-	-	
EU-33a	Amount of qualifying items referred to in Article 494a(1) CRR subject to phase out from AT1	-	-	
EU-33b	Amount of qualifying items referred to in Article 494b(1) CRR subject to phase out from AT1	-	-	
34	Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interests not included in row 5) issued by subsidiaries and held by third parties	-	-	
35	of which: instruments issued by subsidiaries subject to phase out	-	-	
36	<b>Additional Tier 1 (AT1) capital before regulatory adjustments</b>	<b>-</b>	<b>-</b>	
<b>Additional Tier 1 (AT1) capital: regulatory adjustments</b>				
37	Direct, indirect and synthetic holdings by an institution of own AT1 instruments (negative amount)	-	-	
38	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	-	-	
39	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	-	
40	Direct, indirect and synthetic holdings by the institution of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)	-	-	
42	Qualifying T2 deductions that exceed the T2 items of the institution (negative amount)	-	-	
42a	Other regulatory adjustments to AT1 capital	-	-	
43	<b>Total regulatory adjustments to Additional Tier 1 (AT1) capital</b>	<b>-</b>	<b>-</b>	
44	<b>Additional Tier 1 (AT1) capital</b>	<b>-</b>	<b>-</b>	
45	<b>Tier 1 capital (T1 = CET1 + AT1)</b>	<b>-</b>	<b>-</b>	
<b>Tier 2 (T2) capital: instruments</b>				
46	Capital instruments and the related share premium accounts	48	48	F
47	Amount of qualifying items referred to in Article 484(5) CRR and the related share premium accounts subject to phase out from T2 as described in Article 486(4) CRR	-	-	
EU-47a	Amount of qualifying items referred to in Article 494a(2) CRR subject to phase out from T2	-	-	
EU-47b	Amount of qualifying items referred to in Article 494b(2) CRR subject to phase out from T2	-	-	
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties	-	-	
49	of which: instruments issued by subsidiaries subject to phase out	-	-	
50	Credit risk adjustments	-	-	
51	<b>Tier 2 (T2) capital before regulatory adjustments</b>	<b>48</b>	<b>48</b>	
<b>Tier 2 (T2) capital: regulatory adjustments</b>				
52	Direct, indirect and synthetic holdings by an institution of own T2 instruments and subordinated loans (negative amount)	-	-	

53	Direct, indirect and synthetic holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	-	-	
54	Direct, indirect and synthetic holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	-	
55	Direct, indirect and synthetic holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)	-	-	
EU-56a	Qualifying eligible liabilities deductions that exceed the eligible liabilities items of the institution (negative amount)	-	-	
EU-56b	Other regulatory adjustments to T2 capital	-	-	
57	<b>Total regulatory adjustments to Tier 2 (T2) capital</b>	-	-	
58	<b>Tier 2 (T2) capital</b>	<b>48</b>	<b>48</b>	
59	<b>Total capital (TC = T1 + T2)</b>	<b>260</b>	<b>281</b>	
60	<b>Total Risk exposure amount</b>	<b>1,356</b>	<b>1,454</b>	
<b>Capital ratios and requirements including buffers</b>				
61	Common Equity Tier 1 capital	15.7%	16.1%	
62	Tier 1 capital	15.7%	16.1%	
63	Total capital	19.2%	19.3%	
64	Institution CET1 overall capital requirements	9.2%	9.2%	
65	of which: capital conservation buffer requirement	2.5%	2.5%	
66	of which: countercyclical capital buffer requirement	0.04%	0.03%	
67	of which: systemic risk buffer requirement	0.0%	0.0%	
EU-67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer requirement	0.5%	0.5%	
EU-67b	of which: additional own funds requirements to address the risks other than the risk of excessive leverage	1.7%	1.7%	
68	<b>Common Equity Tier 1 capital (as a percentage of risk exposure amount) available after meeting the minimum capital requirements</b>	<b>9.5%</b>	<b>9.9%</b>	
<b>Amounts below the thresholds for deduction (before risk weighting)</b>				
72	Direct and indirect holdings of own funds and eligible liabilities of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	-	-	
73	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 17.65% thresholds and net of eligible short positions)	-	-	
75	Deferred tax assets arising from temporary differences (amount below 17.65% threshold, net of related tax liability where the conditions in Article 38 (3) CRR are met)	8	4	
<b>Applicable caps on the inclusion of provisions in Tier 2</b>				
76	Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)	-	-	
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	-	-	
78	Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap)	-	-	
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	-	-	
<b>Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2014 and 1 Jan 2022)</b>				
80	Current cap on CET1 instruments subject to phase out arrangements	-	-	
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	-	-	
82	Current cap on AT1 instruments subject to phase out arrangements	-	-	
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	-	-	
84	Current cap on T2 instruments subject to phase out arrangements	-	-	
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	-	-	

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

The Group's CET1 and Tier 1 capital ratios were 15.7% and its total capital ratio was 19.2% as at 31 December 2021. The Group's total capital ratio of 19.2% as at 31 December 2021 was well above the Total SREP Capital Requirement benchmark of 11%.

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

In line with Article 437 (e) of the regulation (EU) Non 575/2013 MeDirect confirms that no restrictions have been applied to the calculation of own funds.

Furthermore as shown in the table above, there were no other items requiring deduction that were not deducted from the own funds in accordance with Section 3, Chapter 2, Title I, Part Two of CRR. In particular, in terms of article 48 and 473a (7) of CRR, the Group's deferred tax assets dependent on future profitability and arising from temporary differences did not exceed the 10% threshold and therefore were not required to be deducted from own funds. The Group does not have any systemic risk buffer as at 31 December 2021.

Capital ratios different to CRR (Article 437 (f) CRR)

The own funds capital ratios of the MDB Group are built upon the CRR regulations.

Main features of capital instruments (Article 437 (b-c) CRR)

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



**EU CCA: Main features of regulatory own funds instruments and eligible liabilities instruments**

Instruments		MDB Group Limited Ordinary shares	MDB Group Limited Share premium	MeDirect Bank (Malta) plc 5% Subordinated Unsecured Bonds EUR 2027	MeDirect Bank (Malta) plc 5% Subordinated Unsecured Bonds GBP 2027
1	Issuer	MDB Group Limited	MDB Group Limited	MeDirect Bank (Malta) plc	MeDirect Bank (Malta) plc
2	Unique identifier	N/A	N/A	MT0000551284	MT0000551292
2a	Public or private placement	Private	Private	Public	Public
3	Governing law(s) of the instrument	Maltese Law	Maltese Law	Maltese Law	Maltese Law
3a	Contractual recognition of write down and conversion powers of resolution authorities	No	No	No (but extensive disclosure in offering documents as to write down and conversion powers of resolutions authorities under BRRD)	No (but extensive disclosure in offering documents as to write down and conversion powers of resolutions authorities under BRRD)
<b>Regulatory treatment</b>					
4	Current treatment taking into account, where applicable, transitional CRR rules	Tier 1	Tier 1	Tier 2	Tier 2
5	Post-transitional CRR rules	Tier 1	Tier 1	Tier 2	Tier 2
6	Eligible at solo/(sub-)consolidated/solo & (sub-)consolidated	Solo & (Sub) Consolidated	Solo & (Sub) Consolidated	Solo & (Sub) Consolidated	Solo & (Sub) Consolidated
7	Instrument type	Tier 1 as published in Regulation (EU) No 575/2013 articles 26 and 28	Tier 1 as published in Regulation (EU) No 575/2013 articles 26 and 28	Tier 2 as published in Regulation (EU) No 575/2013 article 63	Tier 2 as published in Regulation (EU) No 575/2013 article 63
8	Amount recognised in regulatory capital	EUR55.7 million	EUR13.8 million	EUR12.4 million	EUR0.9 million
9	Nominal amount of instrument	EUR55.7 million	EUR13.8 million	EUR18.7 million	EUR1.2 million
EU-9a	Issue price	EUR1 per share	EUR0.335 per share	EUR100 per EUR Bond	GBP100 per GBP Bond
EU-9b	Redemption price	N/A	N/A	EUR100 per EUR Bond	GBP100 per GBP Bond
10	Accounting classification	Share capital	Share premium	Liability - amortised cost	Liability - amortised cost
11	Original date of issuance	10 June 2004	10 June 2004	27 October 2017 (Note 1)	27 October 2017 (Note 1)
12	Perpetual or dated	Perpetual	Perpetual	Dated	Dated
13	Original maturity date	N/A	N/A	13 October 2027	13 October 2027
14	Issuer call subject to prior supervisory approval	No	No	N/A (Note 2)	N/A (Note 2)
15	Optional call date, contingent call dates, and redemption amount	No	No	N/A (Note 2)	N/A (Note 2)
16	Subsequent call dates, if applicable	No	No	N/A (Note 2)	N/A (Note 2)
<b>Coupons/dividends</b>					
17	Fixed or floating dividend/coupon	Floating	N/A	Fixed	Fixed
18	Coupon rate and any related index	N/A	N/A	5% per annum	5% per annum
19	Existence of a dividend stopper	No	No	No	No
EU20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary	N/A	Mandatory	Mandatory
EU20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary	N/A	Mandatory	Mandatory
21	Existence of step up or other incentive to redeem	N/A	N/A	No	No
22	Noncumulative or cumulative	Non-cumulative	Non-cumulative	Cumulative	Cumulative
23	Convertible or non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible
30	Write-down features	No	No	No	No
35	Position in subordination hierarchy in liquidation	Subordinated to MeDirect Bank Malta plc subordinated bonds	Subordinated to MeDirect Bank Malta plc subordinated bonds	Subordinated to senior creditors and depositors	Subordinated to senior creditors and depositors
36	Non-compliant transitioned features	No	No	No	No

**Note (1):** The subordinated loan capital in Tier 2 capital represents the subordinated unsecured bonds of MeDirect Bank (Malta) plc. They are included as part of Tier II Capital as they fully qualify for the provisions listed under CRR (575/2013) Part Two, Title 1, Chapter 4, Article 63. Specifically they rank after the claim of all other creditors and are not to be repaid until all other debts outstanding at the time have been settled. As at 31 December 2021 the subordinated bonds listed above had a remaining maturity of more than 5 years and had all been fully paid up. These securities are included in the Group's Own Funds figure following a haircut in accordance with article 87 under CRR (575/2013) equivalent to €6 million.

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

	Instruments	MeDirect Bank (Malta) plc 4% Subordinated Unsecured Bonds EUR 2029	MeDirect Bank (Malta) plc 4% Subordinated Unsecured Bonds GBP 2029	MDB Group 9.75% subordinated notes EUR 2031
1	Issuer	MeDirect Bank (Malta) plc	MeDirect Bank (Malta) plc	MDB Group Limited
2	Unique identifier	MT0000551300	MT0000551318	XS2296173540
2a	Public or private placement	Public	Public	Public
3	Governing law(s) of the instrument	Maltese Law	Maltese Law	England Law, except conditions 4 and 16(d) that are governed by the law of Malta
3a	Contractual recognition of write down and conversion powers of resolution authorities	No (but extensive disclosure in offering documents as to write down and conversion powers of resolutions authorities under BRRD)	No (but extensive disclosure in offering documents as to write down and conversion powers of resolutions authorities under BRRD)	Yes
<b>Regulatory treatment</b>				
4	Current treatment taking into account, where applicable, transitional CRR rules	Tier 2	Tier 2	Tier 2
5	Post-transitional CRR rules	Tier 2	Tier 2	Tier 2
6	Eligible at solo/(sub-)consolidated/solo & (sub-)consolidated	Solo & (Sub) Consolidated	Solo & (Sub) Consolidated	Solo & (Sub) Consolidated
7	Instrument type	Tier 2 as published in Regulation (EU) No 575/2013 article 63	Tier 2 as published in Regulation (EU) No 575/2013 article 63	Tier 2 as published in Regulation (EU) No 575/2013 article 63
8	Amount recognised in regulatory capital	EUR21.3 million	EUR1.9 million	EUR11 million
9	Nominal amount of instrument	EUR32.2 million	EUR2.8 million	EUR11 million
EU-9a	Issue price	EUR1,000 per EUR Bond	GBP1,000 per GBP Bond	99.052% of face amount
EU-9b	Redemption price	EUR1,000 per EUR Bond	GBP1,000 per GBP Bond	100% of face amount
10	Accounting classification	Liability - amortised cost	Liability - amortised cost	Liability - amortised cost
11	Original date of issuance	5 November 2019 (Note 1)	5 November 2019 (Note 1)	10 February 2021 (Note 3)
12	Perpetual or dated	Dated	Dated	Dated
13	Original maturity date	5 November 2029	5 November 2029	10 February 2031
14	Issuer call subject to prior supervisory approval	N/A (Note 2)	N/A (Note 2)	N/A (Note 4)
15	Optional call date, contingent call dates, and redemption amount	N/A (Note 2)	N/A (Note 2)	N/A (Note 4)
16	Subsequent call dates, if applicable	N/A (Note 2)	N/A (Note 2)	N/A
<b>Coupons / dividends</b>				
17	Fixed or floating dividend/coupon	Fixed	Fixed	Fixed
18	Coupon rate and any related index	4% per annum	4% per annum	9.75% per annum
19	Existence of a dividend stopper	No	No	No
EU20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Mandatory	Mandatory	Mandatory
EU20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Mandatory	Mandatory	Mandatory
21	Existence of step up or other incentive to redeem	No	No	No
22	Noncumulative or cumulative	Cumulative	Cumulative	Cumulative
23	Convertible or non-convertible	Non-convertible	Non-convertible	Non-convertible
30	Write-down features	No	No	No
35	Position in subordination hierarchy in liquidation	Subordinated to senior creditors and depositors	Subordinated to senior creditors and depositors	Subordinated to senior creditors and depositors
36	Non-compliant transitioned features	No	No	No

**Note (1):** The subordinated loan capital in Tier 2 capital represents the subordinated unsecured bonds of MeDirect Bank (Malta) plc. They are included as part of Tier II Capital as they fully qualify for the provisions listed under CRR (575/2013) Part Two, Title 1, Chapter 4, Article 63. Specifically they rank after the claim of all other creditors and are not to be repaid until all other debts outstanding at the time have been settled. As at 31 December 2021 the subordinated bonds listed above had a remaining maturity of more than 5 years and had all been fully paid up. These securities are included in the Group's Own Funds figure following a haircut in accordance with article 87 under CRR (575/2013) equivalent to €12 million.

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

**Note (3):** The fixed rate reset callable subordinated notes due 2031 were issued by MDB Group Limited on 10 February 2021. They are included as part of Tier II Capital as they fully qualify for the provisions listed under CRR (575/2013) Part Two, Title 1, Chapter 4, Article 63. Specifically they rank pari passu and without any preference amongst themselves, and will, in the event of a Winding-Up, be subordinated to the claims of all Senior Creditors. As at 30 June 2021 the subordinated notes listed above had a remaining maturity of more than 5 years and had all been fully paid up.

**Note (4):** MDB Group Limited may, in its sole discretion but subject to the conditions set out under "Conditions to Early Redemption, Substitution, Variation and Purchase" section in the Information Memorandum and upon notice to the Holders, elect to redeem all (but not some only), of the Notes on the Reset Date or any Interest Payment Date thereafter at their principal

The table below indicates the prudential valuation adjustments for all fair valued assets and liabilities included in Article 4(1) threshold. Such calculation is derived pursuant to Regulation (EU) 2016/101. The Group follows the Simplified Approach for the determination of the additional valuation adjustments ('AVAs') in line with Article 4(1) of the indicated Regulation.

**EU PV1 – Prudent valuation adjustments (PVA)**

31 December 2021		a	b	c	d	e	EU e1	EU e2	f	g	h
Amounts in €millions		Risk category					Category level AVA - Valuation uncertainty		Total category level post-diversification		
	Category level AVA	Equity	Interest Rates	Foreign exchange	Credit	Commodities	Unearned credit spreads AVA	Investment and funding costs AVA		Of which: Total core approach in the trading book	Of which: Total core approach in the banking book
1	Market price uncertainty	-	-	-	-	-	-	-	-	-	-
2	Not applicable	-	-	-	-	-	-	-	-	-	-
3	Close-out cost	-	-	-	-	-	-	-	-	-	-
4	Concentrated positions	-	-	-	-	-	-	-	-	-	-
5	Early termination	-	-	-	-	-	-	-	-	-	-
6	Model risk	-	-	-	-	-	-	-	-	-	-
7	Operational risk	-	-	-	-	-	-	-	-	-	-
8	Not applicable	-	-	-	-	-	-	-	-	-	-
9	Not applicable	-	-	-	-	-	-	-	-	-	-
10	Future administrative costs	-	-	-	-	-	-	-	-	-	-
11	Not applicable	-	-	-	-	-	-	-	-	-	-
12	<b>Total Additional Valuation Adjustments (AVAs)</b>								1	-	-

## 10 Capital requirements

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

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

- **Credit risk** – The Group calculates its risk weighted credit risk exposure in accordance with the Standardised Approach, described in Chapter 2 of Title II of Part Three of the CRR. To calculate the risk-weighted exposure amounts, risk weights are applied based on the exposure class and the related credit quality. Credit quality may be determined by reference to the credit assessments of ECAs that have been determined as eligible by the EBA. In the Group's calculations, senior secured loans and other corporate credit exposures are assigned risk weights corresponding to unrated positions and for the remainder of its securities investment portfolio the Group has nominated well-known risk rating agencies such as Fitch, Standard and Poor's and Moody's. Accordingly, the Group complies with the standard association of the external ratings of ECAs with the credit quality steps prescribed in CRR.
- **Operational risk** – The Group calculates its capital requirement using the Basic Indicator Approach, in terms of Article 315 of the CRR. The own funds requirement amounts to 15% of the average three years of the relevant indicator, as defined in Article 316 of the CRR. Elements within the relevant indicator include interest receivable and similar income, interest payable and similar charges, income from shares and other variable/fixed-yield securities, commissions and fees receivable/payable, net profit or net loss on financial operations and other operating income, adjusted for, amongst others stipulated in the CRR, profits on sale of non-trading book items and extraordinary or irregular items.
- **Counterparty credit risk** – The Group reported the CCR calculations under the new approach namely the Original Exposures Method (as defined in CRR II, Article 282).
- **Foreign exchange risk** – The Group has adopted the basic method to determine its foreign exchange risk requirement in accordance with Article 351 of the CRR. In terms of this Article, the Group does not calculate the capital requirement for foreign exchange risk as its net foreign exchange position is less than 2% of its own funds.
- **Credit valuation adjustment risk** – The Group uses the standardised approach, as per Article 384 of the CRR.

### Overview of capital requirements (Article 438 (d) CRR)

The following table provides an overview of the total RWA and the capital requirement for credit risk (derived from the RWA by an 8% capital ratio) split by the different exposure classes as well as capital for operational risk, foreign exchange risk and credit valuation adjustment risk. No capital is allocated for market risk as the Group does not operate a trading book. Moreover, the capital allocated to settlement risk and commodities risk is nought. The exposure value is equal to the total on-balance sheet and off-balance sheet net of value adjustments and provisions and post CCF. The most significant changes between the two periods were due to a decrease in RWA in the International Corporate Lending portfolio.

## EU OV1 – Overview of total risk exposure amounts

Amounts in €millions		Total risk exposure amounts (TREA)		Total own funds requirements
		a	b	c
		31 December 2021	30 September 2021	31 December 2021
1	Credit risk (excluding CCR)	1,142	1,184	91
2	Of which the standardised approach	1,142	1,184	91
3	Of which the Foundation IRB (F-IRB) approach	-	-	-
4	Of which slotting approach	-	-	-
EU 4a	Of which equities under the simple risk weighted approach	-	-	-
5	Of which the Advanced IRB (A-IRB) approach	-	-	-
6	Counterparty credit risk - CCR	11	11	1
7	Of which the standardised approach	-	-	-
8	Of which internal model method (IMM)	-	-	-
EU 8a	Of which exposures to a CCP	8	8	1
EU 8b	Of which credit valuation adjustment - CVA	1	1	-
9	Of which other CCR	2	2	-
15	Settlement risk	-	-	-
16	Securitisation exposures in the non-trading book (after the cap)	93	80	7
17	Of which SEC-IRBA approach	-	-	-
18	Of which SEC-ERBA (including IAA)	-	-	-
19	Of which SEC-SA approach	93	80	7
EU 19a	Of which 1250% / deduction	-	-	-
20	Position, foreign exchange and commodities risks (Market risk)	-	-	-
21	Of which the standardised approach	-	-	-
22	Of which IMA	-	-	-
EU 22a	Large exposures	-	-	-
23	Operational risk	109	119	9
EU 23a	Of which basic indicator approach	109	119	9
EU 23b	Of which standardised approach	-	-	-
EU 23c	Of which advanced measurement approach	-	-	-
24	Amounts below the thresholds for deduction (subject to 250% risk weight)	21	14	2
29	<b>Total</b>	<b>1,356</b>	<b>1,395</b>	<b>108</b>

### Capital buffers (Article 440 CRR)

#### *Minimum capital requirements and additional capital buffers*

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

MDB Group is required to meet a total SREP capital requirement ("TSCR") of 11% on a consolidated level. The TSCR of 11% is composed of a minimum own funds requirement of 8% to be maintained at all times in accordance with Article 92(1) of the CRR 2, and an own funds requirement of 3% required to be held in excess of the minimum own funds requirement and to be maintained at all times. In view of the current COVID-19 pandemic, on the 12 March, the ECB announced that as part of the extraordinary measures banks are allowed to partially use capital instruments that do not qualify as CET1, to meet the P2R. This brings forward a measure which was initially scheduled to come into effect in January 2021 as part of the revision of the Capital Requirements Directive, implying that institutions shall meet the additional own funds requirements imposed by the ECB with own funds that satisfy the following conditions: i) at least 75% shall be met with Tier 1 capital; and ii) at least 56.25% with CET1 capital. The Group is also subject to the Overall Capital Requirement (OCR), in addition to TSCR, which includes the Combined Buffer Requirement..

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

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

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

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

The Group's O-SII buffer has been set at 0.5%. As per Decision letter communicated during February 2021, the Group will be subject to a buffer rate of 1% which will be phased in over the four-year period between 2022 and 2025.

In addition to the measures above, CRD V sets out a 'systemic risk buffer' for the financial sector as a whole, or one or more sub-sectors, to be deployed as necessary by each EU member state with a view to mitigate structural macro-prudential risk. The 'systemic risk buffer' may range between 0% and 5%.

Geographical distribution of credit exposures (Article 440 (a) CRR)

CRD V also contemplates a countercyclical buffer in line with Basel III, in the form of an institution-specific countercyclical buffer and the application of increased requirements to address macro-prudential or systemic risk. This is expected to be set in the range of 0 - 2.5% of relevant credit exposure RWAs, whereby the rate shall consist of the weighted average of the 'countercyclical buffer' rates that apply in the jurisdiction where the relevant exposures are located.

The Group held a countercyclical buffer requirement of 0.04% as at 31 December 2021. In light of the COVID-19 developments during 2020, most of the countries, including United Kingdom, France, Norway and Sweden have announced the full release of the countercyclical capital buffers in a bid to encourage lending throughout the coronavirus crisis. As at 31 December 2021, Norway had set a countercyclical buffer rate of 1%, Luxembourg had set a rate of 0.25%, while both Bulgaria and Czech Republic had a rate of 0.50%. The rest of the countries had set the rates at 0%.

The following table represents the Group's geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer at 31 December 2021.

**EU CCyB1: Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer<sup>8</sup>**

31 December 2021										
	General credit exposures	Securitisation exposures	f	Own funds requirement			k	l	m	
	a	e		g	h	j				
	Exposure value under the standardised approach	Exposure value for non-trading book		Total exposure value	Relevant credit exposures – Credit risk	Relevant credit exposures - Securitisation positions in the non-trading book				Total
								%	%	
010	Amounts in €millions									
	Breakdown by country:									
	Austria	75	2	77	1	-	1	16	1.3%	0.0%
	Australia	-	1	1	-	-	-	-	0.0%	0.0%
	Belgium	8	5	13	1	-	1	13	1.0%	0.0%
	Bulgaria	-	1	1	-	-	-	-	0.0%	0.5%
	Canada	-	2	2	-	-	-	-	0.0%	0.0%
	Czech Republic	-	-	-	-	-	-	-	0.0%	0.5%
	Denmark	11	5	16	-	-	-	2	0.2%	0.0%
	Finland	18	6	23	-	-	-	3	0.2%	0.0%
	France	191	101	292	9	1	10	125	10.7%	0.0%
	Germany	160	64	224	5	1	6	71	6.1%	0.0%
	Ireland	22	10	32	-	-	-	5	0.4%	0.0%
	Israel	-	-	-	-	-	-	-	0.0%	0.0%
	Italy	104	16	120	8	-	9	106	9.1%	0.0%
	Jersey	9	-	9	1	-	1	9	0.7%	0.0%
	Latvia	-	-	-	-	-	-	-	0.0%	0.0%
	Luxembourg	62	40	103	6	1	7	82	7.0%	0.5%
	Malta	158	1	159	12	-	12	151	12.9%	0.0%
	Netherlands	1,756	60	1,816	17	1	18	227	19.3%	0.0%
	Norway	16	4	20	-	-	-	2	0.2%	1.0%
	Poland	24	-	24	-	-	-	2	0.2%	0.0%
	Portugal	-	1	1	-	-	-	-	0.0%	0.0%
	Russian Federation	-	-	-	-	-	-	-	0.0%	0.0%
	Singapore	-	1	1	-	-	-	-	0.0%	0.0%
	Slovenia	-	-	-	-	-	-	-	0.0%	0.0%
	Spain	37	23	61	2	-	3	32	2.7%	0.0%
	Sweden	61	20	81	4	-	4	52	4.4%	0.0%
	Switzerland	-	6	6	-	-	-	1	0.1%	0.0%
	United Kingdom	206	74	280	18	1	19	234	20%	0.0%
	United States	24	65	89	2	1	3	39	3.3%	0.0%
	Japan	-	-	1	-	-	-	-	0.0%	0.0%
020		2,941	508	3,450	86	7	94	1,173	100.0%	

<sup>8</sup> Figures have been prepared on an IFRS 9 transitional basis. Missing columns since the Group does not use the IRB approach and does not hold a trading book.

30 June 2021

30 June 2021										
General credit exposures		Securitisation exposures	Own funds requirement							
a		e	f	g	h	j	k	l	m	
Exposure value under the standardised approach		Exposure value for non-trading book	Total exposure value	Relevant credit exposures – Credit risk	Relevant credit exposures - Securitisation positions in the non-trading book	Total	Risk weighted exposure amounts	Own funds requirement weights	Counter cyclical capital buffer rate	
Amounts in €millions								%	%	
010	Breakdown by country:									
	Austria	76	2	78	1	-	1	15	1.2%	0.0%
	Australia	-	1	1	-	-	-	-	0.0%	0.0%
	Belgium	8	4	12	1	-	1	13	1.0%	0.0%
	Bulgaria	-	-	-	-	-	-	-	0.0%	0.5%
	Canada	-	2	2	-	-	-	-	0.0%	0.0%
	Czech Republic	-	-	-	-	-	-	-	0.0%	0.5%
	Denmark	17	6	23	1	-	1	8	0.7%	0.0%
	Finland	18	4	22	-	-	-	2	0.2%	0.0%
	France	194	80	273	10	1	11	143	11.3%	0.0%
	Germany	168	52	220	6	1	6	78	6.2%	0.0%
	Ireland	-	7	7	-	-	-	1	0.0%	0.0%
	Israel	-	-	-	-	-	-	-	0.0%	0.0%
	Italy	121	16	137	10	-	10	125	9.8%	0.0%
	Jersey	15	-	15	1	-	1	15	1.1%	0.0%
	Lithuania	-	-	-	-	-	-	-	0.0%	0.0%
	Luxembourg	72	28	100	6	-	6	79	6.3%	0.5%
	Malta	146	2	148	12	-	12	154	12.2%	0.0%
	Netherlands	1,703	44	1,747	17	1	17	214	17.0%	0.0%
	Norway	26	4	31	-	-	-	3	0.3%	1.0%
	Poland	27	-	27	-	-	-	3	0.2%	0.0%
	Portugal	-	1	1	-	-	-	-	0.0%	0.0%
	Russian Federation	-	-	-	-	-	-	-	0.0%	0.0%
	Singapore	-	1	1	-	-	-	-	0.0%	0.0%
	Slovenia	-	-	-	-	-	-	-	0.0%	0.0%
	Spain	38	21	59	2	-	3	31	2.5%	0.0%
	Sweden	73	17	89	4	-	4	53	4.2%	0.0%
	Switzerland	-	6	6	-	-	-	-	0.1%	0.0%
	United Kingdom	229	63	292	19	1	20	250	19.9%	0.0%
	United States	53	57	109	5	1	6	70	5.6%	0.0%
020		2.984	418	3.402	94	6	101	1.260	100.0%	

Institution specific countercyclical buffer (Article 440 (b) CRR)

The following table shows an overview of our institution specific countercyclical exposure and buffer requirements:

**EU CCyB2: Amount of institution-specific countercyclical capital buffer<sup>9</sup>**

**As at 31 December 2021**

1	Total risk exposure amount (€millions)	<b>a</b> 1,356
2	Institution specific countercyclical buffer rate (%)	0.04%
3	Institution specific countercyclical buffer requirement (€millions)	-

**As at 30 June 2021**

1	Total risk exposure amount (€millions)	<b>A</b> 1,454
2	Institution specific countercyclical buffer rate (%)	0.03%
3	Institution specific countercyclical buffer requirement (€millions)	-

<sup>9</sup> Figures have been prepared on an IFRS 9 transitional basis

## 11 Exposure to securitisation positions

(Article 449 CRR)

### Objectives in relation to securitisation activity (Article 449 (a) CRR) (EU SECA)

Article 4 (1) (61) CRR defines which types of transactions and positions must be classified as securitisation transactions and securitisation positions for regulatory reporting.

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

In 2019, as part of its derisking strategy, the Group established a structured entity, Grand Harbour CLO 2019-1 Designated Activity Company ("GH1-2019") and transferred a portfolio of leveraged loans totalling €296.9 million to this structured entity, derecognising these assets from the Group's statement of financial position. Subsequent to the transfer of this portfolio of loans, the structured entity issued structured notes to third party investors which are structured into separate tranches carrying different levels of risks depending on the seniority (credit rating of the tranche). MeDirect Malta acquired a 5% vertical slice of each of the tranches for "Risk Retention" purposes in accordance with Article 6 30 (a) of regulation EU 2017/2402.

Since origination, in view of the Group's projected exposure to the total variability of the returns of its structured entity, taking into account its maximum exposure as a collateral manager (i.e. incorporating all cash flows, including management and incentive fees) and its exposure to variability of returns from the 5% vertical slice of the structured notes, a significant share of the exposure to variable returns was transferred to other tranche holders and therefore the Group does not consolidate the structured entity. The Group had decided to cease such type of investment activity, thus the investment in GH1 2019 is the only Group's securitisation exposure where the Group was the originator.

The Group also acts as an investor on the securitisation markets as it invests in CLO transactions managed by third-party entities. These investments in third party securitisations through the purchase of tranches from the third party-issued securitisations together with the structured notes referred to above constitute the Group's Securitisation Investments portfolio.

The due diligence process before committing to investments in AAA CLO tranches usually includes all of the following: a) a comparison and review of the proposed CLO investment against the Group's 3rd party AAA-CLO risk thresholds b) a review of the reputation and track record of the collateral manager c) an assessment of the risk characteristics associated with the underlying collateral pool d) an analysis of all the structural features of the CLO investment that could materially impact its performance. The result of this due diligence is summarised in a credit review document (the 'credit memo') which then requires approval by an appropriate level of credit authority.

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

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

### Monitoring of investment in tranches within a publicly rated CLO SE originated and managed by a third party, with a public investment grade rating assigned by reputable agency

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

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

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

### RWA calculation approaches for securitisation positions (Article 449 (c) CRR) (EU SECA)

The approach for the calculation of the regulatory capital requirements for banking book securitisation positions is prescribed by the CRR. The securitisation framework determines the regulatory capital requirements for the credit risk of banking book securitisations pursuant to Articles 242 to 270e CRR, and distinguishes between the Securitisation Internal Ratings-Based Approach (SEC-IRBA), the Securitisation Standardised Approach (SEC-SA) and the Securitisation External Ratings-Based Approach (SEC-ERBA).

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



From a regulatory point of view the investment in securitisations is risk weighted by looking through to the underlying assets of the securitisation structure.

External rating agencies used for securitisations (Article 449 (h) CRR (EU SECA))

As per standardised approach the Group uses ratings from three External Credit Assessment Institutions, Moody's, Standard & Poor's and Fitch. All the rating information received from these ECAIs is used indiscriminately for all securitisation position, and there is no preference of ECAI per exposure type.

Nature of other risks in securitised assets (Article 449 (b) CRR (EU SECA))

Overall, the securitisation positions are exposed to the performance of diverse asset classes, including primarily corporate senior secured loans. MeDirect is active in the more senior tranches. Similar to other credit assets, securitised trading volume is linked to global growth and geopolitical events which affect liquidity and can lead to lower trading volume, as observed during the crisis. Current and proposed changes to regulation and uncertainty over final implementation may lead to increased volatility and decreased liquidity/trading volumes across securitised products. Other potential risks that exist in securitised assets are prepayments, default and loss severity.

SSPE-related activities (Article 449 (d + f) CRR (EU SECA))

*A) Investment in tranches within a Collateralised Loan Obligation Structured Entity ("CLO SE") originated and managed by the Group*

This investment activity ceased in March 2021 as outlined in the 'Objectives in relation to securitisation activity' section of the preceding disclosure. Prior to the cessation of the Group management of the GH1-2019 CLO, the following accounting treatment policies were adhered to.

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

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

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

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

No legal entities affiliated with the Group has investments in securitisations originated by the Group.

*B) Investment in tranches within a publicly rated CLO SE originated and managed by a third party, with a public investment grade rating assigned by reputable agency*

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

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

*C) Securitisation vehicles originated by the Group and included in the regulatory scope of consolidation*

*i) Controlled special purpose entity originated by the Group*

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

As at 31 December 2020, MeDirect Belgium and MeDirect Malta invested in GH I on a 56% – 44% basis respectively, with the Senior Loan amounting to €327.2 million and the Junior Loan amounting to €176.3 million.

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

ii) Dutch Mortgage special purpose securitisation vehicles originated by the Bank

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

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

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

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

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

The Group has retained substantially all risks and rewards pertaining to the activities of GH I, Bastion 2020-1, Bastion 2021-1 and Cavalier 2020 and hence to assets, liabilities and related income and expenditure attributable to these entities, and as such, all assets, liabilities and related income and expenditure have been reflected within the Group's consolidated financial statements and thus the exposures held by MeDirect Malta and MeDirect Belgium in these entities are eliminated on consolidation.

Financial support to securitisation vehicle (Article 449 (e) CRR)

The Group does not provide any implicit support to securitisations vehicles it has originated in terms of Article 248(1). In consequence, for 2021 there was no need to report any position according to Article 250 (3) CRR.

Accounting policies for securitisations (Article 449 (g) CRR) (EU SECA)

The most relevant accounting policies for the securitisation originated by the Group and securitisations purchased by the Group, are disclosed in the 2021 Annual Report and financial statements and are mainly "Consolidation", "Financial Assets" and "Financial liabilities".

The Group determines classification and measurement of financial assets based on the assessment of both the business model within which the financial assets are held as well as through a review of the contractual terms of each financial asset to determine if cash flows are solely payments of principal and interest (SPPI) as per IFRS 9. Financial assets that are held to collect the contractual cash flows and which contain contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest are measured at amortised cost.

These financial assets are initially measured at fair value, which is generally the cash consideration to originate or purchase the asset including any direct and incremental transaction costs, upon recognition. Financial assets measured at amortised cost comprise the Group's investments in the Grand Harbour CLO 2019-1 Designated Activity Company ("GH1-2019") structured note tranches, with the exception of the equity tranche which is measured at fair value through profit or loss ("FVTPL"), as well as a portion of the Group's investments in CLO transactions managed by third-party entities. The remaining portion of the Group's investments in CLO transactions managed by third-party entities are measured at fair value through other comprehensive income. All these investments are classified under the Securitisation Investment portfolio.

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

As at 31 December 2021, the Group's Securitisation Investment portfolio measured at amortised cost comprises the investment in GH1-2019 structured note tranches, amounting to €18.5 million, as well as CLO transactions managed by third-party entities, amounting to €160.8 million. The Group's investment in GH1-2019 comprises a 5% vertical slice of each of the tranches for "Risk Retention" purposes, with a pool of leveraged loans as collateral. The Group's investment in CLO transactions managed by third-party entities comprises positions in the most senior tranche of 22 (2020: 9) different CLOs, all of which are also collateralised by a pool of leveraged loans.

As at 31 December 2021, the Group's Securitisation Investment portfolio also included investments in CLO transactions managed by third-party entities, amounting to €327 million (2020: nil), that are measured at fair value through other comprehensive income. These investments in CLO transactions managed by third-party entities comprises positions in the most senior tranche of 16 (2020: nil) different CLOs, all of which are also collateralised by a pool of leveraged loans.

As at 31 December 2021, credit loss allowances in respect of exposures classified under these investments measured at amortised cost amounted to €140 thousand (2020: €150 thousand) for the Group.

The Group's investment in the equity tranche of GH1-2019, amounting to €1.1 million as at 31 December 2021 (2020: €1.1 million), is measured at FVTPL and accordingly is not subject to impairment in accordance with IFRS 9.

The IFRS 9 ECL recognised on securitisations were the Group acts as an originator with an exposure value of €19 million and on securitisations where the Group acts as an investor with an exposure value of €489 million was negligible (< €1 million). None of the above exposures are past due.

As disclosed in note 8 to the consolidated financial statements for the financial year ended 31 December 2021, during the year investments in tranches within publicly rated CLO SE originated and managed by a third party with an amortised cost of €178 million matured.

There were no disposals of investments in investments in tranches within publicly rated CLO SE originated and managed by a third party or tranches within a Collateralised Loan Obligation Structured Entity ("CLO SE") originated and managed by the Group. Thus there were no realised gains or losses in respect of such investments.

**Internal assessment approach (Article 449 (i) CRR (EU SECA))**

There are no securitisations positions subject to the Internal Assessment Approach as of 31 December 2021. For a description of the RWA calculation approaches used for securitisation positions please refer to the Section "RWA calculation approaches for securitisation positions (Article 449 (c) CRR) (EU SECA).

**Banking book securitisation exposures (Article 449 (j) CRR)**

The following tables provide an analysis of the securitisation exposures by looking through to the underlying exposures. It details the total non-trading book securitisation exposure split by exposure type that have been securitised in MeDirect's capacity as wither originator and finally positions which have been purchased through investment activities as investor. The exposures held by the Group all consist of tradition wholesale securitisation exposures. The originator columns contain the retained positions and show the current retention of our contribution to the originates amount. None of the traditional securitisation exposures include ABCP programmes.

**EU-SEC1: Securitisation exposures in the non-trading book<sup>10</sup>**

		a	b	c	d	e	f	g	h	i	m	n	o
31 December 2021 Amounts in €millions		Institution acts as originator							Institution acts as investor				
		Traditional				Synthetic		Sub-total	Traditional		Synthetic	Sub-total	
		STS		Non-STS		of which SRT	STS		Non-STS				
1	Total exposures	-	-	20	20	-	-	20	-	-	489	-	489
2	Retail (total)	-	-	-	-	-	-	-	-	-	-	-	-
3	residential mortgage	-	-	-	-	-	-	-	-	-	-	-	-
4	credit card	-	-	-	-	-	-	-	-	-	-	-	-
5	other retail exposures	-	-	-	-	-	-	-	-	-	-	-	-
6	re-securitisation	-	-	-	-	-	-	-	-	-	-	-	-
7	Wholesale (total)	-	-	20	20	-	-	20	-	-	489	-	489
8	loans to corporates	-	-	20	20	-	-	20	-	-	489	-	489
9	commercial mortgage	-	-	-	-	-	-	-	-	-	-	-	-
10	lease and receivables	-	-	-	-	-	-	-	-	-	-	-	-
11	other wholesale	-	-	-	-	-	-	-	-	-	-	-	-
12	re-securitisation	-	-	-	-	-	-	-	-	-	-	-	-

<sup>10</sup> Columns h – k in relation to "Institution acts as sponsor" are not included as not applicable.

		a	b	c	d	e	f	g	h	i	m	n	o
30 June 2021 Amounts in €millions		Institution acts as originator							Institution acts as investor				
		Traditional				Synthetic		Sub-total	Traditional		Synthetic	Sub-total	
		STS		Non-STS		of which SRT	STS		Non-STS				
1	Total exposures	-	-	20	20	-	-	20	-	-	398	-	398
2	Retail (total)	-	-	-	-	-	-	-	-	-	-	-	-
3	residential mortgage	-	-	-	-	-	-	-	-	-	-	-	-
4	credit card	-	-	-	-	-	-	-	-	-	-	-	-
5	other retail exposures	-	-	-	-	-	-	-	-	-	-	-	-
6	re-securitisation	-	-	-	-	-	-	-	-	-	-	-	-
7	Wholesale (total)	-	-	20	20	-	-	20	-	-	398	-	398
8	loans to corporates	-	-	20	20	-	-	20	-	-	398	-	398
9	commercial mortgage	-	-	-	-	-	-	-	-	-	-	-	-
10	lease and receivables	-	-	-	-	-	-	-	-	-	-	-	-
11	other wholesale	-	-	-	-	-	-	-	-	-	-	-	-
12	re-securitisation	-	-	-	-	-	-	-	-	-	-	-	-

**Securitisation exposures in the non-trading book and associated regulatory capital requirements – institution acting as originator or as sponsor**  
(Article 449 (k) (i) CRR)

The following table presents the retained or purchased non-trading book securitisations where the Group acts as originator or as sponsor. Firstly it provides the exposure values broken down by risk-weight bands. Additionally it presents the exposure values, risk weighted exposure amounts and capital requirements for securitisation positions provided separately for each RWA calculation approach. All just mentioned values are broken down by traditional and synthetic transactions, securitisation and re-securitisation, as well as by retail or wholesale. The exposures held by the Group all consist of tradition wholesale securitisation exposures.

The regulatory calculation approach of the securitisation framework applied by the Group being the SEC-SA approach. Under SEC-SA (Articles 261 and 282 CRR) the capital requirement ratio for the pool of securitised assets needs to be calculated as if they were not securitised and as if they were on the Group's book.

**EU-SEC3: Securitisation exposures in the non-trading book and associated regulatory capital requirements – institution acting as originator<sup>11</sup>**

		a	b	c	d	e	h	i	EU-p
31 December 2021 Amounts in €millions		Exposure values (by RW bands/deductions)					Exposure values (by regulatory approach)	RWEA (by regulatory approach)	Capital charge after cap
		≤20% RW	>20% to 50% RW	>50% to 100% RW	>100% to <1250% RW	1250% RW/ deductions	SEC-SA	SEC-SA	SEC-SA
1	<b>Total exposures</b>	-	-	-	20	-	20	20	2
2	Traditional transactions	-	-	-	20	-	20	20	2
3	Securitisation	-	-	-	20	-	20	20	2
4	Retail	-	-	-	-	-	-	-	-
5	Of which STS	-	-	-	-	-	-	-	-
6	Wholesale	-	-	-	20	-	20	20	2
7	Of which STS	-	-	-	-	-	-	-	-
8	Re-securitisation	-	-	-	-	-	-	-	-
9	Synthetic transactions	-	-	-	-	-	-	-	-
10	Securitisation	-	-	-	-	-	-	-	-
11	Retail underlying	-	-	-	-	-	-	-	-
12	Wholesale	-	-	-	-	-	-	-	-
13	Re-securitisation	-	-	-	-	-	-	-	-

<sup>11</sup> Columns in relation to SEC-IRBA, SEC ERBA and 1250% RW/deductions approach were not included as not applicable.

		a	b	c	d	e	h	i	EU-p
30 June 2020 Amounts in €millions		Exposure values (by RW bands/deductions)					Exposure values (by regulatory approach)	RWEA (by regulatory approach)	Capital charge after cap
		≤20% RW	>20% to 50% RW	>50% to 100% RW	>100% to <1250% RW	1250% RW/ deductions	SEC-SA	SEC-SA	SEC-SA
1	Total exposures	-	-	-	20	-	20	20	2
2	Traditional transactions	-	-	-	20	-	20	20	2
3	Securitisation	-	-	-	20	-	20	20	2
4	Retail	-	-	-	-	-	-	-	-
5	Of which STS	-	-	-	-	-	-	-	-
6	Wholesale	-	-	-	20	-	20	20	2
7	Of which STS	-	-	-	-	-	-	-	-
8	Re-securitisation	-	-	-	-	-	-	-	-
9	Synthetic transactions	-	-	-	-	-	-	-	-
10	Securitisation	-	-	-	-	-	-	-	-
11	Retail underlying	-	-	-	-	-	-	-	-
12	Wholesale	-	-	-	-	-	-	-	-
13	Re-securitisation	-	-	-	-	-	-	-	-

**Securitisation exposures in the non-trading book and associated regulatory capital requirements – institution acting as investor (Article 449 (k) (ii) CRR)**

The following table presents the purchased non-trading book securitisations, where the group acts as investor i.e. wherever the Group is not acting as originator or sponsor. Firstly it provide the exposure values broken down by risk-weight bands. Additionally it presents the exposure values, risk weighted exposure amounts and capital requirements for securitisation positions provided separately for each RWA calculation approach. All just mentioned values are broken down by traditional and synthetic transactions, securitisation and re-securitisation, as well as by retail or wholesale. The exposures held by the Group all consist of tradition wholesale securitisation exposures.

**EU-SEC4: Securitisation exposures in the non-trading book and associated regulatory capital requirements – institution acting as an investor <sup>12</sup>**

		a	b	c	d	e	h	i	EU-p
31 December 2021 Amounts in €millions		Exposure values (by RW bands/deductions)					Exposure values (by regulatory approach)	RWEA (by regulatory approach)	Capital charge after cap
		≤20% RW	>20% to 50% RW	>50% to 100% RW	>100% to <1250% RW	1250% RW/ deductions	SEC-SA	SEC-SA	SEC-SA
1	Total exposures	489	-	-	-	-	489	73	6
2	Traditional securitisation	489	-	-	-	-	489	73	6
3	Of which securitisation	489	-	-	-	-	489	73	6
4	Of which retail underlying	-	-	-	-	-	-	-	-
5	Of which wholesale	489	-	-	-	-	489	73	6
6	Of which re-securitisation	-	-	-	-	-	-	-	-
7	Of which senior	-	-	-	-	-	-	-	-
8	Of which non-senior	-	-	-	-	-	-	-	-
9	Synthetic securitisation	-	-	-	-	-	-	-	-
10	Of which securitisation	-	-	-	-	-	-	-	-
11	Of which retail underlying	-	-	-	-	-	-	-	-
12	Of which wholesale	-	-	-	-	-	-	-	-
13	Of which re-securitisation	-	-	-	-	-	-	-	-
14	Of which senior	-	-	-	-	-	-	-	-
15	Of which non-senior	-	-	-	-	-	-	-	-

<sup>12</sup> Columns in relation to SEC-IRBA, SEC ERBA and 1250% RW/deductions approach were not included as not applicable.

		a	b	c	d	e	h	i	EU-p
30 June 2021		Exposure values (by RW bands/deductions)					Exposure values (by regulatory approach)	RWEA (by regulatory approach)	Capital charge after cap
Amounts in €millions		≤20% RW	>20% to 50% RW	>50 % to 100 % RW	>100 % to <125 0% RW	1250 % RW/ deduction s	SA/SSFA	SA/SSFA	SA/SSFA
1	Total exposures	398	-	-	-	-	398	60	5
2	Traditional securitisation	398	-	-	-	-	398	60	5
3	Of which securitisation	398	-	-	-	-	398	60	5
4	Of which retail underlying	-	-	-	-	-	-	-	-
5	Of which wholesale	398	-	-	-	-	398	60	5
6	Of which re-securitisation	-	-	-	-	-	-	-	-
7	Of which senior	-	-	-	-	-	-	-	-
8	Of which non-senior	-	-	-	-	-	-	-	-
9	Synthetic securitisation	-	-	-	-	-	-	-	-
10	Of which securitisation	-	-	-	-	-	-	-	-
11	Of which retail underlying	-	-	-	-	-	-	-	-
12	Of which wholesale	-	-	-	-	-	-	-	-
13	Of which re-securitisation	-	-	-	-	-	-	-	-
14	Of which senior	-	-	-	-	-	-	-	-
15	Of which non-senior	-	-	-	-	-	-	-	-

**Exposures securitised by the institution – exposures in default and specific credit risk adjustments (Article 449 (I) CRR)**

The table below presents the outstanding nominal amounts where the Group acts as originator and the related specific credit risk adjustments in accordance with Article 110 CRR. None of the exposures have been classified as defaulted according to Article 178 CRR. The amounts are broken down by the exposure type of the securitised exposures. The outstanding nominal amounts shown correspond to the share of the Group's contribution to the securitised assets,

**EU-SEC5 - Exposures securitised by the institution - Exposures in default and specific credit risk adjustments**

		a	b	c
31 December 2021		Exposures securitised by the institution - Institution acts as originator or as sponsor		
		Total outstanding nominal amount		Total amount of specific credit risk adjustments made during the period
Amounts in €millions		Of which exposures in default		
1	<b>Total exposures</b>	<b>20</b>	-	-
2	Retail (total)	-	-	-
3	residential mortgage	-	-	-
4	credit card	-	-	-
5	other retail exposures	-	-	-
6	re-securitisation	-	-	-
7	Wholesale (total)	20	-	-
8	loans to corporates	20	-	-
9	commercial mortgage	-	-	-
10	lease and receivables	-	-	-
11	other wholesale	-	-	-
12	re-securitisation	-	-	-

		a	b	c
30 June 2021		Exposures securitised by the institution - Institution acts as originator or as sponsor		
		Total outstanding nominal amount		Total amount of specific credit risk adjustments made during the period
Amounts in €millions		Of which exposures in default		
1	<b>Total exposures</b>	<b>20</b>	-	-
2	Retail (total)	-	-	-
3	residential mortgage	-	-	-
4	credit card	-	-	-
5	other retail exposures	-	-	-
6	re-securitisation	-	-	-
7	Wholesale (total)	20	-	-
8	loans to corporates	20	-	-
9	commercial mortgage	-	-	-
10	lease and receivables	-	-	-
11	other wholesale	-	-	-
12	re-securitisation	-	-	-

## 12 Leverage

### Leverage ratio according to CRR/CRD framework

Article 429 of CRR 2 requires financial institutions to calculate a non-risk based leverage ratio, to supplement risk-based capital requirements. The leverage ratio measures the relationship between the capital resources of the organisation and its total assets. The leverage ratio is a regulatory supervisory tool for the Regulator, to constrain the build-up of excessive leverage in the banking sector – one of the drivers of the banking crisis – previously not captured within Basel II. It helps to avoid destabilizing deleveraging processes which can damage the broader financial system and the economy, and to reinforce the risk-based requirements with a simple non-risk based “backstop measure”.

The leverage ratio is calculated by taking capital as a proportion of total exposures at the end of each quarter. Capital is defined as Tier 1 capital in line with Article 25 of the CRR 2, whilst total exposure relates to the total on and off-balance sheet exposures, less deductions applied to Tier 1 capital.

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

Our total leverage ratio exposures includes derivatives, securities financing transactions (SFTs), off-balance sheet exposure and other on-balance sheet exposure (excluding derivatives and SFTs).

### Leverage ratio (Article 451 (1) (a-c), (2) and (3) CRR)

The following table provides a summary of the Group's leverage ratio exposure and the leverage ratio calculation as at 31 December 2021, determined in accordance with the requirements stipulated by Implementing Regulation (EU) 2016/200.

Compared to the ratio as the end of the prior financial year, the leverage ratio has decreased by 0.8% during the financial year ended 31 December 2021. This decrease is partly attributed to a lower capital base as compared to the prior year, and partly due to a higher asset base as a result of continued investment in the Dutch Mortgage portfolio and Malta Mortgage portfolio as well as an increase in investments in 3<sup>rd</sup> party CLOs. The total increase in the asset base was partly set off by a reduction in investment in international lending, thus the main drivers for the overall change was the diversification and re-balancing of the credit portfolio which had an indirect impact on the leverage ratio, together with the decreased capital base at the end of the financial year.

The following table provides a reconciliation of accounting assets as per IFRS to the leverage ratio exposure.

### **EU LR1- LRSum: Summary reconciliation of accounting assets and leverage ratio exposures**

	<i>Amounts in €millions</i>	<b>31 December 2021</b>	<b>30 June 2021</b>
1	Total assets as per published financial statements	4,241	4,097
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of prudential consolidation	-	-
3	(Adjustment for securitised exposures that meet the operational requirements for the recognition of risk transference)	(20)	(20)
4	(Adjustment for temporary exemption of exposures to central banks (if applicable))	-	-
5	(Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the total exposure measure in accordance with point (i) of Article 429a(1) CRR)	-	-
6	Adjustment for regular-way purchases and sales of financial assets subject to trade date accounting	-	-
7	Adjustment for eligible cash pooling transactions	-	-
8	Adjustment for derivative financial instruments	6	9
9	Adjustment for securities financing transactions (SFTs)	17	(15)
10	Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	136	182
11	(Adjustment for prudent valuation adjustments and specific and general provisions which have reduced Tier 1 capital)	-	-
EU-11a	(Adjustment for exposures excluded from the total exposure measure in accordance with point (c) of Article 429a(1) CRR)	-	-
EU-11b	(Adjustment for exposures excluded from the total exposure measure in accordance with point (j) of Article 429a(1) CRR)	-	-
12	Other adjustments	(21)	(63)
13	<b>Total exposure measure</b>	<b>4,359</b>	<b>4,190</b>

The following table presents the constituents of the leverage exposure, the leverage ratio on a fully-loaded and phase-in basis with the fully-loaded and phase-in Tier 1 Capital, respectively as at 31 December 2021.

**EU LR2 - LRCom: Leverage ratio common disclosure**

Amounts in €millions		CRR leverage ratio exposures	
		a	b
		31 December 2021	30 June 2021
1	On-balance sheet items (excluding derivatives, SFTs, but including collateral)	4,182	3,994
2	Gross-up for derivatives collateral provided, where deducted from the balance sheet assets pursuant to the applicable accounting framework	-	-
3	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	-	-
4	(Adjustment for securities received under securities financing transactions that are recognised as an asset)	-	-
5	(General credit risk adjustments to on-balance sheet items)	-	-
6	(Asset amounts deducted in determining Tier 1 capital)	(14)	(14)
7	<b>Total on-balance sheet exposures (excluding derivatives and SFTs)</b>	<b>4,168</b>	<b>3,980</b>
8	Replacement cost associated with SA-CCR derivatives transactions (ie net of eligible cash variation margin) <sup>13</sup>	-	-
EU-8a	Derogation for derivatives: replacement costs contribution under the simplified standardised approach	-	-
9	Add-on amounts for potential future exposure associated with SA-CCR derivatives transactions	-	-
EU-9a	Derogation for derivatives: Potential future exposure contribution under the simplified standardised approach	-	-
EU-9b	Exposure determined under Original Exposure Method	69	72
10	(Exempted CCP leg of client-cleared trade exposures) (SA-CCR)	-	-
EU-10a	(Exempted CCP leg of client-cleared trade exposures) (simplified standardised approach)	-	-
EU-10b	(Exempted CCP leg of client-cleared trade exposures) (Original Exposure Method)	(62)	(62)
11	Adjusted effective notional amount of written credit derivatives	-	-
12	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	-	-
13	<b>Total derivatives exposures</b>	<b>7</b>	<b>10</b>
14	Gross SFT assets (with no recognition of netting), after adjustment for sales accounting transactions	31	33
15	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-	-
16	Counterparty credit risk exposure for SFT assets	17	10
EU-16a	Derogation for SFTs: Counterparty credit risk exposure in accordance with Articles 429e(5) and 222 CRR	-	-
17	Agent transaction exposures	-	-
EU-17a	(Exempted CCP leg of client-cleared SFT exposure)	-	(25)
18	<b>Total securities financing transaction exposures</b>	<b>48</b>	<b>18</b>
19	Off-balance sheet exposures at gross notional amount	385	452
20	(Adjustments for conversion to credit equivalent amounts)	(249)	(270)
21	(General provisions deducted in determining Tier 1 capital and specific provisions associated with off-balance sheet exposures)	-	-
22	<b>Off-balance sheet exposures</b>	<b>136</b>	<b>182</b>
EU-22a	(Exposures excluded from the total exposure measure in accordance with point (c) of Article 429a(1) CRR)	-	-
EU-22b	(Exposures exempted in accordance with point (j) of Article 429a(1) CRR (on and off balance sheet))	-	-
EU-22c	(Excluded exposures of public development banks (or units) - Public sector investments)	-	-
EU-22d	(Excluded exposures of public development banks (or units) - Promotional loans)	-	-
EU-22e	(Excluded passing-through promotional loan exposures by non-public development banks (or units))	-	-
EU-22f	(Excluded guaranteed parts of exposures arising from export credits)	-	-
EU-22g	(Excluded excess collateral deposited at triparty agents)	-	-
EU-22h	(Excluded CSD related services of CSD/institutions in accordance with point (o) of Article 429a(1) CRR)	-	-
EU-22i	(Excluded CSD related services of designated institutions in accordance with point (p) of Article 429a(1) CRR)	-	-
EU-22j	(Reduction of the exposure value of pre-financing or intermediate loans)	-	-
EU-22k	(Total exempted exposures)	-	-
23	<b>Tier 1 capital</b>	<b>213</b>	<b>234</b>
24	<b>Total exposure measure</b>	<b>4,359</b>	<b>4,190</b>
25	<b>Leverage ratio (%)</b>	<b>4.9%</b>	<b>5.6%</b>
EU-25	Leverage ratio (excluding the impact of the exemption of public sector investments and promotional loans) (%)	4.9%	5.6%
25a	Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves) (%)	4.9%	5.6%
26	Regulatory minimum leverage ratio requirement (%) <sup>14</sup>	3.0%	3.0%
EU-26a	Additional own funds requirements to address the risk of excessive leverage (%)	0.0%	0.0%
EU-26b	of which: to be made up of CET1 capital	0.0%	0.0%
27	Leverage ratio buffer requirement (%)	0.0%	0.0%
EU-27a	Overall leverage ratio requirement (%)	3.0%	3.0%
EU-27b	Choice on transitional arrangements for the definition of the capital measure	Transitional	Transitional
28	Mean of daily values of gross SFT assets, after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivable	13	33
29	Quarter-end value of gross SFT assets, after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables	31	33
30	Total exposure measure (including the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables)	4,340	4,190

<sup>13</sup> The replacement cost associated with SA-CCR is effective from 30 June 2021.

<sup>14</sup> The Leverage ratio requirement is effective from 30 June 2021 under the CRR 2.



30a	Total exposure measure (excluding the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables)	4,340	4,190
31	Leverage ratio (including the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables)	4.9%	5.6%
31a	Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables)	4.9%	5.6%

The following table provides a split of the on-balance sheet exposures as at 31 December 2021 in relation to the calculation of the leverage ratio (excluding derivatives, SFTs and exempted exposures).

**EU LR3 - LRSpl: Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)**

		<b>CRR leverage ratio exposures</b>	
		<b>a</b>	<b>a</b>
		<b>31 December 2021</b>	<b>30 June 2021</b>
<b>EU-1</b>	<b>Amounts in €millions</b> <b>Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:</b>	<b>4,219</b>	<b>4,023</b>
EU-2	Trading book exposures	-	-
EU-3	Banking book exposures, of which:	4,219	4,023
EU-4	Covered bonds	422	434
EU-5	Exposures treated as sovereigns	586	446
EU-6	Exposures to regional governments, MDB, international organisations and PSE, not treated as sovereigns	53	54
EU-7	Institutions	253	273
EU-8	Secured by mortgages of immovable properties	1,518	1,443
EU-9	Retail exposures	167	170
EU-10	Corporates	479	575
EU-11	Exposures in default	144	112
EU-12	Other exposures (eg equity, securitisations, and other non-credit obligation assets)	598	517

**Factors that had an impact on the leverage ratio in the second half of 2021 (Article 451 (1) € CRR) (EU LRA)**

The leverage ratio as at 31 December 2021 is 70bps lower when compared to the ratio as at the end of June 2021. This decrease is partly attributed to a higher asset base as a result of continued investment in the Dutch and Maltese Mortgage portfolios and higher amounts due from other financial institutions. The total increase in the asset base was partly set off by lower investments in international lending. The main drivers for the overall change were therefore the diversification and re-balancing of the credit portfolio which had an indirect impact on the leverage ratio, and a reduced capital base due to higher COVID-related impairment charges recognised at the end of the financial year.

**Process used to manage the risk of excessive leverage (Article 451 (1) (d) CRR) (EU LRA)**

The Group has maintained a leverage ratio well above the 3% minimum requirement and thus no additional capital is required. The Group has a very low appetite for even approaching this threshold, however is willing to accept some volatility to this ratio if suitable lending or investment opportunities arise, provided that the overall goal of maintaining significant headroom to the regulatory minimum is not threatened. The Risk Appetite Statement includes early warning indicators and limits for the leverage ratio with a defined escalation process in case of risk of excessive leverage. In such instances, management is required to provide an action plan whilst keeping the Board updated with progress as outline in the Group's Risk Appetite Framework. The leverage ratio is reported to ALCO, ExCo and the Group's Board on a regular basis. This ensure senior management are kept informed of any changes, in particular deterioration of the leverage ratio.

### 13 Asset encumbrance (Article 443 CRR)

#### Qualitative information on unencumbered assets (EU AE4)

On 3 March 2017, the EBA published the final guidelines on the disclosure of encumbered and unencumbered assets as mandated by Article 433 CRR. The disclosure on asset encumbrance is a requirement introduced by BR 07 transposing the provisions of the EBA guidelines. The objective of this disclosure is to facilitate an understanding of available and unrestricted assets that could be used to support potential future funding and collateral needs. An asset is defined as encumbered if it has been pledged as collateral against an existing liability, and as a result is no longer available to the group to secure funding, satisfy collateral needs or be sold to reduce the funding requirement.

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

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

In this respect, the Group believes that an analysis of asset encumbrance is critical to assess the ability of the Group to handle funding stress, and its ability to switch from unsecured to secured funding under stressed conditions.

The amounts disclosed in the following table represent the median values, being the rolling quarterly medians over the previous twelve months, determined by interpolation, in accordance with the Commission Delegated Regulation (EU) 2017/2295, issued on 4 September 2017, supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards for disclosure of encumbered and unencumbered assets. Therefore the sum of sub components does not necessarily add up or would not agree with those disclosed in the Group's Annual Report and Financial Statements.

The encumbered assets consist of investments used for repo funding and pledged securities. MeDirect Belgium provides a secured liquidity facility against RCFs pledged to MeDirect Malta at a 50% LTV. Reposed transactions are covered by a Global Repurchase Master Agreement ("GRMA") and involve the sale of financial assets with a simultaneous agreement to repurchase at a pre-determined price at a future date. The pledged securities transactions are pledged in favour of the ECB for the purposes of existing and potential long term re-financing operations and also in favour of the depositor compensation scheme.

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

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

MeDirect Belgium has encumbered a part of its Dutch mortgage portfolio for issuing asset-backed securities (ABS) like residential mortgage-backed securities (RMBS). The pool of assets that secures these transactions exceeds the value of the issued securities, meaning that the securities are over-collateralized. Refer to note 7 and note 19 of the MDB Group Annual report and financial statements for further details of the mortgage loan portfolio that have been securitised through the RMBS transactions and the debt securities in issue as a result of these RMBS transactions.

The following is a summary of the asset encumbrance as at the end of the reporting period, the majority of which are denominated in euro:

- Part of the Group's loans and advances to financial institutions and investments were pledged as collateral as part of the cooperation with the Blauwtrust Groep to access their multi-investor platform to purchase newly originated Dutch mortgages.
- Balances held with central banks include reserve deposits of the Group relating to the Minimum Reserve Requirement in terms of Regulation (EC) No 1745/2003 of the ECB.
- Investment securities are pledged as collateral with Eurex against the provision of borrowing facilities. In addition, certain investment securities are subject to a bilateral repo with a global bank.
- Cash and investment securities have been pledged by MeDirect to a derivatives clearing fund held by Eurex Clearing AG, of which the Bank is a member. The clearing fund protects members against losses until they leave the clearing fund.
- The Group has loans and advances to financial institutions that are held for the purposes of margin requirements on hedging instruments attributable to the Dutch Mortgage lending business, and are hence considered encumbered.
- Investment securities held by the Group were pledged as a "payment commitment" in favour of the Maltese Depositor Compensation Scheme (DCS).

Refer to notes 6 and 8 of the MDB Group Annual report and financial statements for further quantitative details in respect of such asset encumbrance. Further details on encumbered assets, including information regarding the evolution of encumbrance throughout the financial period are available in note 2.3.5 to the MDB Group Limited Annual Report and financial statements for the financial year ended 31 December 2021.

The unencumbered assets disclosed in the following table under item 'Other assets' include loans and advances, cash and short term funds, property, plant and equipment, intangible assets, tax assets and other assets. The majority of these assets consist of the International Corporate Lending, the Maltese Business Lending and the Maltese Mortgage portfolios and the Dutch Mortgage portfolio that is not covering the asset-backed securities issued as part of the RMBS transactions.

Quantitative information on encumbered assets

The following tables set out a breakdown of on- and off-balance sheet items, broken down between encumbered and unencumbered.

**EU AE1: Encumbered and unencumbered assets**

31 December 2021

		Carrying amount of encumbered assets		Fair value of encumbered assets	
			of which notionally eligible EHQLA and HQLA		of which notionally eligible EHQLA and HQLA
Amounts in €millions		010	030	040	050
<b>010</b>	<b>Assets of the disclosing institution<sup>15</sup></b>	<b>1,177</b>	<b>290</b>	-	-
030	Equity instruments	-	-	-	-
040	Debt securities	362	290	361	290
050	of which: covered bonds	126	126	126	126
060	of which: securitisations	39	-	39	-
070	of which: issued by general governments	123	123	123	123
080	of which: issued by financial corporations	245	166	245	166
090	of which: issued by non-financial corporations	-	-	-	-
120	Other assets	818	-	-	-

31 December 2021

		Carrying amount of unencumbered assets		Fair value of unencumbered assets	
			of which EHQLA and HQLA		of which EHQLA and HQLA
Amounts in €millions		060	080	090	100
<b>010</b>	<b>Assets of the disclosing institution</b>	<b>2,959</b>	<b>373</b>	-	-
030	Equity instruments	-	-	-	-
040	Debt securities	868	373	854	372
050	of which: covered bonds	301	301	301	301
060	of which: securitisations	376	-	375	-
070	of which: issued by general governments	94	82	94	82
080	of which: issued by financial corporations	771	336	770	335
090	of which: issued by non-financial corporations	12	-	-	-
120	Other assets	2,145	-	-	-

31 December 2020

		Carrying amount of encumbered assets		Fair value of encumbered assets	
			of which notionally eligible EHQLA and HQLA		of which notionally eligible EHQLA and HQLA
Amounts in €millions		010	030	040	050
<b>010</b>	<b>Assets of the disclosing institution</b>	<b>1,251</b>	<b>611</b>	-	-
030	Equity instruments	-	-	-	-
040	Debt securities	726	611	745	650
050	of which: covered bonds	400	400	397	397
060	of which: securitisations	109	-	109	-
070	of which: issued by general governments	132	132	132	132
080	of which: issued by financial corporations	588	470	582	468
090	of which: issued by non-financial corporations	-	-	-	-
120	Other assets	525	-	-	-

31 December 2020

		Carrying amount of unencumbered assets		Fair value of unencumbered assets	
			of which EHQLA and HQLA		of which EHQLA and HQLA
Amounts in €millions		060	080	090	100
<b>010</b>	<b>Assets of the disclosing institution</b>	<b>2,655</b>	<b>446</b>	-	-
030	Equity instruments	2	-	-	-
040	Debt securities	446	446	423	241
050	of which: covered bonds	103	103	101	102
060	of which: securitisations	185	-	158	-
070	of which: issued by general governments	107	107	106	106
080	of which: issued by financial corporations	345	160	343	159
090	of which: issued by non-financial corporations	13	-	6	-
120	Other assets	2,217	-	-	-

<sup>15</sup> The terminology "reporting institution" is referring to MDB Group Limited

**EU AE2 - Collateral received and own debt securities issued**

31 December 2021

Amounts in €millions		Fair value of encumbered collateral received or own debt securities issued		Unencumbered	
			of which notionally eligible EHQLA and HQLA	Fair value of collateral received or own debt securities issued available for encumbrance	
					of which EHQLA and HQLA
		010	030	040	060
<b>130</b>	<b>Collateral received by the disclosing institution</b>	-	-	13	13
140	Loans on demand	-	-	-	-
150	Equity instruments	-	-	-	-
160	Debt securities	-	-	13	13
170	of which: covered bonds	-	-	-	-
180	of which: securitisations	-	-	-	-
190	of which: issued by general governments	-	-	13	13
200	of which: issued by financial corporations	-	-	-	-
210	of which: issued by non-financial corporations	-	-	-	-
220	Loans and advances other than loans on demand	-	-	-	-
230	Other collateral received	-	-	-	-
<b>240</b>	<b>Own debt securities issued other than own covered bonds or securitisations</b>	-	-	-	-
<b>241</b>	<b>Own covered bonds and securitisations issued and not yet pledged</b>	-	-	-	-
<b>250</b>	<b>TOTAL COLLATERAL RECEIVED AND OWN DEBT SECURITIES ISSUED</b>	1,177	-	-	-

31 December 2020

Amounts in €millions		Fair value of encumbered collateral received or own debt securities issued		Unencumbered	
			of which notionally eligible EHQLA and HQLA	Fair value of collateral received or own debt securities issued available for encumbrance	
					of which EHQLA and HQLA
		010	030	040	060
<b>130</b>	<b>Collateral received by the disclosing institution</b>	-	-	23	23
140	Loans on demand	-	-	-	-
150	Equity instruments	-	-	-	-
160	Debt securities	-	-	23	23
170	of which: covered bonds	-	-	-	-
180	of which: securitisations	-	-	-	-
190	of which: issued by general governments	-	-	23	23
200	of which: issued by financial corporations	-	-	-	-
210	of which: issued by non-financial corporations	-	-	-	-
220	Loans and advances other than loans on demand	-	-	-	-
230	Other collateral received	-	-	-	-
<b>240</b>	<b>Own debt securities issued other than own covered bonds or securitisations</b>	-	-	-	-
<b>241</b>	<b>Own covered bonds and securitisations issued and not yet pledged</b>	-	-	-	-
<b>250</b>	<b>TOTAL COLLATERAL RECEIVED AND OWN DEBT SECURITIES ISSUED</b>	1,251	-	-	-

The following table shows selected amounts for encumbered on- and off-balance sheet assets against the corresponding liabilities that have given rise to the encumbrance. Refer to section on “Qualitative information on unencumbered assets” for a description of encumbered assets and matching liabilities.

#### EU AE3: Sources of encumbrance

31 December 2021

		Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and securitisations encumbered
<i>Amounts in €millions</i>		010	030
<b>010</b>	<b>Carrying amount of selected financial liabilities</b>	928	1,032

31 December 2020

		Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and securitisations encumbered
<i>Amounts in €millions</i>		010	030
<b>010</b>	<b>Carrying amount of selected financial liabilities</b>	724	945

#### **14 Remuneration policy and practices** (Article 450 CRR)

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

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

The remuneration elements for all Group MRTs are detailed in the tables below in accordance with Article 450 CRR.

Material Risk Takers are classified as follows:

- Supervisory function

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

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

- Management function

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

- Retail and Corporate Banking

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

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

- Corporate functions

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

- Independent control functions

As described in the EBA's guidelines on internal governance, this category would consist of the Heads and key personnel active in the independent control functions such as the internal audit, compliance and risk functions of the Group and subsidiaries. They benefit from performance bonuses delivered in cash. Compensation of control functions is not directly tied to the results of any business unit but should provide incentives for such staff to deliver the best performance in their role. The Group's remuneration practices shall ensure that no material conflict of interest arise in respect or remuneration for staff in the Group's control functions.

**EU REM1 - Remuneration awarded for the financial year**

		a	b	C	d
	Remuneration in €millions	MB Supervisory function	MB Management function	Other senior management	Other identified staff
1	Number of identified staff	6	6	11	13
2	Total fixed remuneration	1	3	2	2
3	Of which: cash-based	1	2	2	2
4	(Not applicable in the EU)				
EU-4a	Of which: shares or equivalent ownership interests	-	-	-	-
5	Of which: share-linked instruments or equivalent non-cash instruments	-	-	-	-
EU-5x	Of which: other instruments	-	-	-	-
6	(Not applicable in the EU)				
7	Of which: other forms	-	-	-	-
8	(Not applicable in the EU)				
9	Number of identified staff	-	6	10	11
10	Total variable remuneration	-	1	-	-
11	Of which: cash-based	-	-	-	-
12	Of which: deferred	-	-	-	-
EU-13a	Of which: shares or equivalent ownership interests	-	-	-	-
EU-14a	Of which: deferred	-	-	-	-
EU-13b	Of which: share-linked instruments or equivalent non-cash instruments	-	-	-	-
EU-14b	Of which: deferred	-	-	-	-
EU-14x	Of which: other instruments	-	-	-	-
EU-14y	Of which: deferred	-	-	-	-
15	Of which: other forms	-	-	-	-
16	Of which: deferred	-	-	-	-
17	Total remuneration (2 + 10)	1	3	2	2

**EU REM2 - Special payments to staff whose professional activities have a material impact on institutions' risk profile (identified staff)**

		a	b	c	d
	Remuneration in €millions	MB Supervisory function	MB Management function	Other senior management	Other identified staff
	Guaranteed variable remuneration awards				
1	Guaranteed variable remuneration awards - Number of identified staff	-	-	-	-
2	Guaranteed variable remuneration awards -Total amount	-	-	-	-
3	Of which guaranteed variable remuneration awards paid during the financial year, that are not taken into account in the bonus cap	-	-	-	-
	Severance payments awarded in previous periods, that have been paid out during the financial year				
4	Severance payments awarded in previous periods, that have been paid out during the financial year - Number of identified staff	-	-	-	-
5	Severance payments awarded in previous periods, that have been paid out during the financial year - Total amount	-	-	-	-
	Severance payments awarded during the financial year				
6	Severance payments awarded during the financial year - Number of identified staff	-	1	-	-
7	Severance payments awarded during the financial year - Total amount	-	-	-	-
8	Of which paid during the financial year	-	-	-	-
9	Of which deferred	-	-	-	-
10	Of which severance payments paid during the financial year, that are not taken into account in the bonus cap	-	-	-	-
11	Of which highest payment that has been awarded to a single person	-	-	-	-

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

### EU REM3 - Deferred remuneration

Remuneration in €millions		a	b	c	d	e	f	EU - g	EU - h
Deferred and retained remuneration		Total amount of deferred remuneration awarded for previous performance periods	Of which due to vest in the financial year	Of which vesting in subsequent financial years	Amount of performance adjustment made in the financial year to deferred remuneration that was due to vest in the financial year	Amount of performance adjustment made in the financial year to deferred remuneration that was due to vest in future performance years	Total amount of adjustment during the financial year due to ex post implicit adjustments (i.e. changes of value of deferred remuneration due to the changes of prices of instruments)	Total amount of deferred remuneration awarded before the financial year actually paid out in the financial year	Total amount of deferred remuneration awarded for previous performance period that has vested but is subject to retention periods
1	MB Supervisory function	-	-	-	-	-	-	-	-
2	Cash-based	-	-	-	-	-	-	-	-
3	Shares or equivalent ownership interests	-	-	-	-	-	-	-	-
4	Share-linked instruments or equivalent non-cash instruments	-	-	-	-	-	-	-	-
5	Other instruments	-	-	-	-	-	-	-	-
6	Other forms	-	-	-	-	-	-	-	-
7	MB Management function	2	1	1	-	-	-	-	1
8	Cash-based	-	-	-	-	-	-	-	-
9	Shares or equivalent ownership interests	2	1	1	-	-	-	-	1
10	Share-linked instruments or equivalent non-cash instruments	-	-	-	-	-	-	-	-
11	Other instruments	-	-	-	-	-	-	-	-
12	Other forms	-	-	-	-	-	-	-	-
13	Other senior management	-	-	-	-	-	-	-	-
14	Cash-based	-	-	-	-	-	-	-	-
15	Shares or equivalent ownership interests	-	-	-	-	-	-	-	-
16	Share-linked instruments or equivalent non-cash instruments	-	-	-	-	-	-	-	-
17	Other instruments	-	-	-	-	-	-	-	-
18	Other forms	-	-	-	-	-	-	-	-
19	Other identified staff	-	-	-	-	-	-	-	-
20	Cash-based	-	-	-	-	-	-	-	-
21	Shares or equivalent ownership interests	-	-	-	-	-	-	-	-
22	Share-linked instruments or equivalent non-cash instruments	-	-	-	-	-	-	-	-
23	Other instruments	-	-	-	-	-	-	-	-
24	Other forms	-	-	-	-	-	-	-	-
25	Total amount	3	1	1	-	-	-	-	1

### EU REM4 - Remuneration of 1 million EUR or more per year

		a
EUR		Identified staff that are high earners as set out in Article 450(i) CRR
1	1 000 000 to below 1 500 000	1



**EU REM5 - Information on remuneration of staff whose professional activities have a material impact on institutions' risk profile (identified staff)**

		a	b	c	d	e	f	g	h	i	j
		Management body remuneration			Business areas						-
		MB Supervisory function	MB Management function	Total MB	Investment banking	Retail banking	Asset management	Corporate functions	Independent internal control functions	All other	Total
<i>Remuneration in €millions</i>											
1	Total number of identified staff										36
2	Of which: members of the MB	6	6	12							
3	Of which: other senior management				-	4	-	6	1	-	
4	Of which: other identified staff				-	1	-	3	9	-	
5	Total remuneration of identified staff	1	3	4	-	1	-	1	2	-	
6	Of which: variable remuneration	-	1	1	-	-	-	-	-	-	
7	Of which: fixed remuneration	1	3	3	-	1	-	1	1	-	

## 15 Recruitment and diversity policy statement

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

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

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

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

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

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

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

The Group has put a lot of focus on being diverse not only in its product offering but also in its workforce with over 24 nationalities across all our locations. In addition, MeDirect have also seen an increase of female representation in its workforce and top management. An increase of 2% was recorded in 2022 in the overall female composition and an increase of 18.2% (more than doubling from 13.3% in 2020 to 31.5% in 2022) in its female presence in top management. This has been possible further to the various initiatives the Group has implemented to further support its workforce with focus on flexibility, reduced hours, and remote work. The Group Board will continue to monitor this through the NRC.

Kindly refer to the Non-Financial Information report in the Annual report.

### Recruitment and diversity policy for board members (Article 435 (2) (b) and (c) CRR) (EU OVB)

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

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

During the financial year ended 31 December 2021, the Group strived to improve the diversity on the Board but there were no quantitative targets set in relation to the underrepresented gender or for the policies regarding diversity in age, educational background, professional background and geographical provenance. Following discussion during the NRC, it was agreed to have in place a measurable objective and plan for achieving the further diversity on the Board which will be reviewed and agreed by the Committee and presented to the Board for approval on an annual basis. The proportion of underrepresented gender on each of the Group and Belgian Boards is targeted to be at least 20% to be achieved by December 2023. MeDirect will be seeking a female independent NED to join the Group Board in 2022 with IT/Digital expertise, and to further increase female representation during 2023 via replacement or addition. A search firm will be engaged if necessary to ensure that the above-mentioned diversity components are fulfilled. Clearly, these targets may be revised in the light of any structural changes that occur pursuant to our revised strategic plan.

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

#### MDB Group Limited and MeDirect Bank (Malta) plc

Mr Benjamin Hollowood (non-executive director) resigned on 28 April 2021 and was replaced by Mr Jamal Ismayilov (non-executive director) that was appointed on 14 December 2021. Mr Alex Konewko (CRO and executive director) resigned on 15 December 2021.

The mandate of Mr Dominic Wallace (non-executive director) came to an end on 27 April 2022.

**MeDirect Bank SA**

Mr Bart Bronselaer was appointed as a non-executive director on 12 January 2021. Mr Hasan Dajani (CRO and executive director) resigned on 12 March 2021 and was replaced by Mr Francois Ducuroir who was appointed as a CRO and an executive director on 13 August 2021. On 7 April 2022, Mrs Franca Vossen, a non-executive director, resigned from the Board of MeDirect Belgium.

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

<https://www.medirect.com.mt/about-us/our-team/>

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

**16 Number of directorships held by board members**

*(Article 435 (2) (a) CRR) (EU OVB)*

The number of other directorships held by members of MeDirect Malta's Board as at 31 December 2021 (excluding the functions exercised in companies ultimately owned by Anacap Financial Partners II L.P., in personal patrimony/management companies, and in non-profit associations) are listed in the table below:

Directors as at 31 December 2021		Number of other directorships held
Michael Bussey	Independent Non-Executive Chairman	1 NED <sup>16</sup>
John Zarb	Independent Non-Executive Director	3 NED
Dominic Wallace	Independent Non-Executive Director	-
Jamal Ismayilov	Non-Executive Director	1 NED
Arnaud Denis	Executive Director	-
Radoslaw Ksiezopolski	Executive Director	-

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<sup>16</sup> Directorship approved by the UK Prudential Regulation Authority.

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**Appendix B - CRR 2 References**

CRR Ref.	High-level summary	Applicable to MeDirect Yes/No	Compliance reference
Article 431: Scope of disclosure requirements			
431 (1)	Requirement to publish Pillar 3 disclosures	Yes	MDB Group publishes these Pillar 3 disclosures
431 (2)	Firms with permission to use specific operational risk methodologies must disclose operational risk information.	No	No specific permissions in respect of the calculation of specific operational risk granted to the Group,as it does not use the Advances Measurement Approaches for operational risk
431 (3)	Institution must have a policy covering frequency of disclosures, their verification, comprehensiveness and overall appropriateness. Additionally, Institution must have written attestation of at least one member of the management body or senior management that the required disclosures have been made.	Yes	The Group compiles the Additional Regulatory Disclosures in accordance with the requirements emanating from the CRR, BR07 and relevant EBA guidelines.  Refer to Section 1.1 – “Pillar 3 Disclosure Policy” and section 1.2 – “Attestation by the directors”.
431 (4)	Quantitative disclosures must be accompanied by qualitative narrative and any other supplementary information required to understand the disclosures.	Yes	Evidenced throughout these Pillar 3 disclosures.
431 (5)	Explanation of ratings decision upon request	No	Not applicable for MeDirect.
Article 432: Non-material, proprietary or confidential information			
432 (1)	Institutions may omit information that is not material if certain conditions are respected.	No	MeDirect complies with all relevant disclosure requirements. No information is omitted due to being considered proprietary or confidential as is noted in Section 1.1 – “Pillar 3 Disclosure Policy” of this Report. No item required to be disclosed was purposely fully omitted.
432 (2)	Institutions may omit information that is proprietary or confidential if certain conditions are respected.	No	
432 (3)	Where 432 (1) and (2) apply this must be stated in the disclosures, and more general information must be disclosed.	No	
Article 433: Frequency of disclosure			
433	Disclosures must be published once a year at a minimum, and more frequently if necessary.	Yes	Compliance with this provision is covered by the Group’s policy. Refer to Section 1 “Introduction”.
Article 433a: Disclosure by large institutions			
433a1	Disclosures under specified articles must be made on an annual, semi-annual or quarterly basis as is identified in this article.	Yes	Required disclosures are published annually at a minimum, with quarterly disclosures for key elements and metrics including Own Funds, RWA, Capital Requirements and Leverage.
433a2	Non-listed G-SIIs are required to disclose information relating to specified articles on an annual or semi-annual basis as identified in this article.	No	MeDirect is not a G-SII
433a3	Large institutions subject to articles 92a or 92b must make additional disclosures on a semi-annual or quarterly basis as identified in this article.		
Article 433b: Disclosures by small and non-complex institutions			
433b (1)	Disclosures under specified articles must be made on an annual or semi-annual basis as is identified in this article.	No	MeDirect is a large institution.
433b (2)	Non-listed small and non-complex institutions are required to disclose information relating to specified articles on an annual basis as identified in this article		

Article 433c: Disclosures by other institutions			
433c (1)	Disclosures under specified articles must be made on an annual, semi-annual basis as is identified in this article.	No	MeDirect is a large institution.
433c (2)	Non-listed other institutions are required to disclose information relating to specified articles on an annual basis as identified in this article.		
Article 434: Means of disclosures			
434 (1)	To include of disclosures in one appropriate medium, or provide clear cross-references.	Yes	Most disclosures are contained within this document. Any cross references to accounting or other disclosures are clearly signposted in this document. Signposting directs the reader to the MDB Group 2021 annual report where appropriate.  Refer to Section 1.1 – “Pillar 3 Disclosure Policy”.  All documents are available on the following website: <a href="https://www.medirect.com.mt/about-us/investor-relations/">https://www.medirect.com.mt/about-us/investor-relations/</a>
434 (2)	Disclosures made under other requirements (e.g. accounting) can be used to satisfy Pillar 3 if appropriate.		
Article 434a: Uniform disclosure formats			
434a	EBA shall develop implementing technical standards specifying uniform disclosure formats and associated instructions in accordance with the disclosures required under CRR.	Yes	Evidenced throughout this Report via standardised templates and tables applicable to MeDirect. Also refer to Appendix A.
Article 435: Risk management objectives and policies			
435 (1) (a)	Disclose information on strategies and processes; organisational structure, reporting systems and risk mitigation/hedging.	Yes	Refer to Section 2 “Risk Management, objectives and policies”
435 (1) (b)	Disclose information on structure and organisation of risk management function.		
435 (1) (c)	Disclose information on risk reporting and measurement systems.		
435 (1) (d)	Disclose information on hedging and mitigating risk.		
435 (1) (e)	declaration approved by the management body on the adequacy of risk management arrangements with regard to the institution's profile and strategy.	Yes	Refer to Section 2.3 “Risk statement”
435 (1) (f)	Inclusion of a concise risk statement approved by the Board.	Yes	Refer to 2.1.2 “Overview of the management of key risks”, Section 2.1.3 “Risk appetite” and Section 2.3 “Risk Statement”. This statement covers the principal risks.
435 (2)	Information on governance arrangements, including information on Board composition and recruitment, and risk committees.	Yes	See Section 2.1.9 “Risk governance structure” and Section 15 “Recruitment and diversity policy statement” in this report for a description of the Risk Policies and Governance. See also Statement of Compliance with the principles of good corporate governance of the MDB Group December 2021 Annual Report which contains information on Board composition, experience and recruitment.
435 (2) (a)	Number of directorships held by the directors.	Yes	See Section 16 for number of directorships held by the directors.
435 (2) (b)	Recruitment policy of Board members, their experience and expertise.	Yes	See Section 15 “Recruitment and diversity policy statement”
435 (2) (c)	Policy on diversity of Board membership and results against targets.	Yes	Section 15 “Recruitment and diversity policy statement”
435 (2) (d)	Disclosure of whether a dedicated risk committee is in place, and number of meetings in the year.	Yes	Refer to Section 2.1.5 “Risk Monitoring and reporting” and Section 2.1 “General information on risk management, objectives and policies” and the Statement of Compliance with the principles of good corporate governance of the MDB Group December 2021 Annual Report.
435 (2) (e)	Description of information flow on risk to Board.	Yes	Refer to Section 2.1.5 Risk Monitoring and Reporting on Reporting to the Board and Board Risk Committee.

Article 436: Scope of application			
436 (a)	Name of institution	Yes	Refer to Section 1.1 “Pillar 3 Disclosure Policy” and Section 3 “Scope of application of the regulatory framework”.
436 (b)	Reconciliation between consolidated financial statements prepared under the applicable accounting framework and the consolidated financial statements prepared under the requirements of the regulatory consolidation. This should outline differences between scopes, and legal entities included in consolidation, whether entities are fully or proportionally consolidated and whether the holdings are deducted from own funds.	Yes	Refer to Section “Reconciliation of regulatory own funds to the IFRS balance sheet” in Section 3 “Scope of application of the regulatory framework”.  Refer to Table EU LI3 in Section 3 “Scope of application of the regulatory framework”.
436 (c)	Breakdown of assets and liabilities of consolidated financial statements prepared under regulatory requirements, broken down by risk type.	Yes	Refer to Table EU LI1 in Section 3 “Scope of application of the regulatory framework”.
436 (d)	Reconciliation identifying main source of differences between carrying value under regulatory scope of consolidation and the exposure amount used for regulatory purposes.	Yes	Refer to Table EU LI2 in Section 3 “Scope of application of the regulatory framework”.
436 (e)	Breakdown of amounts of constituent elements of prudent valuation adjustment for, by risk type, exposures from trading and non-trading books which are adjusted per Articles 34 and 105.	Yes	Refer to Table EU PV1 in Section 9.2.1 “Composition of Own Funds”.
436 (f)	Impediments to transfer of funds between parent and subsidiaries	No	See Section 9.2 “Own funds – other disclosures”. No impediments to transfer of funds between group entities.
436 (g)	Capital shortfalls in any subsidiaries outside of scope of consolidation	No	No subsidiaries fall outside the scope of consolidation of MDB Group.
436 (h)	Making use of articles on derogations from a) prudential requirements or b) liquidity requirements for individual subsidiaries/entities.	No	MeDirect does not make use of derogations from prudential requirements or liquidity requirements for individual subsidiaries/entities.
Article 437: Own funds			
437	Institutions shall disclose the following information regarding their own funds:	Yes	Tables and templates noted below.
437 (a)	A full reconciliation of Common equity tier 1 items, Additional tier 1 items, Tier 2 items and filters and deductions to own funds of the institution and to the statutory balance sheet in the audited financial statements.	Yes	See Section 9.2 “Own funds – other disclosures” and table EU CC1 within this section.  Refer to Table EU CC2 in Section 3 “Scope of application of the regulatory framework”.
437 (b)	A description of the main features of capital instruments issued by the institution	Yes	See Section 9.1 “Total available capital” and Section 9.2 “Own funds – other disclosures”. Also refer to tables EU CCA in the latter section.
437 (c)	The full terms and conditions of all capital instruments issued by the institution.		
437 (d)	Disclosure of the nature and amount of the following	Yes	See Section 9.2 “Own funds – other disclosures” and Table EU CC1 within this section.
437 (d) (i)	Each prudential filter applied;		
437 (d) (ii)	Each capital deduction made;		
437(1)(d) (iii)	Items not deducted from capital.		
437 (e)	A description of all restrictions applied to the calculation of own funds in accordance with this Regulation and the instruments, prudential filters and deductions to which those restrictions apply.	No	See Section 9.2 “Own funds – other disclosures” and Table EU CC1 within this section.

437 (f)	A comprehensive explanation of the basis on which capital ratios are calculated where those capital ratios are calculated by using elements of own funds determined on a basis other than the basis laid down in this Regulation.	No	Regulation applied - Refer to sections 9.1 Total available capital and Table EU CC1 within Section 9.2 "Own funds – other disclosures".
Article 437 a: Disclosure of own funds and eligible liabilities			
	Institutions subject to Articles 92a or 92b should disclose the following:	No	MeDirect is not a G-SII.
437 (a)	Composition of own funds and eligible liabilities, their maturity and their main features.		
437 (b)	Ranking of eligible liabilities in the creditor hierarchy.		
437 (c)	Total amount of issuance of eligible liabilities instruments and amount of those issuances included in eligible liabilities items.		
437 (d)	Total amount of excluded liabilities referred to in article 72a(2).		
Article 438: Disclosure of own funds requirements and risk-weighted exposure amounts			
438 (a)	Summary of institution's approach to assessing adequacy of capital levels.	Yes	Disclosure of approach on assessing adequacy capital requirements are contained in Section 2.2.2 "Capital adequacy" and Section 10 "Capital requirements".
438 (b)	Own funds requirements based on supervisory review process per Article 104(1)(a), including composition of Common Equity Tier 1, additional Tier 1 and Tier 2 instruments.	Yes	Refer to Section 10 "Capital requirements".
438 (c)	Upon demand from relevant component authority, result of the ICAAP process.	No	No such demand from the relevant competent authority.
438 (d)	Total risk-weighted exposure amount and corresponding total own funds requirement, broken down by risk categories, and explanation of effect on calculations resulting from application of capital floors.	Yes	The Group uses the Standardised Approach - Refer to Section 10 "Capital requirements" and Table EU OV1.
438 (e)	On and off-balance sheet exposures, the RWA amounts and associated expected losses for specialised lending.	No	MeDirect does not have exposures for specialised lending
438 (f)	Exposure value and RWA exposure amount of own funds held in insurance and reinsurance undertakings, or insurance holding company that institutions do not deduct from own funds when calculating capital requirements.	No	MeDirect does not have exposures to own funds held in insurance and reinsurance undertakings, or insurance holding company.
438 (g)	Supplementary own funds requirement and capital adequacy ratio of the financial conglomerate calculated in accordance with Article 6 of Directive 2002/87/EC	No	MeDirect does not have own funds requirements calculated in accordance with the Article and directive noted in this paragraph.
438 (h)	Variations in risk weighted exposure amounts of current period compared to preceding period resulting from use of internal models, including outline of key drivers.	No	Tables EU CR8, EU CCR7 and EU MR2-B are not applicable to MeDirect.
Article 439: Exposure to counterparty credit risk (CCR)			
439 (a)	Description of process to assign internal capital and credit limits to CCR exposures, including exposures to central counterparties.	Yes	The Group manages its CCP mainly through margins. Refer to Section 5 "Counterparty credit risk".
439 (b)	Description of policies related to guarantees and other credit risk mitigants.	Yes	Refer to Section 5 "Counterparty credit risk".
439 (c)	Description of policies related to general and specific wrong-way risk.	Yes	Refer to Section 5 "Counterparty credit risk".
439 (d)	Disclosure of collateral to be provided (outflows) in the event of a ratings downgrade.	No	The Group is not an externally rated entity , thus the Group does not have rating triggers.
439 (e)	Amount of segregated and unsegregated collateral received and posted per type of collateral, both for derivatives and securities.	Yes	Refer to Section 5 "Counterparty credit risk" and Table CCR5 within this section.
439 (f)	Derivative exposures before and after credit risk mitigation	Yes	The Group applies a Standardised method. Refer to Section 5 "Counterparty credit risk" and Table CCR1 within this section



439 (g)	Securities financing exposures before and after credit risk mitigation.	Yes	Refer to Section 5 “Counterparty credit risk” and Table CCR1 within this section.
439 (h)	Exposure values and credit risk mitigation effects and associated risk exposures for credit valuation adjustment capital charge.	Yes	Refer to Section 5 “Counterparty credit risk” and Table CCR2 within this section.
439 (i)	Exposure value and risk exposures to central counterparties	Yes	Refer to Section 5 “Counterparty credit risk” and Table CCR8 within this section.
439 (j)	Notional amounts and fair value of credit derivative transactions.	No	No credit derivative hedges in place throughout the period
439 (k)	The estimate of alpha where permission received to use own estimate.	No	No own estimate of alpha
439 (l)	Separately, the disclosures included in point (e) of Article 444 and point (g) of Article 452.	No	MeDirect does not use the IRB approach.
439 (m)	For institutions using the methods set out in Sections 4 to 5 of Chapter 6 of Title II Part Three, the size of their on- and off-balancesheet derivative business as calculated in accordance with Article 273a(1) or (2)	No	Not applicable to MeDirect.
Endnote	Where central bank provides liquidity assistance in the form of collateral swaps, component authority may exempt institutions from requirements of points (d) and (e).	No	Not applicable to MeDirect.
<b>Article 400: Capital buffers</b>			
440 (1) (a)	Geographical distribution of relevant credit exposures.	Yes	Refer to Section 10 “Capital requirements” and table EU CCyB1 within this section.
440 (1) (b)	Amount of the institution specific countercyclical capital buffer.	Yes	Refer to Section 10 “Capital requirements” and table EU CCyB2 within this section.
<b>Article 441: Indicators of global systemic importance</b>			
441	Disclosure of the indicators of global systemic importance	No	The Group is not separately identified as a globally significant institution.

<b>Article 442: Disclosure of exposures to credit risk and dilution risk</b>			
442 (a)	Disclosure of bank’s definitions of past due and impaired.	Yes	Refer to Section 2.2.1 “credit risk” and “Section 4.3 “Impairment loss measurement guidelines”.
442 (b)	Approaches for calculating specific and general Credit risk adjustments.	Yes	Refer to Section 4.3 “Impairment loss measurement guidelines” that provide a complete description of the Impairment loss measurement guidelines, definitions and approaches adopted.
442 (c)	Amount and quality of performing, nonperforming and forborne exposures for loans, debt securities and off-balance sheet exposures, including impairment, provisions and fair value changes.	Yes	Refer to Section 4.1 “Credit quality analysis” and tables EU CR1, CR1A, EU eu cq4 and EU CQ5 within this section.
442 (d)	Ageing analysis of accounting past due exposures.	Yes	Refer to Section 4.3 “Impairment loss measurement guidelines” and table EU CQ3 within this section.
442 (e)	Gross carrying amounts of defaulted and nondefaulted exposures, accumulated credit risk adjustments, write-offs and net carrying amounts.	Yes	Refer to Section 4.1 “Credit quality analysis” and tables EU CR1, EU CR1-A, EU CQ2, EU CQ4 and EU CQ5 within this section.  Also Refer to Section 4.4.4 “Collateral evaluation and management” and table CQ6 within this section.

442 (f)	Changes in gross defaulted on- and off balance sheet exposures, including information on opening and closing balances, gross amount reverted to non-defaulted status or subject to a write-off.	Yes	Refer to Section 4.3 "Impairment loss measurement guidelines" and tables EU CR2 and CR2-A within this section.
442 (g)	Breakdown of loans and debt securities by residual maturity.	Yes	Refer to Section 4.3 "Impairment loss measurement guidelines" and table EU CR1-A within this section.
<b>Article 443: Disclosure of encumbered and unencumbered assets</b>			
443	Disclosures on encumbered and unencumbered assets	Yes	Refer to Section 13 "Asset encumbrance" and tables AU AE1, EU AE2 and EU AE3.
<b>Article 444: Disclosure of the use of the standardised approach</b>			
444 (a)	Names of the nominated ECAs and ECAs, and reasons for any changes in nominations.	Yes	Refer to Section 6 "External credit assessment institutions".
444 (b)	Exposure classes associated with each ECAI or ECA.	Yes	Refer to Section 6 "External credit assessment institutions".
444 (c)	Description of the process for transfer of issuer and issue credit ratings onto items not included in the trading book.	Yes	Refer to Section 6 "External credit assessment institutions".
444 (d)	Mapping of external rating to credit quality steps	Yes	Refer to Section 6 "External credit assessment institutions". The Group compiles mapping of each nominated ECAI with the credit quality steps according to the standard association published by EBA.
444 (e)	Exposure value pre- and post-credit risk mitigation, by credit quality step.	Yes	Refer to Section 4.4.4 "Collateral evaluation and management" and tables EU CR4 and EU CR5 within this section.
<b>Article 445: Disclosure of exposure to market risk</b>			
445	Disclosure of position risk, large exposures exceeding limits, FX, settlement and commodities risk.	No	Refer to Section "Market risk". Table EU MR 1 is not applicable to the Group. The Group has no RWEAs in relation to interest rate risk, equity risk, foreign exchange risk and commodity risk.
<b>Article 446: Disclosure of operational risk management</b>			
446 (a)	Disclosure of the approaches for the assessment of own funds requirements for operational risk.	Yes	Refer to Section 8 "Operational risk" and table EU OR 1 within this section.
446 (b)	Where institution makes use of it, description of methodology set out in Article 312(2), including relevant internal and external factors being considered.	No	The Group uses the basic indicator approach.
446 (c)	In the case of partial use, the scope and coverage of the different methodologies used.	No	
<b>Article 447: Disclosure of key metrics</b>			
447 (a)	Composition of own funds and own funds requirements.	Yes	Refer to Section 1.2 "Key metrics" and table EU KM1 within this section.
447 (b)	Total risk exposure amount.		
447 (c)	Amount and composition of additional own funds required to be held.		
447 (d)	Combined buffer requirement which institutions are required to hold.		
447 (e)	Leverage ratio and total exposure measure		
447 (f)	The following information on the liquidity coverage ratio: (i) average(s) of liquidity coverage ratio based on end of month observations over preceding 12 months. (ii) average(s) of total liquid assets, after applying haircuts, in the liquidity buffer. (iii) average liquidity outflows, inflows and net liquidity outflows based on end of the month observations over the preceding 12 months		

447 (g)	The following information on the net stable funding requirement: (i) NSFR ratio and end of each quarter of the relevant period. (ii) Available stable funding at end of each quarter of the relevant period. (iii) Required stable funding at the end of each quarter of the relevant period.		
447 (h)	The own funds and eligible liabilities ratios and their components, numerator and denominator	No	The Group is not a G-SII.
<b>Article 448: Disclosure of exposure to interest rate risk on positions not held in the trading book</b>			
448 (1)	Institutions shall disclose the following quantitative and qualitative information:		
448 (1) (a)	Changes in economic value of equity for the current and previous disclosure periods.	Yes	Refer to Section 7 “Exposure to interest rate risk in the banking book” and table EU IRRBB1 in that section.
448 (1) (b)	Changes in the net interest income calculated under the two supervisory shock scenarios for the current and previous disclosure periods.	Yes	Refer to Section 7 “Exposure to interest rate risk in the banking book” and table EU IRRBB1 in that section.
448 (1) (c)	Description of key modelling and parametric assumptions used to calculate changes in the economic value of equity and net interest income.	Yes	Refer to Section 2.2.5 “Market risk” and Section 7 “Exposure to interest rate risk in the banking book”.
448 (1) (d)	Explanation of the significance of the risk measures, and of any significant variations of those risk measures since the previous disclosure date.	Yes	Refer to Section 7 “Exposure to interest rate risk in the banking book”.
448 (1) (e)	Descriptions of how institution defines, measures, mitigates and controls interest rate risk of their non-trading book, including: (i) description of specific measures used to evaluate changed in economic value of equity and net interest income. (ii) description of key modelling and parametric assumptions used in measurement systems that would differ from common modelling and parametric assumptions for calculating changes in the economic value of equity and net interest income. (iii) description of the interest rate shock scenarios used to estimate interest rate risk. (iv) recognition of the effect of hedges against those interest rate risks. (v) an outline of how often the evaluation of interest rate risk occurs.	Yes	Refer to Section 7 “Exposure to interest rate risk in the banking book”.
448 (1) (f)	Description of overall risk management and mitigation strategies for those risks.	Yes	Refer to Section 2.2.5 “Market risk” and Section 7 “Exposure to interest rate risk in the banking book”.
448 (1) (g)	Average and longest repricing maturity assigned to non-maturity deposits.	Yes	Refer to Section 7 “Exposure to interest rate risk in the banking book”.
448 (2)	By way of derogation, the requirements set out in (c) and (e)(i)-(iv) shall not apply to institutions that use the standardised or simplified standardised methodologies.	Yes	Refer to Section 7 “Exposure to interest rate risk in the banking book”.
<b>Article 449: Exposure to securitisation positions</b>			
449 (a)	Description of securitisation and resecuritisation activities, including risk management and investment objectives, role in securitisation and re-securitisation transactions, whether simple, transparent and standardised (STS) securitisations are used, and the extent to which securitisation transactions are used to transfer the credit risk of securitised exposures to third parties with a separate description of the synthetic securitisation risk transfer policy.	Yes	See Section 11 on “Securitisation exposures”.

449 (b)	Type of risks exposed to in securitisation and re-securitisation activities by level of seniority of the relevant securitisation positions.	Yes	See Section 11 on “Securitisation exposures”.
449 (c)	Approaches to calculation of RWA for securitisations mapped to types of exposures.	Yes	See Section 11 on “Securitisation exposures” and table Sec 3 within this section.
449 (d)	List of SSPEs falling into any of the following categories, with description of types of exposures to SSPEs: (i) SPPEs which acquire exposures originated by the institutions; (ii) SSPEs sponsored by the institutions; (iii) SSPEs and other legal entities for which the institutions provide securitisation-related services; SSPEs included in the institution’s regulatory scope of consolidation.	Yes	See Section 11 on “Securitisation exposures”.
449 (e)	List of any legal entities relating to the institution that have disclosed that they have provided support.	No	The Group does not provide implicit support, directly or indirectly.
449 (f)	List of any legal entities affiliated with the institution and that invest in securitisations originated by the institution or in securitization positions issued by SSPEs sponsored by the institution.	No	No legal entities affiliated with the Group has investments in securitisations originated by the Group.
449 (g)	Summary of the accounting policies for securitisation activity, including where there is a relevant distinction between securitization and re-securitisation.	Yes	See Section 11 on “Securitisation exposures”.
449 (h)	The names of ECAs used for securitisations and the types of exposure for which each agency is used.	Yes	See Section 11 on “Securitisation exposures”.
449 (i)	Where applicable, a description of the internal assessment approach, including structure of the process and the relation between internal assessment and external ratings of the relevant ECAI, the control mechanisms for the internal assessment process including discussion of independence, accountability and internal assessment process review, the exposure types to which the internal assessment process is applied, and the stress factors used for determining credit enhancement levels.	Yes	See Section 11 on “Exposures to Securitisation positions”.
449 (j)	Carrying amount of securitisation exposures for the trading and non-trading books, including information on whether institutions have transferred significant credit risk, for which institutions act as originator, sponsor or investor, separately for traditional and synthetic securitisations, and for STS and nonSTS transactions and broken down by type of securitisation exposures.	Yes	See Section 11 on “Exposures to Securitisation positions” and table EU SEC3 within this Section. The Group does not have STS or synthetic positions.
449 (k)	For non-trading book activities, the following information: (i) the aggregate amount of securitisation positions where institution act as originator or sponsor and the associated RWAs and capital requirements, including exposures deducted from own funds or risk weighted at 1250%, both synthetic and traditional and between securitisation and re-securitisation exposures, separately for STS and non-STS positions, and further broken down into risk weight or capital requirement bands; (ii) the aggregate amount of securitisation positions where institution act as investor and the associated RWAs and capital	Yes	See Section 11 on “Exposures to Securitisation positions” and table EU SEC3 within this Section. The Group does not have STS or synthetic positions.

	requirements, including exposures deducted from own funds or risk weighted at 1250%, both synthetic and traditional and between securitisation and re-securitisation exposures, separately for STS and non-STS positions, and further broken down into risk weight or capital requirement bands.		
449 (l)	For exposures securitised by the institution, the amount of exposures in default and the amount of specific credit risk adjustments made by the institution during the current period.	Yes	See Section 11 on "Exposures to Securitisation positions" and table EU SEC5 within this Section.
<b>Article 449a: Disclosure of environmental, social and governance risks (ESG risks)</b>			
	From 28 June 2022, large institutions which have securities that are traded on a regulated market of any Member State, shall disclose information on ESG risks.	No	Not applicable to MeDirect at year end 31 December 2021.  Please refer to non-financial information report in the December 2021 MDB Group Annual Report.

<b>Article 450: Remuneration policy</b>			
450 (1) (a)	information concerning the decision-making process used for determining the remuneration policy, as well as the number of meetings held by the main body overseeing remuneration during the financial year, including, if applicable, information about the composition and the mandate of a remuneration committee, the external consultant whose services have been used for the determination of the remuneration policy and the role of the relevant stakeholders;	Yes	Refer to "Remuneration policy statement" section in the Remuneration report within the MDB Group Annual Report.
450 (1) (b)	Information on link between pay and performance;		
450 (1) (c)	the most important design characteristics of the remuneration system, including information on the criteria used for performance measurement and risk adjustment, deferral policy and vesting criteria;		
450 (1) (d)	the ratios between fixed and variable remuneration set in accordance with Article 94(1)(g) of Directive 2013/36/EU;	Yes	Refer to "Personnel expenses" note in the MDB Group December 2021 Annual Report and financial statements.
450 (1) (e)	information on the performance criteria on which the entitlement to shares, options or variable components of remuneration is based;	Yes	Refer to "Remuneration policy statement" section in the Remuneration report within the MDB Group Annual Report.
450 (1) (f)	the main parameters and rationale for any variable component scheme and any other non-cash benefits;		
450 (1) (g)	Aggregate quantitative information on remuneration, broken down by business area	Yes	Refer to Section "Remuneration policy and practices" and table EU REM 5 within this section.
450 (1) (h)	(h) aggregate quantitative information on remuneration, broken down by senior management and members of staff whose actions have a material impact on the risk profile of the institution, indicating the following: (i) the amounts of remuneration for the financial year, split into fixed and variable remuneration, and the number of beneficiaries; (ii) the amounts and forms of variable remuneration, split into cash, shares, sharelinked instruments and other types separately for the part paid upfront and the deferred part; (iii) the amount of deferred remuneration awarded for previous performance periods,	Yes	Refer to Section "Remuneration policy and practices" and tables EU REM 1 and EU REM3 within this section.

	split into vested and unvested portions; (iv) the amount of deferred remuneration due to vest in the financial year that is paid out during the financial year, and that is reduced through performance adjustments; (v) the guaranteed variable remuneration awards during the financial year, and the number of beneficiaries of those awards; (vi) the severance payments awarded in previous periods, that have been paid out during the financial year; (vii) the amounts of severance payments awarded during the financial year, split into paid upfront and deferred, the number of beneficiaries of those payments and highest payment that has been awarded to a single person;		
450 (1) (i)	the number of individuals being remunerated EUR 1 million or more per financial year, for remuneration between EUR 1 million and EUR 5 million broken down into pay bands of EUR 500 000 and for remuneration of EUR 5 million and above broken down into pay bands of EUR 1 million;	Yes	Refer to Section “Remuneration policy and practices” and tables EU REM4 within this section.
450 (1) (j)	Upon demand from the Member State or competent authority, the total remuneration for each member of the management body or senior management	No	Upon demand, the Bank will provide to the Member State or competent authority, the total remuneration for each member of the management body or senior management.
450 (1) (k)	For the purposes of point (k) of the first subparagraph of this paragraph, institutions that benefit from such a derogation shall indicate whether they benefit from that derogation on the basis of point (a) or (b) of Article 94(3) of Directive 2013/36/EU. They shall also indicate for which of the remuneration principles they apply the derogation(s), the number of staff members that benefit from the derogation(s) and their total remuneration, split into fixed and variable remuneration.	No	The Group does not benefit from such derogations.
450 (2)	For large institutions, the quantitative information on the remuneration of institutions’ collective management body referred to in this Article shall also be made available to the public, differentiating between executive and non-executive members.	Yes	Refer to “Personnel expenses” note in the MDB Group December 2021 Annual Report and financial statements.
Endnote	Institutions shall comply with the requirements set out in this Article in a manner that is appropriate to their size, internal organisation and the nature, scope and complexity of their activities and without prejudice to Regulation (EU) 2016/679 of the European Parliament and of the Council.	Yes	MeDirect complies with the requirements set out in this Article in a manner that is appropriate to their size, internal organisation and the nature, scope and complexity of their activities.
<b>Article 451: Disclosure of the leverage ratio</b>			
451 (1)	Institutions that are subject to Part Seven shall disclose the following information regarding their leverage ratio as calculated in accordance with Article 429 and their management of the risk of excessive leverage:	Yes	Tables and templates identified below
451 (1) (a)	Leverage ratio,	Yes	Refer to Section 12 “Leverage” and table LRCom within this section.
451 (1) (b)	Breakdown of total exposure measure, including reconciliation to financial statements	Yes	Refer to Section 12 “Leverage” and tables LRSum, LRSpl and LRCom within this section.

451 (1) (c)	Where applicable, the amount of exposures calculated in accordance with Articles 429(8) and 429a (1) and the adjusted leverage ratio calculated in accordance with Article 429a (7);	Yes	Refer to Section 12 “Leverage” and table LRCom within this section.
451 (1) (d)	Description of the risk management approach to mitigate excessive leverage.	Yes	Refer to Section 2 “Risk management, objectives and policies” and Section 12 Leverage
451 (1) (e)	Description of factors that impacted the leverage ratio during the year.	Yes	Refer to Section 12 “Leverage”.
451 (2)	Public development credit institutions to disclose the leverage ratio without the adjustment to total exposure measure determined per Article 429a(1)(d).	No	Not applicable to MeDirect.
451 (3)	In addition to points (a) and (b), large institutions shall disclose the leverage ratio between breakdown of total exposure measure per Article 429(4) based on averages calculated in accordance with Article 430(7).	No	Not applicable to MeDirect.
<b>Article 451a: Disclosure of liquidity requirements</b>			
451a 1	Institutions shall disclose information on their liquidity coverage ratio, net stable funding ratio and liquidity risk management.	Yes	Templates and tables identified below
451a 2	Institutions shall disclose the following in relation to their liquidity coverage ratio:	Yes	Templates and tables identified below
(a)	Average(s) of the liquidity coverage ratio based on end of month observations over the preceding 12 months for each quarter of the disclosure period.	Yes	Refer to Section 2.2.3 “Liquidity and Funding Risk” and table EU LIQ1.
(b)	Average(s) of total liquid assets after applying relevant haircuts included in the liquidity buffer based on end of month observations over the preceding 12 months for each quarter of the disclosure period.		
(c)	Averages of liquidity outflows, inflows and net liquidity outflows, based on end of month observations over the preceding 12 months for each quarter of the relevant disclosure period.		
451a 3	Institutions shall disclose the following information in relation to the net stable funding ratio (NSFR):	Yes	Refer to Section 2.2.3 “Liquidity and Funding Risk” and table EU LIQ2.
(a)	Quarter end figures of the NSFR.		
(b)	Overview of the amount of available stable funding.		
(c)	Overview of the amount of required stable funding.		
451a 4	Institutions shall disclose the arrangements, systems, processes and strategies put in place to identify, measure, manage and monitor their liquidity risk.	Yes	Refer to Section 2.2.3 “Liquidity and Funding Risk”
<b>Article 452: Disclosure of the use of the IRB approach to credit risk</b>			
452 (a)	Permission for use of the IRB approach from authority.	No	The Group does not use the IRB approach.
452 (b)	For each exposure class, the percentage of total exposure value of each exposure class subject to the Standardised Approach, as well as the part of each exposure class subject to a roll out plan. Where institutions have received permission to use own LGDs and conversion factors for their risk weighted exposure calculations, they shall disclose separately the percentage of the total exposure value of each exposure class subject to that permission.		

452 (c)	The control mechanisms for rating systems at different stages of the model development, controls and changes, which shall include information on: (i) relationship between the risk management function and the internal audit function. (ii) rating system review. (iii) procedure to ensure the independence of the function in charge of reviewing the models from the functions responsible for the development of the models. (iv) procedure to ensure the accountability of the functions in charge of developing and reviewing the models.		
452 (d)	Role of the functions involved in the development, approval and subsequent changes of the credit risk models.		
452 (e)	Scope and main content of the reporting related to credit risk models.		
452 (f)	Description of the internal ratings process by exposure class, including the number of key models used and a brief discussion of the main differences between models within the same portfolio, covering: (i) definitions, methods and data for estimation and validation of PD, including information on how PDs are estimated for low default portfolios, whether there are regulatory floors and the drivers for differences observed between PD and actual default rates at least for the last three periods. (ii) where applicable, the definitions, methods and data for estimation and validation of LGD, how LGDs are estimated for low default portfolio and the time lapse between the default event and the closure of the exposure. (iii) where applicable, the definitions, methods and data for estimation and validation of conversion factors, including assumptions employed in the derivation of those variables.		
452 (g)	As applicable, the following information in relation to exposure classes: (i) gross on-balance sheet exposure. (ii) off-balance sheet exposure prior to the relevant conversion factor. (iii) exposure after applying the relevant conversion factor and credit risk mitigation. (iv) any model, parameter or input relevant for the understanding of the risk weighting and the resulting exposure amounts disclosed across enough obligor grades to allow for a meaningful differentiation of credit risk. (v) separately for those exposure classes in relation to which institutions have received permission to use own LGDs and conversion factors for the calculation of risk weighted exposure amounts, and for exposures for which institutions do not use such estimates, the values referred to in points (i) - (iv) subject to that permission.		
452 (h)	Estimates of PDs against the actual default rate for each exposure class over a longer period, with separate disclosure of the PD range, the external rating equivalent, the weighted average and arithmetic average PD, the number of obligors at the end of the previous year and of the year under review,		



	the number of defaulted obligors, including the new defaulted obligors, and the annual average historical default rate.		
<b>Use of credit risk mitigation techniques</b>			
453 (a)	Core features of policies and processes for use of on- and off-balance sheet netting.	Yes	Refer to Collateral Valuation - Section 2.2.1 "Credit risk" and Section 4.4 "Credit risk mitigation"
453 (b)	Core features of policies and processes for how collateral valuation is managed.	Yes	(4.4.2 Use of on- and off-balance sheet netting and set-off and 4.4.3 Main types of collateral)
453 (c)	Description of types of collateral used to mitigate credit risk.	Yes	Refer to Section 4.4 "Credit risk mitigation" and specifically Section 4.4.3 "Main types of collateral" for the types of eligible collateral held for each exposure class.
453 (d)	Types of guarantor and credit derivative counterparty, and their creditworthiness	Yes	The Group did not enter into any credit derivative hedges and did not receive any guarantees to cover part of its exposures except for the guarantee implied in the NHG Dutch mortgages.  Refer to Section 4.4.4 "Collateral evaluation and management".
453 (e)	Disclosure of market or credit risk concentrations within risk mitigation exposures	Yes	Refer to Section 4.4 "Credit risk mitigation"
453 (f)	For exposures under either the Standardised or Foundation IRB approach, disclose the exposure value not covered by eligible collateral and the exposure value covered by eligible collateral.	Yes	Refer to Section 4.4.4 "Collateral evaluation and management" and table EU CR3 within this section.
453 (g)	Corresponding conversion factor and credit risk mitigation associated with the exposure and the incidence of credit risk mitigation techniques with and without substitution effects.	Yes	Refer to Section 4.4.4 "Collateral evaluation and management" and table EU CR4 within this section.
453 (h)	For institutions using the Standardised approach, the on and off-balance sheet exposure values before and after conversion factors and associated credit risk mitigation.	Yes	Refer to Section 4.4.4 "Collateral evaluation and management" and table EU CR4 within this section.
453 (i)	For institutions using the Standardised approach, the risk weighted exposures and ratio between exposure value and value after applying conversion factor and credit risk mitigation.	Yes	Refer to Section 4.4.4 "Collateral evaluation and management" and table EU CR4 within this section.
453 (j)	For institutions using the IRB approach, the risk weighted exposures amount before and after the credit risk mitigation impact of credit derivatives. Where institutions used their own LGDs and conversion factors, this should be disclosed separately.	No	The Group does not apply the IRB approach.
<b>Article 454: Use of the Advanced Measurement Approaches to operational risk</b>			
454	Description of the use of insurance or other risk transfer mechanisms to mitigate operational risk.	No	The Group does not use Advanced Measurement Approaches for operational risk.
<b>Article 455: Use of internal market risk models</b>			
455 (a)	Institutions calculating their capital requirements in accordance with Article 363 shall disclose the following	No	The Group does not use internal market risk models.
(i)	Characteristics of the market risk models.		
(ii)	Methodology and description of comprehensive risk measure and incremental risk charge.		
(iii)	Stress tests applied to the portfolios.		
(iv)	Methodology for back-testing and validating the models.		
455 (b)	Scope of permission for use of the models.		
455 (c)	Policies and processes to determine which exposures are to be included in the trading book, and to comply with prudential valuation requirements.		
455 (d)	the highest, the lowest and the mean over the reporting period and as per the period end, of:		
(i)	daily value-at-risk measures		
(ii)	stressed value-at-risk measures		

(iii)	incremental default and migration risk and for the specific risk of the correlation trading portfolio		
455 (e)	The elements of the own fund calculation		
455 (f)	Weighted average liquidity horizons of portfolios covered by models.		
455 (g)	Comparison of end-of-day VaR measures compared with one-day changes in portfolio's value.		
<b>Article 468: Temporary treatment of unrealised gains and losses measured at fair value through other comprehensive income in view of the COVID-19 pandemic</b>			
468 (5)	The amounts of own funds, CET 1 capital and Tier 1 capital, the total capital ratio and the leverage ratio if the treatment in this article was not applied.	No	Refer to Section 1.2 "Key metrics"
<b>Introduction of IFRS 9</b>			
473 (a)	<p>Institutions that have decided to apply the transitional arrangements set out in this Article shall disclose the amounts of own funds, CET 1 capital and Tier 1 capital, the total capital ratio and the leverage ratio they would have in case they were not to apply this Article.</p> <p>Institutions shall publicly disclose any decision taken in accordance with this Subparagraph 9.</p>	Yes	Refer to Section 1.2 "Key metrics" and sub section "Transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds".