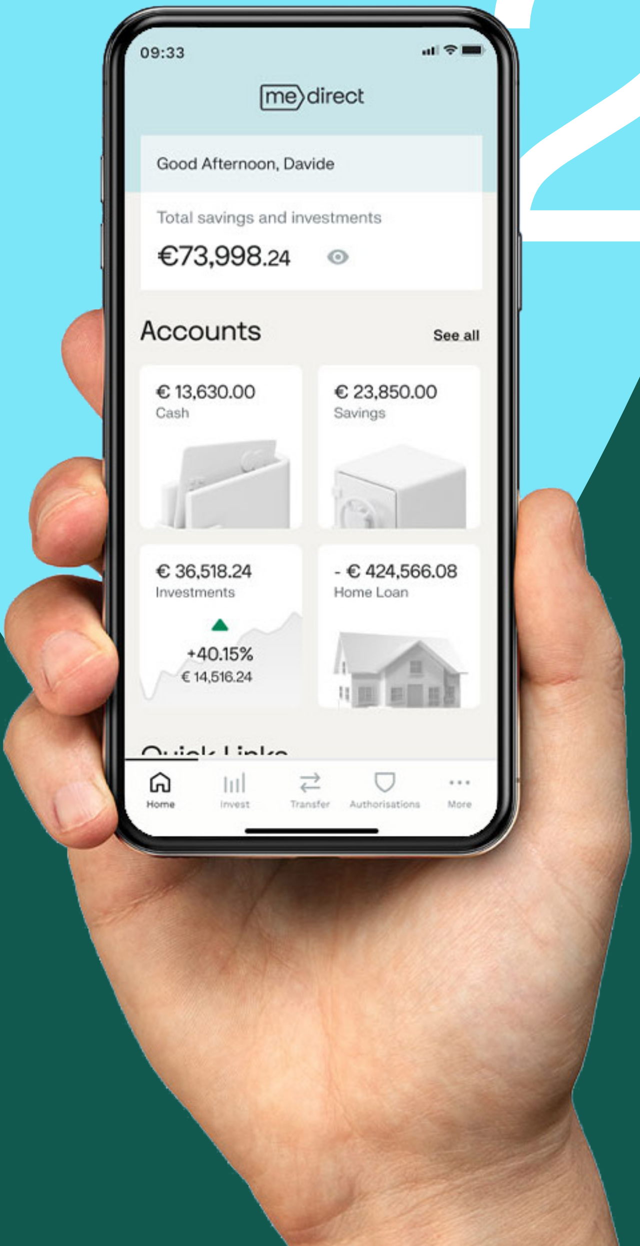
2022



MDB Group Limited
Annual Report and
Financial Statements 2022

contents

Chairman & Chief Executive Officer's Review	3
Who we are	9
MeDirect at a Glance	12
From then till now... our history	13
Directors' Report	14
Our Group Board	23
Group Leadership Team	25
Statement of Compliance with the principles of Good Corporate Governance	27
Remuneration Report	38
Financial Statements	46
Statements of Financial Position	47
Statements of Comprehensive Income	48
Statements of Changes in Equity	49
Statements of Cash Flows	51
Notes to the Financial Statements	52
Independent Auditor's Report	197

Chairman's and Chief Executive Officer's review

In 2022, MeDirect returned to profitability following the successful execution of a three-year business transformation plan, recording net profit after tax of €8.7 million. MeDirect's management team, that joined in 2019, was almost immediately confronted with the extreme disruptions of the COVID-19 pandemic and the resulting economic and geo-political dislocations, including higher inflation, supply chain disruptions and increased international tensions. Notwithstanding the difficult environment, the management team de-risked and transformed MeDirect's balance sheet, developed its WealthTech platform by launching and developing its Wealth SuperApp in both Malta and Belgium, launched several new asset classes including Belgian and Maltese mortgages while maintaining capital buffers at solid levels. The result has been a return to profitability, the creation of franchise value and the positioning of MeDirect for sustainable growth and continuing profitable operation.

MeDirect is working to create three separate sources of franchise value by:

- Building a pan-European WealthTech leader;
- Growing a complementary specialised mortgage platform; and
- Launching a software as a service business, offering MeDirect systems and processes to third parties on a white-labelled basis, focusing on the embedded-wealth segment.

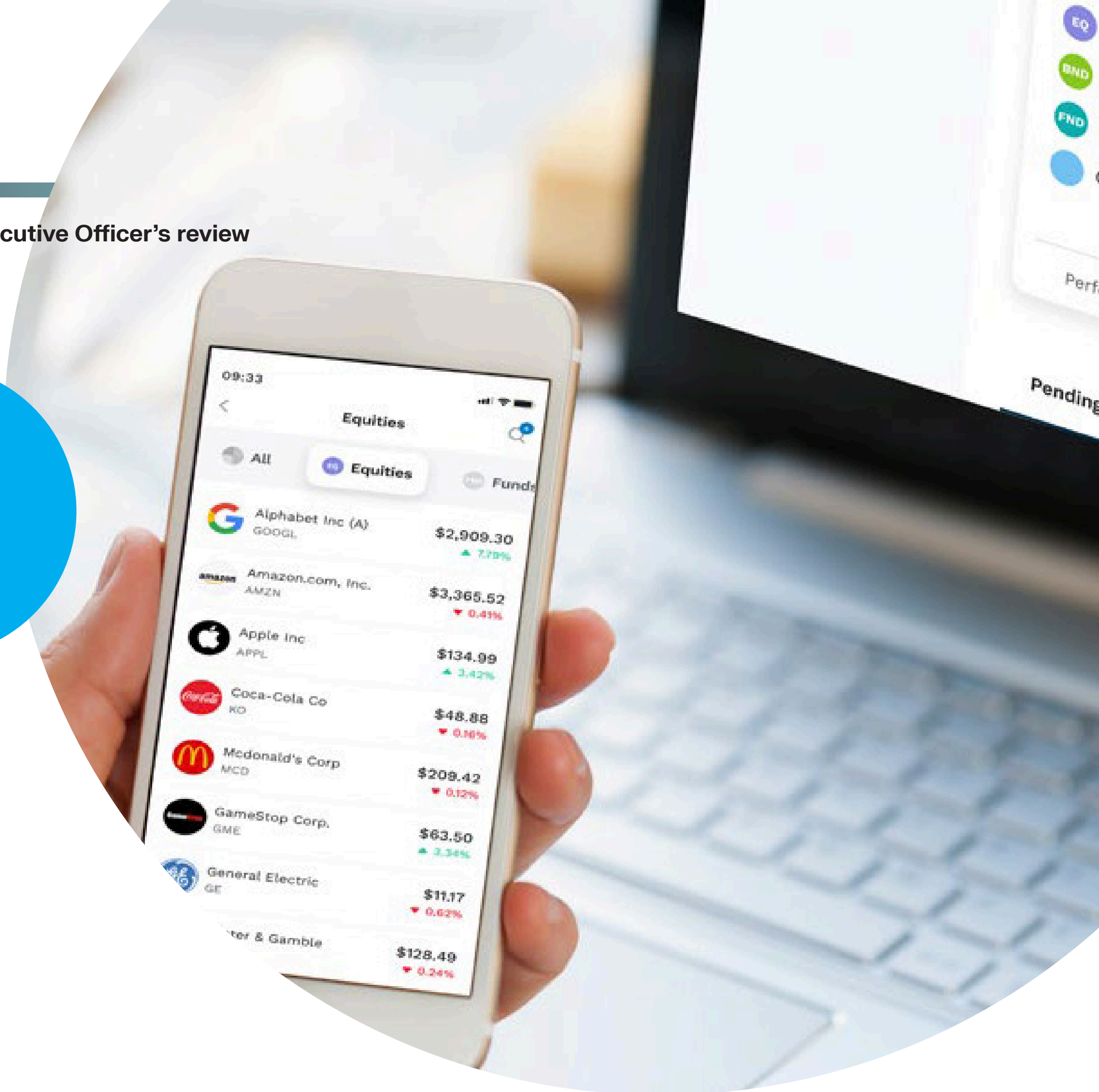
MeDirect's purpose is to empower people to manage their wealth with confidence and autonomy. Our mission is to build highly convenient digital investment journeys, leveraging on cutting-edge technology and innovative solutions. As a pan-European wealth neo-bank operating currently in Malta, Belgium and the Netherlands, MeDirect aspires to give retail customers more choice, access to better wealth services and quality support when using the MeDirect digital platform.

Four Pillar approach to strategy implementation

MeDirect has based the implementation of that strategy on four pillars and has made significant progress on each one:

1. Building the WealthTech platform
2. Growing the retail franchise
3. De-risking and diversifying the balance sheet
4. Strengthening the operating model

1



Building the WealthTech platform

MeDirect's ambition is to disrupt the retail digital investment space. In order to achieve this ambition, MeDirect offers a wide and continually growing portfolio of digital wealth and banking services.

MeDirect's SuperApp has been deployed in Malta and Belgium and is scheduled to launch in the Netherlands in 2023. It is designed to meet the needs of the underserved affluent market segment for wealth services. MeDirect's aim is to offer, on a single platform with open architecture, a broad range of online investment solutions, superior user experience and attractive pricing, combined with high quality transactional banking capabilities. The starting point is to ensure fast and seamless client onboarding. Customers can onboard quickly, while complying with all relevant KYC and other regulatory requirements.

Once onboarded, wealth customers can invest in a wide range of financial instruments, with the ability to choose from amongst approximately 1,750 mutual funds, as well as 480 ETFs, 250 bonds and 3,000 equities, trading on 17 stock exchanges around the world as at March 2023. MeDirect also offers model portfolios from different asset managers.

To complement this, MeDirect recently launched its MeManaged product, offering discretionary portfolio management services for its customers, managed by MeDirect in partnership with BlackRock. During 2023, MeDirect plans to launch its Portfolio Builder, which provides innovative tools to guide and support clients in their investment journeys. Across all products, MeDirect focuses on simplifying investment journeys, while providing access to detailed information on funds and securities and clear reporting on performance.

This package of wealth services is complemented by easy-to-use mobile banking with multi-currency capabilities. MeDirect has launched its virtual and physical card product on a limited basis and plans to roll out the product to all its customers early in 2023. Within one convenient platform, MeDirect provides its clients with the choice of how they want to invest, while giving them the possibility to use the app seamlessly for everyday banking needs.

2

Growing the retail franchise

The attractiveness of MeDirect's value proposition is evidenced by the rapid growth in its customer base, both in Belgium and Malta, as well as high levels of customer satisfaction. MeDirect grew its retail customer base to 108,000 in 2022, holding €4.2 billion of client financial assets, of which €1.4 billion were investments held in custody with MeDirect. Notwithstanding unfavourable capital markets performance in 2022, MeDirect achieved wealth product penetration of 37% of its retail depositor base. Wealth customers hold an average of over €58,000 in financial assets with MeDirect. MeDirect's customers are very loyal – of its retail customers who joined MeDirect five years ago, over 90% remain its customers today. As a result, MeDirect's depositor base has been stable over the years.

In Belgium, MeDirect was rated third amongst Belgian banks for investment products by Spaargids.be. MeDirect continually strives to improve its service and to develop and deploy new products and better user experience by leveraging its advanced tech platform. As an example, MeDirect's tech team averages eight releases daily in its constant efforts to enhance the digital value proposition and user experience.

3

De-risking and diversifying the balance sheet

MeDirect continues to de-risk and diversify its balance sheet.

MeDirect grew its mortgage portfolio to €2 billion, of which €1.8 billion are Dutch NHG (government guaranteed) mortgages. That portfolio is hedged against interest rate risk and is financed in part through its Bastion mortgage securitisation programme, under which MeDirect has raised an aggregate of €970 million of long-term secured funding. The third Bastion transaction closed in November 2022. In partnership with Allianz Benelux S.A./N.V., MeDirect built its platform to originate Belgian mortgages. At year-end 2022, €132 million of Belgian mortgages were held on MeDirect's balance sheet. In late 2022, MeDirect also launched a professional buy-to-let product in the Netherlands, in partnership with Build Finance, a Dutch buy-to-let specialist firm. In Malta, MeDirect has used innovative technology to set new standards in the Maltese mortgage market in relation to time-to-quote and time-to-approval, through a smooth and client-oriented process. By year-end 2022, MeDirect had originated €68 million of Maltese mortgages.

As it grew its mortgage platform, MeDirect continued to de-risk its international corporate lending portfolio, which has been reduced to €512 million on-balance sheet, representing less than 11% of total balance sheet as of end of 2022. Borrowers in the portfolio continued to improve operating performance, as the Group recognised recoveries of €14 million on the portfolio. Credit recoveries, combined with tight cost discipline enabled MeDirect to record a net profit after tax of €8.7 million. Even if still modest, this profit means MeDirect is rebuilding its capital base, which will support the delivery of its strategic roadmap.

MeDirect also continues to grow its successful Maltese corporate lending and banking services businesses. MeDirect has grown its portfolio of Maltese corporate loans to €131 million at year-end and also has €209 million of deposits from corporate customers linked to payment and foreign exchange services.

As a systemic bank in Malta, MeDirect is regulated by the European Central Bank as part of the Single Supervisory Mechanism. Being part of the Single Supervisory Mechanism ensures that MeDirect is regulated at the standard of the largest banks in Europe. MeDirect continues to operate with healthy capital ratios, even while growing its balance sheet to build sustainable net interest income and investing in its wealth platform to generate further fee income. At year-end, MeDirect's total capital ratio stood at 18.7%, and its Liquidity Coverage Ratio stood at greater than 220%. Such ratios exceed all regulatory requirements, recommendations and management buffers. MeDirect intends to continue to explore ways to reinforce its capital base, with the aim of further supporting the growth of its core business lines: wealth and mortgages.

Chairman's and Chief Executive Officer's review

4

Strengthening the operating model

Building tech capabilities: As one of its core competitive advantages, MeDirect owns the intellectual property of critical elements of its value proposition, including seamless service aggregation capabilities. With a cloud-agnostic and scalable architecture, developed by a tech team consisting of top talent, MeDirect has positioned itself as a software house with substantial headroom for growth. To date, over 28 million lines of code have been deployed in a Continuous Integration/ Continuous Deployment enabled stack. MeDirect plans to leverage its investment in technology by offering its platform on a software-as-a-service basis to medium-sized banks, independent investment advisors, life insurers or asset managers looking to launch or expand their digital wealth capabilities.

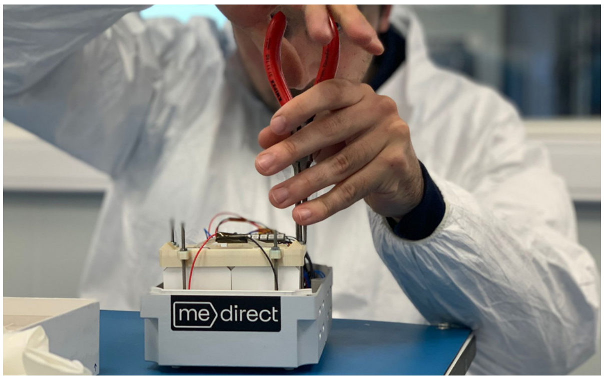
Improving efficiency: MeDirect has been able to maintain its fixed cost base almost flat from 2021. MeDirect's fixed cost base has been reduced by 9% since 2019, notwithstanding significant continuing investment in its technology platform and the growth of its operations. The Group has continued to source talent from an international pool to support business growth and the development of its tech platform. It has opened a tech hub in Turkey, complementing its strong team of developers in Malta.

Chairman's and Chief Executive Officer's review

As part of its business transformation plan, management continued to de-risk and diversify MeDirect's balance sheet in 2022, reducing its on-balance sheet international corporate lending portfolio from €1.1 billion in 2019 to €0.5 billion at year end 2022, and building a specialised mortgage lending platform operating in three markets (Belgium, the Netherlands and Malta). The Group also adopted an interest rate hedging strategy aimed at ensuring its balance sheet is protected, particularly given the current volatile financial and market environment. MeDirect has also built a well-diversified and stable funding base with access to multiple sources of retail and wholesale funding. MeDirect remains committed to investing in the reliability and resilience of its IT systems and critical services by putting in place robust operational risk controls to ensure disruptions to services are minimised.

ESG and Social responsibility

MeDirect has continued to integrate environmental, social and governance ("ESG") principles into its business and to raise ESG awareness within the organisation. In the context of workplace diversity, MeDirect employs the nationals of over 25 countries and has a workforce that is 39% female, including a number of senior executives. MeDirect prides itself on developing its employees and promoting from within. Even as the fallout from the COVID-19 pandemic abates, MeDirect continues to accommodate the needs of its employees and allows its staff to work from home or at the office. MeDirect contributes to the local communities in which it operates by supporting charitable organisations as well as talented individuals in areas such as sports and culture through sponsorships, donations and the voluntary actions of its employees.



Conclusion

The year 2022 was a pivotal year for MeDirect. In spite of a highly unstable geo-political and macroeconomic environment in 2022, MeDirect continued to execute its strategic transformation roadmap and to build its businesses. MeDirect's disciplined execution of its strategic plan has borne fruit, as the Group returned to profitability. MeDirect's Board and management are monitoring carefully the volatile financial and market environment, which has continued into 2023, and have focused on ensuring robust risk management and controls are in place. Notwithstanding current market conditions, in view of MeDirect's diversified and lower risk balance sheet as well as the development of its fee-based wealth franchise and its tech capabilities, management is confident that MeDirect can continue to grow sustainably and profitably as a pan-European wealth neobank. MeDirect's Board and management look forward cautiously but optimistically to an exciting future.

Who We Are

Purpose, Mission and Core Values

Our vision is exciting:

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

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

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

Users of our platform may include:

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

MeDirect aims to address these problems with cutting-edge technology and customer-centric solutions with the ambition of disrupting the retail digital investment space.

To achieve this, we offer, on a single multi-channel platform with open architecture, a broad range of online investment solutions combined with superior UX and attractive pricing. Our app addresses in one place a wide range of investor needs including trading, advisory and discretionary management services, coupled with daily banking. Technology is the backbone of our success. We developed internally most of the critical components of the value chain which form part of our ecosystem, allowing us to deploy seamless service aggregation capabilities. Our Tech architecture is state-of-the-art, with scalability and modularity at its core, built by a talented team recruited from advanced technology sectors including iGaming and Telecoms.

Our strategic priorities reflect our core values:

Autonomy

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

Innovation

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

Transparency

The financial world isn't simple, but the MeDirect app is. We communicate clearly with our clients and our colleagues and offer clear and understandable reporting of customer portfolios.

Responsibility

We take seriously our responsibilities to all our stakeholders: customers, employees, regulators, shareholders and our community.

How our vision ties into our core strategy

Our core strategy is based on four main pillars:

1

Scaling up our innovative WealthTech platform

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

Since 2018, we have invested over €26 million in our technology platform.

3

Advanced tech allowing for scalability and faster time-to-market

MeDirect has the technological foundations on which we can maintain a competitive advantage over our competitors. This is thanks to our award-winning, in-house software development team. Through its cloud agnostic tech architecture, MeDirect has the ability to aggregate services by seamlessly integrating with strategically selected third party providers that support its digital offering. This modular ecosystem of partners has been built to support flexibility in the platform. An important element of our tech strategy is the ability to containerise the platform, by transitioning away from a monolith setup. This allows us to scale-up for higher volumes but maintain lower costs. Operating with a modular microservices architecture, MeDirect continues to innovate and meet business needs, with all customer touchpoints offered through multiple channels.

An important element of our tech strategy is the containerisation of our platform.

2

Growing a low risk and capital efficient mortgage lending platform

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

The mortgage lending platform leverages on top notch partners and in-house Technology and Product capabilities.

4

Efficient operating model

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

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

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

MDB Group at a glance

Continued growth in retail client base despite the Russia-Ukraine crisis and resulting turmoil in the financial markets

108k
Retail clients
7% increase from 2021

68%
Increase in retail clients since 2019

€4.2bn
Group client financial assets

+€145m
Inflows in assets held under nominee basis

In 2022 the Group continued to execute its plan to diversify its asset portfolios with the launch of its Belgian mortgage business

€2.0bn
Mortgage book built since 2019

+20%
In mortgage book growth value in 2022

>€130m
Belgium mortgage origination in 2022

-69%
In International Corporate Lending since March 2019

Capital and liquidity ratios well above regulatory requirements

18.7%
Total Capital Ratio

>221%
Liquidity Coverage Ratio

>119%
Net Stable Funding Ratio

Significant recovery in financial performance with further room for growth

€9.2m
Profit before tax

+23%
In net interest income

2%
Non-performing loans ratio compared to 7% in 2021

Positive business developments during the year

3 new business lines launched

1. Belgian retail mortgages in partnership with Allianz
2. Dutch buy-to-let professional mortgages
3. Online discretionary portfolio management in partnership with Blackrock

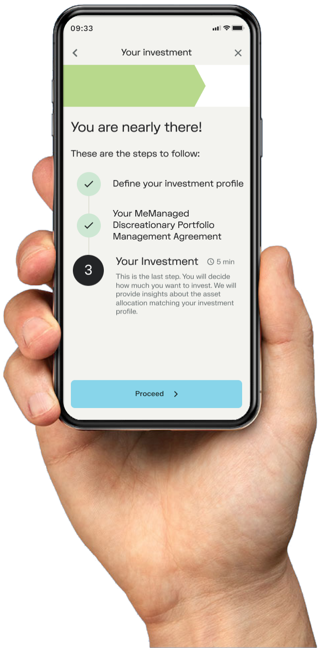
Top 15%
Of companies rated for sustainability by Silver Ecovadis (over 85k companies rated)

3rd
Dutch mortgages securitisation raised funding of €369m

MeDirect empowers people in growing their wealth with confidence

Average mobile app rating across all markets

89%
2022 average customer satisfaction rating in internal call centre surveys



From then till now...

2009-2014

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

2015-2018

- Belgian branch obtains banking licence, becomes subsidiary of Maltese bank in 2015
- MDB Group regulated under the Single Supervisory Mechanism in 2016
- Group Client Financial Assets above €3 billion as at December 2018

2019

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

2020

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

2021

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

2022

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

Directors' Report

We hereby present the annual report of MDB Group Limited (the "Company") and of the Company and its subsidiaries ("MeDirect" or "the Group") for the year ended 31 December 2022.[1] These results reflect the consolidated position of the Company and its principal subsidiaries.[2]

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

2 Consisting of MeDirect Bank (Malta) plc ("MeDirect Malta") and MeDirect Bank SA ("MeDirect Belgium"), Medifin Leasing Limited, MeHomeLoans B.V. and all entities where MeDirect Malta and MeDirect Belgium retained all the underlying risks and rewards consisting of Bastion 2020-1 NHG B.V. and Bastion 2021-1 NHG B.V., Bastion 2022-1 NHG B.V. and Grand Harbour I B.V., controlled special purpose entities established in the Netherlands that were set up as part of the Group's funding strategy, and Medifin Estates, a property leasing partnership.

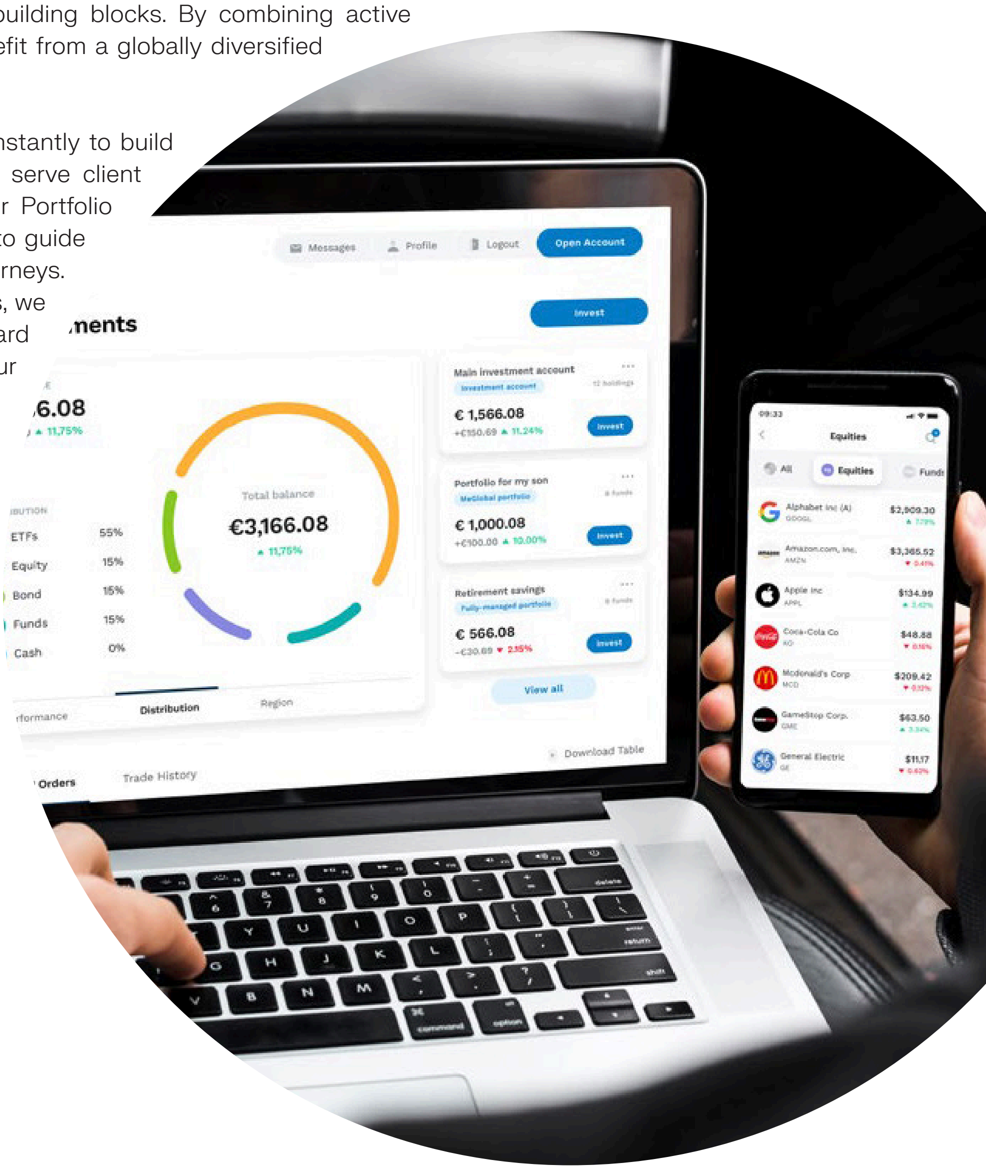
Building the MeDirect WealthTech platform

During 2022, MeDirect continued to build and strengthen its disruptive, best-in-class wealth tech platform. The year started with a major update to our WealthTech app in January. As part of MeDirect's commitment to giving customers control of their finances, our mobile app now offers in one place both banking services and easy access to over 5,000 financial instruments. Additional enhancements to the mobile app followed later in the year. Key amongst these was the introduction of real-time pricing on orders for equities and ETFs. This ensures that customers using MeDirect for their trading can benefit from the latest information and prices, making it easier to take advantage of investment opportunities. In addition, the new user interface features improved search facilities, including guided searches, as well as different options for presentation of information on personalised dashboards and other screens.

In July, we unveiled MeDirect's new branding, with our new "My Money, My Choices" tag line. December saw the launch of our MeManaged service, offering retail banking clients access to a new, fully digital and highly accessible discretionary investment solution. MeDirect manages client investment portfolios using products from BlackRock that deploy iShares ETFs as efficient building blocks. By combining active management with ETFs, our clients benefit from a globally diversified and cost-efficient investment solution.

MeDirect's development teams work constantly to build new products to improve our ability to serve client needs. In 2023, we plan to launch our Portfolio Builder, which provides innovative tools to guide and support clients in their investment journeys. To improve our daily banking capabilities, we are launching a virtual and physical card product so that our customers can use our platform for their daily banking needs.

We also plan to expand into the Netherlands in 2023. The Netherlands business will focus initially on attracting retail wealth customers. To scale as quickly as possible, we will use our current operational resources, customised to address local needs.

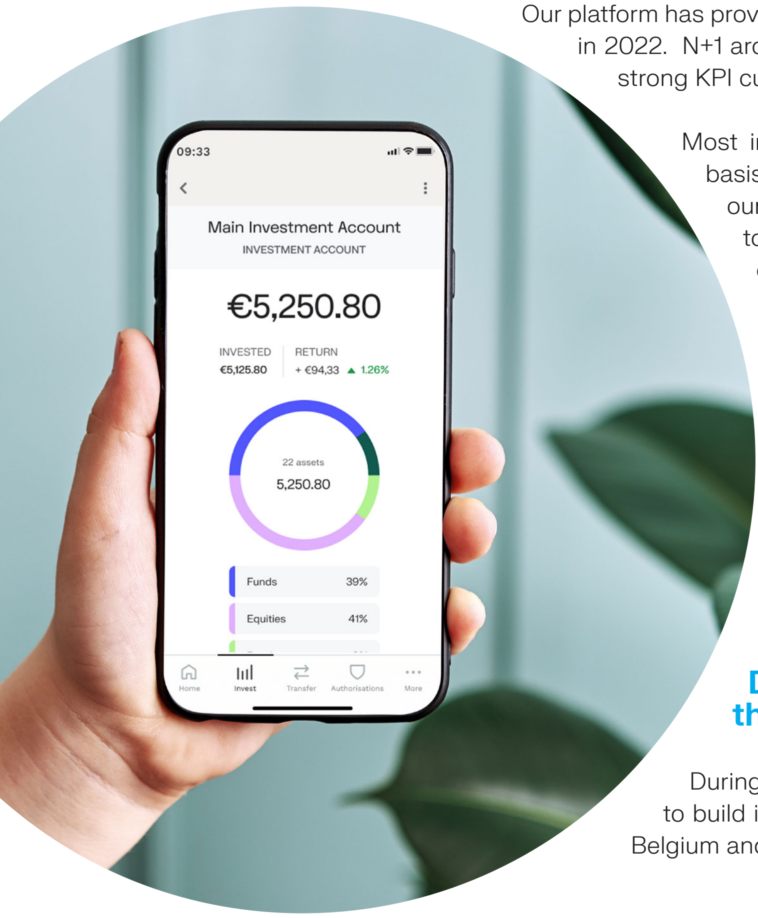


Directors' Report

Technology is at the heart of MeDirect

We have built a world-class, award-winning technology team drawn from industries ranging from telecoms to iGaming. The team has achieved success both at MeDirect and in their previous positions and comprises over 115 engineers located primarily in Malta as well as in other locations including Turkey. The team has been benchmarked favourably against other neo-banks in an independent review. The quality of the team has enabled MeDirect to build and to continue to build its disruptive omni-channel Wealth SuperApp, providing wealth and daily banking capabilities in one convenient and accessible app.

The team has built a modular ecosystem of distributed micro-frontends and micro-services, with 28 million lines of quality code written to date. MeDirect developers use cutting-edge programming language and average eight new releases per day. MeDirect has also contributed to open-source platforms, such as SAP's Luigi, a micro-frontend framework, and Netflix's conductor, a platform that orchestrates workflows across microservices. MeDirect's platform is built to be scalable, using Services Oriented Architecture (SOA) with headroom for growth. This architecture provides us with enormous flexibility; with our cloud-agnostic architecture, we can integrate seamlessly with a wide range of third-party suppliers. The platform supports multiple entities and multiple geographies.



Our platform has proven its reliability, with 99.9% availability on all client touchpoints in 2022. N+1 architecture across the ecosystem ensures system resilience. A strong KPI culture drives high quality service management.

Most importantly, we own the intellectual property that forms the basis of our wealth tech platform, including the front end layer and our highly sophisticated middle layer, which facilitates the ability to integrate seamlessly with third-party systems. Ownership of our own software also creates an independent source of value for MeDirect.

In order to leverage our investment in our wealth tech platform, we plan to begin to offer access to the platform to third party financial institutions such as banks, investment advisors and insurance companies on a white-labelled basis. The platform provides a turnkey solution to enable institutions to monetise their customer bases and to create new sources of fee income. This Software-as-a-Service business will complement our existing B2C wealth business.

De-risking and diversifying the balance sheet

During 2022, MeDirect continued to de-risk its balance sheet and to build its mortgage business in three jurisdictions - the Netherlands, Belgium and Malta.

In the Netherlands, we took advantage of a rapid increase in mortgage rates in the market to grow our portfolio of Dutch government guaranteed (NHG) mortgages at higher interest rates. Lower-risk NHG mortgages comprised €1.8 billion of the Group's €4.7 billion of total assets at year-end. To protect itself against interest rate volatility, MeDirect has hedged its asset portfolios with over €1.7 billion notional amount of interest rate hedges as at year-end 2022. In November, MeDirect closed its third NHG mortgage securitisation, Bastion 2022-1. The transaction raised €369 million of longer-term financing for MeDirect Belgium, and the innovative capital structure, with a mix of floating and fixed-rate notes, optimised funding in the new interest rate environment. The transaction demonstrated the resilience of the Bastion programme and the trust of the capital markets in MeDirect. Bastion 2022-1 was the only Dutch prime mortgage securitisation in the second half of 2022 and was placed into a difficult and uncertain market.

In October 2022, we started a new business in professional buy-to-let mortgage loans in the Netherlands. In partnership with Build Finance, a Dutch buy-to-let specialist firm, MeDirect invests in buy-to-let mortgage loan receivables. These mortgage loans are made to professional real estate investors (either private individuals or companies) and are secured by residential rental properties. By the end of 2022, we had €15.9 million of buy-to-let mortgage receivables on our balance sheet.

In Belgium, we launched a new controlled risk mortgage loan product in partnership with Allianz Benelux S.A/N.V. Under the programme, MeDirect Belgium originated €132.1 million of balance sheet exposure, validating the concept and setting the stage for continued portfolio growth in 2023. The robustness of our credit risk framework is reflected in the high quality of the portfolio. In December 2022, in line with our ESG commitments, a new eco-friendly loan was introduced, rewarding projects with a low EPC rating with a reduction in the applicable interest rate.

In Malta, we continued to originate directly Maltese retail home loans, including mortgage products and home equity loans. During 2022, we grew the portfolio to €68 million, and launched our green home loan and home equity loan products. We have worked to improve the efficiency of our processes to ensure market-leading efficiency in completion of mortgage loans. Our aim is to provide a smooth, client-focused process.

During 2023, we plan to offer insurance products to complement our home loan offering in order to provide a full-service mortgage lending platform. We are also working in partnership with the Malta Housing Authority under the New Hope Scheme, to help prospective borrowers who cannot get life insurance due to illness or disability.

During 2022, we continued to de-risk our International Corporate Lending ("ICL") portfolio, which has been reduced to €512 million, a decrease of 14% from year-end 2021. Notwithstanding the reduction, MeDirect made select investments in the European syndicated loan market with the aim of maintaining a well-diversified ICL portfolio across multiple sectors and geographies.

MeDirect Malta continued to grow its Maltese local lending portfolio, reaching €131 million by year-end 2022.

Continuing ESG focus

We continue to embed ESG principles in our day-to-day operations, launching green mortgage loan products in Belgium and Malta and participating in the New Hope Scheme in Malta. We also aim to ensure that MeDirect is an attractive and employee-friendly workplace and work to build a diverse workforce, focused on promoting from within. The Group developed and approved its first ESG Strategy 2024/2025 "On the path to sustainability" and has started working on its implementation. The strategy is based on four pillars: ''Governance'', ''Employees'', ''Environment'' and ''Society''. In each of these pillars, we set specific sustainability objectives translated into commitments that support our business goals. The Group intends to follow these commitments in the coming years. More details on the Group's ESG initiatives can be found in the Non-Financial Information Report published by MeDirect.

Strong turnaround in financial performance

The financial year ended 31 December 2022 was a positive one from various perspectives. The strong turnaround in pre-tax profits (rising to €9.2 million from an overall loss-making situation in 2020 and 2021) was widely anticipated as we started to retake lost ground following the losses incurred in prior financial years as a result of the COVID-19 pandemic that brought about considerable challenges. Despite this significant recovery in the financial performance management is confident that there is further room for growth. Our focus is now on executing against the priorities at pace and we are making progress on each of them.

Our results for the 2022 financial year reflect strong financial and operational performance through continued customer focus, disciplined execution and investment. A highlight of the result is our continued balance sheet strength and capital position.

The completion of our diversification plan supported by the Group's strong balance sheet and funding position, provided the foundation on which to deliver further growth and a rebound to profitability.

Balance sheet strength is critical to MeDirect's ability to generate value for our stakeholders, deliver sustainable profitable growth and deploy capital efficiently by offering relevant products and services to our customers.

The size of the balance sheet increased by 10% in 2022 and in line with its diversification plan the Group continued to reduce the ICL book, increase the low risk Dutch NHG mortgages portfolio and Malta home loans portfolio and started building an encouraging portfolio of Belgium mortgages. The growth of the NHG portfolio was facilitated through a third securitisation completed in November 2022.

MDB Group remains in a good capital position and consistently well in excess of regulatory minimum capital requirements. MeDirect's capital, liquidity and funding metrics remained sound during the year, well above regulatory minimum requirements. The regulatory ratios below reflect the profit of MDB Group in the financial year ended 31 December 2022.

- MDB Group has a good capital position with a total capital ratio of 18.7% as at 31 December 2022, well above the TSCR[3] benchmark of 11%.
- MDB Group's liquidity reserves remained good at €510 million as at 31 December 2022, with Liquidity Coverage Ratio ("LCR") stood at 221% (minimum requirement of 100%).
- MDB Group's Net Stable Funding Ratio ("NSFR") as at 31 December 2022 was 119% (minimum requirement of 100%).
- MDB Group's leverage ratio stood at 4.7% as at 31 December 2022 (minimum requirement of 3%).

MeDirect's Non-Performing Loans ("NPL") ratio decreased from 7% as at 31 December 2021 to 2% as at 31 December 2022 as a result of strenuous recovery efforts by management. The Group continued to reduce its NPL ratio via individual borrower strategies aimed at maximising recoveries as well as through debt sales and write-off strategies following effective debt restructuring.

The Group's financial results for the financial year ended 31 December 2022 improved significantly compared to the prior year, from a loss before tax of €13.9 million in 2021 to a profit before tax of €9.2 million in 2022, as a result of business growth and improved economic environment that led to an increase of 23% in net interest income and recoveries from Stage 3 borrowings resulting in a favourable movement of €2 million in credit impairment charges.

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

Dividends and reserves

The retained earnings of the Group amounted to €36.7 million (2021: €28.0 million) and of the Company amounted to €34.3 million (2021: €25.7 million). After consideration of the financial results of the Group as well as an uncertain macroeconomic environment, the directors of the Company do not recommend the payment of a final dividend, despite the good capital and liquidity ratios of the Group. The Board has determined that the Group should conserve its capital to maximise its ability to support its customers, to continue to invest in its Wealth platform and to continue to strengthen its balance sheet.

Focus on financial key performance indicators

The evaluation of management's implementation of MeDirect's corporate and financial strategy is based on the use of key performance indicators ("KPIs"). KPIs are the tools by which MeDirect's businesses and operations are managed, monitored and directed and indicate when the Group needs to undertake corrective measures. KPIs (and associated risk appetite and risk tolerance metrics) ensure that key risk metrics are constantly monitored. KPIs also play an essential role in MeDirect's performance management process.

MeDirect focuses particularly on quantitative KPIs that are actively monitored on a regular basis through dashboards monthly management reports. In addition, The Group's management and Board evaluate non-financial metrics such as customer satisfaction, employee engagement and sustainability.

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

Key performance indicators	2022	2021
Business performance management		
Annualised return on equity	3.7%	(6.0%)
Overall net interest margin	1.4%	1.1%
Capital management		
Common equity tier 1 ("CET 1") ratio	15.2%	15.7%
Leverage ratio	4.7%	4.9%
Solvency management		
Liquidity coverage ratio ("LCR")	221%	363%
Net stable funding ratio ("NSFR")	119%	134%
Credit management		
Non-performing loans ratio	2%	7%

Confirmation of MeDirect's going concern assessment

MeDirect remains well positioned to achieve strong business growth whilst remaining well capitalised, with the total capital ratio being 170% of the total SREP[4] capital requirement and soundly funded with access to the required levels of liquidity with the liquidity coverage ratio being more than two times the minimum requirement.

4 Supervisory Review and Evaluation Process

After due consideration of MeDirect's business, profitability projections, funding and capital plans, robust risk and internal control processes and taking into account the broader macro-economic outlook, the directors declare that MeDirect is in a position to continue operating as a going concern for the foreseeable future. [5] The Board believes that MeDirect will have sufficient capital to meet not only its regulatory capital and liquidity requirements but also any internal risk buffers and any buffers recommended by its regulators.

Related parties

During the year ended 31 December 2022, other than the transactions described under note 36 to the financial statements, there were no material changes in related party transactions as compared with those detailed in the financial statements for the year ended 31 December 2021. In addition, no related party transactions materially affected the financial position or liquidity of MeDirect.

MeDirect confirms that there were no material contracts to which it or any of its subsidiaries was a party or in which any of its directors was directly or indirectly interested.[6]

Events after the reporting date

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

Pillar 3 disclosures

MeDirect is required to publish Pillar 3 quantitative and qualitative disclosure requirements.[7] The Group publishes its full Pillar 3 disclosures on an annual basis as a separate document that is available on MeDirect's website.

Board of Directors

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

The directors of the Company who held office during the year were:
Mr. Michael Bussey – Chairman – appointed on 20 February 2017
Mr. Arnaud Denis – Chief Executive Officer – appointed on 15 October 2019
Mr. Jamal Ismayilov – appointed on 14 December 2021
Mr. Radoslaw Ksiezopolski – appointed on 10 October 2019
Mr. Dominic Wallace – appointed on 6 June 2016 and resigned on 27 April 2022
Mr. John Zarb – appointed on 12 July 2017

5 Statement pursuant to MFSA Capital Markets Rule 5.62.
6 Statement pursuant to Capital Markets Rule 5.70.1.
7 As governed by BR 07: Publication of Annual Report and Audited Financial Statements of Credit Institutions authorised under the Maltese Banking Act (Cap. 371), issued by the MFSA, which follows the disclosure requirements of EU Regulation No 575/2013 (CRR) of the European Parliament and of the Council of 26 June 2013 and the Commission Implementing Regulation (EU) 2021/637 of 15 March 2021.

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

Enhancing risk governance

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

Managing risk effectively, efficiently and sustainably is an integral part of the Group's business strategy.[8] MeDirect's risk management approach focuses on ensuring continued financial soundness and safeguarding the interests of its stakeholders while retaining the ability to seize value-creating business opportunities in a fast-changing environment. This is achieved through high standards of corporate governance and sound risk management principles.

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

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

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

Risks are monitored through regular and timely risk reporting, enabling the proactive identification and management of risks with the aim of reducing or avoiding undue exposure to various specific risk types. Risk appetite limits established by the Board set forth the amount and types of risk that MeDirect is prepared to accept or tolerate when delivering its strategy. These risk appetite limits are embedded in policies, management authorities and limits across the Groups. Frequent and close monitoring of all risk appetite limits, combined with comprehensive reporting to management and the Board of Directors ensures that risk is maintained within acceptable levels in accordance with the Group's risk appetite.

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

In view of volatile financial and market conditions, MeDirect's Board has mandated a heightened focus on any threats or emerging risks which could potentially have an adverse effect on the operations or financial condition of the Group. The Board continues to oversee risk management measures being implemented by management, including maintaining a strong and diversified funding base; interest rate hedging aimed at protecting its balance sheet; continuing reduction of credit risk and diversification of the balance sheet into lower-risk mortgage assets; and robust operational risk controls, particularly in view of the Group's increasing reliance on technology to improve the efficiency of its operations.

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

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

Licence holders are required to include in the Directors' Report breaches of standard licence conditions under the Investment Services Act (Cap. 370). Accordingly, the directors confirm that no breaches of standard licence conditions requirements under the Investment Services Act (Cap. 370) that were subject to administrative penalty or regulatory sanction were reported during the financial year.[9]

Statement of directors' responsibilities for the financial statements

MeDirect is required by the Maltese Banking Act (Cap. 371) and the Maltese Companies Act (Cap. 386) to prepare financial statements that give a true and fair view of the state of affairs of the Company and the Group as at the end of each reporting year and of the profit or loss for that year.

In preparing the financial statements, MeDirect is responsible for:

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

MeDirect is also responsible for designing, implementing and maintaining internal controls designed to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and that comply with the Maltese Banking Act (Cap. 371) and the Maltese Companies Act (Cap. 386). MeDirect is also responsible for safeguarding the assets of the Company and the Group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The financial statements of the Company for the year ended 31 December 2022 are included in the Annual Report 2022, which is published in hard-copy printed form and will be made available on the Group's website. MeDirect is responsible for the maintenance and integrity of the Annual Report on the website in view of its responsibility for the controls over and the security of its website. Access to information published on the Group's website is available in other countries and jurisdictions where legislation governing the preparation and dissemination of financial statements may differ from requirements or practice in Malta.

Statement by the directors pursuant to Capital Markets Rule 5.68

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

Signed by Michael Bussey (Chairman) and Arnaud Denis (Chief Executive Officer) on 21 March 2023.

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

Our Group Board

Michael A. Bussey

Independent Chair and Non-Executive Director

- Joined MDB Group's Board on 20 February 2017
- 45 years of experience in banking, specialising in Private banking and Wealth management

Former key positions held:

- Joined HSBC in 1980 and held various senior positions in his more than 20 years with the company, most recently as CEO of HSBC Private Banking EMEA
- CEO at Schroder & Co Ltd
- CEO of Private Banking and Trust at NM Rothschild & Sons Ltd
- CEO of Arbuthnot Latham & Co.
- Non-Executive Chairman, Credit Suisse (U.K.) Limited (2012-2020)

External appointments:

Non-Executive Chairman at DB UK Bank Limited

John Zarb

Independent Non-Executive Director

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

Former key positions held:

Formerly President of Malta Institute of Accountants and served as Malta's representative on the EU Accounting Regulatory Committee and on the Accountancy Board for several years.

External appointments:

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

Dina Quraishi

Nominated as Independent Non-Executive Director (to become effective upon regulatory approval)

- Nominated in September 2022
- 20+ years of experience in risk management covering various sectors including payments, FinTech, engineering and financial services.

Former key positions held:

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

Jamal Ismayilov

Non-Executive Director

- Joined MDB Group's Board on 14 December 2021
- 18+ years of experience in financial services, specialising in strategic and operational transformation
- Currently Managing Director within Private Equity at AnaCap Financial Partners

Former key positions held:

- Partner in the Financial Services practice at Oliver Wyman
- Head of Financial Strategy at Nomura International

External appointments:

Vice-Chairman of the Supervisory Board at Nest Bank S.A.

Philip C. English

Nominated Non-Executive Director
(to become effective upon regulatory approval)

- Nominated to the MDB Group's Board in March 2023
- 30+ years of experience focusing on portfolio management, security valuation, financial markets and institutions and commercial banking.

Former Key positions held:

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

External appointments:

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

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Arnaud Denis

Director and Group Chief Executive Officer

- Joined MDB Group as Group CEO in September 2019 and formally on MeDirect's Board on 15 October 2019
- 25+ years of experience in banking, with track record of retail business transformation in the field of digital

Former key positions held:

- First Deputy CEO of ROSBANK Group, Société Générale's Russian retail platform
- CEO of Eurobank SA, Polish subsidiary of Société Générale
- MD in Société Générale's Fixed Income division based in NY
- Held various non-executive directorships in banking

Radoslaw Ksiezopolski

Director and Group Chief Financial Officer

- Joined MDB Group as Group CFO in August 2019 and formally on MeDirect's Board on 4 October 2019
- 20+ years of experience in banking, specialising in business transformation

Former key positions held:

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

Group Leadership Team

Standing, from left.
Tim Rooney - Chief Executive Officer, MeDirect SA
Jamal Ismayilov - Non-Executive Director, MeDirect Group
Philip Campbell English - Nominated as Non-Executive Director, MeDirect Group
(to become effective upon regulatory approval)
Dina Quraishi - Nominated as Independent Non-Executive Director, MeDirect Group
(to become effective upon regulatory approval)
Michael A. Bussey - Chair and Non-Executive Director, MeDirect Group
Marcia de Wachter - Chair and Non-Executive Director, MeDirect SA
Alain Moreau - Nominated as Chief Executive Officer designate, MeDirect SA
(to become effective upon regulatory approval)
John Zarb - Independent Non-Executive Drector, MeDirect Group

Sitting, from left.
Radoslaw Ksiezopolski - Group Chief Financial Officer, MeDirect Group
Marija Fenech - Chief Risk Officer, MeDirect Group
Arnaud Denis - Group Chief Executive Officer, MeDirect Group

Malta Management Team

Standing, from left:
Chris Portelli - Chief Technology Officer
Francesca Farrugia - Chief People Officer
Roderick Camilleri - Deputy Chief Financial Officer
Henry Schmeltzer - Head of Commercial Strategy and Legal
Lorraine Bonello Ghio - Chief Administration Officer
Owen Camilleri - Chief Accounting Officer
Marija Fenech - Chief Risk Officer
Vincent Borg - Chief Financial Crime Compliance

Sitting, from left:
Keith Cauchi - Chief Information Security Officer
Caroline Grech - Head – Regulatory Compliance
Pawel Malukiewicz - Group Head – Channels & Customer Experience.

Statement of compliance with the Principles of good corporate governance

Introduction

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

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

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

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

Compliance with the Code

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

MeDirect Malta's Board of Directors (the "Board") is composed of persons with a diverse range of skills and experience acquired in senior roles with international banks and financial organisations, professional firms and governmental entities. At 31 December 2022, the MeDirect Malta Board consisted of three non-executive members and two executive members, satisfying the rule that one third of the Directors should be Non-Executive Directors. Taking into account certain factors such as the size of MeDirect Malta, the size of the Board and the balance of skills and experience represented by its members, the MeDirect Malta directors are considered to be appropriate for the requirements of MeDirect Malta's business.

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

Principle 2: Chairman and Chief Executive Officer

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

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

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

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

Functioning of the Board

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

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

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

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

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

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

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

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

Board of Directors

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

		Meetings attended (%)
Michael Bussey	Independent Chairman and Non-Executive Director	100
John Zarb	Independent Non-Executive Director	100
Dominic Wallace *	Independent Non-Executive Director	87
Jamal Ismayilov	Non-Executive Director	95
Arnaud Denis	Executive Director - Chief Executive Officer	100
Radoslaw Ksiezopolski	Executive Director - Chief Finance Officer	100

* As from 27 April 2022, Mr Dominic Wallace no longer served in a non-executive capacity with MeDirect Malta.

Dina Quraishi and Philip Campbell English have been nominated as Non-Executive Directors, and their appointment will become effective upon regulatory approval.

Committees of the Board

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

Board Committees

A. Audit Committee

The main purpose of the Audit Committee is to oversee the Group's financial reports and disclosures and the selection of external statutory auditor and to review and monitor the external audit's performance. The Audit Committee also oversees and monitors the progress on the execution of the internal audit plan and tackles any matters relating to the Group's internal control environment. The Group Audit Committee is also responsible for the following:

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

The members of the Audit Committee are:

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

Dina Quraishi, that has been nominated as Independent Non-Executive Director, and her appointment will become effective upon regulatory approval, will become a member of the Audit Committee.

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

During the year ended 31 December 2022, nine meetings of the Group Audit Committee were held. The Group Chief Internal Auditor attends the meetings as a standing invitee, unless there are exceptional circumstances. Other Chiefs or employees may be asked to join the meeting as required.

B. Nomination and Remuneration Committee

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

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

C. Board Risk Committee

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

The current members of the Risk Committee are:

John Zarb	Interim Committee Chairperson and Independent Non-Executive Director
Jamal Ismayilov	Member and Non-Executive Director

Dina Quraishi, that has been nominated as Independent Non-Executive Director, and her appointment will become effective upon regulatory approval, will become the Committee Chairperson of the Risk Committee.

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

Amongst the primary responsibilities of the Board Risk Committee are:

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

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

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

Principal Management Committees

- Group Steering Committee ("Group Steerco")
- Malta Executive Committee ("Malta ExCo")
- Management Credit Committee ("MCC")
- Management Risk Committee ("MRC")
- Asset and Liability Committee ("ALCO")
- Operations Committee
- Compliance and client acceptance committee ("CCAC")

Principal Management Committees

Group Steering Committee ("Group Steerco")

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

Malta Executive Committee ("Malta ExCo")

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

The ExCo is chaired by the Group Chief Executive Officer and includes the Group Chief Financial Officer and the MeDirect Malta Chief Risk Officer. The Group Chief Technology Officer, Group Head of Channels and Customer Experience, Head of Legal and Commercial Strategy and the Chief Internal Audit Officer (as an observer) are standing invitees of the Malta ExCo.

Management Credit Committee ("MCC")

The Management Credit Committ of the Group is responsible for making credit decisions under its delegated authority including:
- whether to extend credit to a borrower, and under what conditions;
- the classification of individual credits for risk and performance monitoring purposes;
- whether to recommend Board-approval for credit decisions beyond its delegated authority;
- consideration of hedging strategies and whether to recommend them for Board-approval;
- review and recommending impairments and provisioning; and
- oversight over the risk performance of the portfolio.

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

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

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

Management Risk Committee ("MRC")

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

The main responsibilities of the MRC are to:

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

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

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

Asset and Liability Committee ("ALCO")

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

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

Operations Committee

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

The Committee's terms of reference are to oversee and take any necessary decisions in the following areas:
Feasibility of the business and regulatory change requests;

- Operational feasibility of the new products and services;
- Governance of the key third party vendors on-boarding and monitoring;
- Governance of the arrangements related to budget spending on change initiatives, business continuity and disaster recovery and data retention and archiving; and
- Awareness and oversight of the arrangements related to ICT strategy and its implementation, operational risk and cyber security and organisational design of the Group from the point of view of efficiency and change sustainability.

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

Compliance and client acceptance committee ("CCAC")

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

The permanent voting members of this committee are Head – Legal (Chair), Head – Financial Crime Compliance (Deputy Chair), Senior Manager – Retail and Wealth Operations and Senior Manager– Operational.

Code Provision 4.2.7 - Succession planning

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

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

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

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

Principle 6: Information and professional development

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

MeDirect Malta's Board appoints the Chief Executive Officer of MeDirect Malta taking into account the view of the ultimate controlling party. The Board's training programmes have the aim of improving the Board's awareness of risk, regulation, and compliance developments in the financial services sector, with topics to be covered ranging from Environmental, Social and Governance ("ESG") and sustainable finance to information technology and cyber security. MeDirect Malta Directors are given opportunities to update and develop their skills and knowledge, through briefings by senior executives and externally-run seminars throughout their directorship. Moreover, Directors have access to independent professional advice, at MeDirect Malta's expense.

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

Principle 7: Evaluation of the Board's performance

Periodically, MeDirect Malta's Board carries out an evaluation procedure whereby Board members are requested to complete a questionnaire on the Board's performance and that of its committees. The evaluation is co-ordinated by the Board's Chairman, an independent non-executive director, and all directors participate in the process. Feedback from the evaluation is presented to the Board for analysis. An internal evaluation took place for the financial year ended 31 December 2022.

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

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

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

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

Principle 11: Conflicts of interest

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

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

Principle 12: Corporate social responsibility

During the financial year ended 31 December 2022, MeDirect Malta continued to support local talent in sports and culture, as well as charitable institutions, causes and events. The Group's commitment to these initiatives is established through the various sponsorships and donation agreements that support a wide variety of community organisations.

During the financial year ended 31 December 2022, MeDirect Malta continued to support local talent in sports and culture, as well as charitable institutions, causes and events.

MeDirect Malta has always supported local talent, including music and performing arts and will proudly continue to promote and support this scene. In line with this commitment, the Group has once again showed its' support towards the Malta Philharmonic Orchestra, where, with its donation, it helps support the orchestra, its events and most importantly its musicians. During this year, MeDirect has also supported ŻfinMalta National Dance Company who provide a space for artists to develop and take risks, contributing to an open and expansive dance ecology in Malta and internationally, providing opportunities for aspiring, emerging and established dance professionals to realise their potential. Furthermore, MeDirect Malta is also supporting Socjeta Filarmonika La Stella A. D. 1863, with a donation to assist the NGO to continue producing high quality theatre events.

This commitment is also extended when marketing agreements are being considered and in fact, MeDirect Malta was one of the sponsors of the first edition of The Voice Kids, as an endorsement to the increasing popularity of local talent and to the importance which music plays in people's lives. Moreover, MeDirect Malta was also one of the sponsors of the second edition of Malta's Got Talent, which is a platform that showcases several artistic disciplines in addition to singing.

MeDirect Malta's patronage of the sporting community was strengthened this year. MeDirect is an active supporter of the Otters Water Polo Club/Aquatic Club which celebrated its 50-year anniversary this year. The club was founded back in 1971 and is to date the only surviving water polo club in Gozo. This year, MeDirect Malta also started supporting Island Car Club, Malta's oldest car racing club having been founded 63 years ago. Island Car Club is the organiser of the National hill climb and sprint championship in Malta.

MeDirect Malta also kept its yearly appointment and presented a donation to the President's Community Chest Fund Campaign - L-Istrina on Boxing Day, during a nation-wide charity campaign.

MeDirect Malta was also a proud supporter of Project Maleth II, the second mission under space bioscience experiment Project Maleth which was launched in 2021 to investigate the effects of spaceflight and microgravity on diabetic foot ulcer skin tissue samples together with the microbiome. The Maleth Program is the first Maltese space bioscience project led by Professor Joseph Borg from the Faculty of Health Sciences at the University of Malta. Maleth II was launched on 15 July 2022

Amongst other organisations that MeDirect Malta helped during its financial year, one should mention The National Blood Transfusion Unit to whom MeDirect donated freebies to be handed out to blood donors whilst providing a new board for the main reception of the National Blood Transfusion Unit. This year MeDirect once again supported Children's Dreams, a project with the sole mission of making Christmas wishes come true for children coming from families facing social and financial difficulty, with MeDirect Malta fulfilling five of these wishes.

MeDirect Malta actively supports charity initiatives, focussing on organisations serving the Maltese community. Employees are also actively engaged in such charitable activities via donations deducted from their payroll, fund-raising efforts and voluntary work, such as beach clean-ups and manning calls during l-Istrina. Some of the organisations that benefitted from these activities during 2022 were Hospice Malta, Puttinu Cares, Smiling with Jerome, Island Sanctuary, CLAWS Malta, The Marigold Foundation and Foodbank Lifeline Foundation.

MeDirect was also one of the first banks to participate in the New Hope guarantee scheme in collaboration with the Maltese Housing Authority. This scheme, is giving new hope to those who are unable to obtain a life insurance policy due to past or current illness or disability and therefore have not been able to purchase a home.

Other disclosures

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

Management's internal controls over financial reporting

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

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

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

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

Signed by Michael Bussey (Chairman) and Arnaud Denis (Chief Executive Officer) on 21 March 2023.

Remuneration report

Remuneration governance

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

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

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

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

Membership and meetings

The members of the Group's NRC are:

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

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

During the year ended 31 December 2022, the Group's NRC met on eight occasions. These meetings were attended by all members of the Group's NRC.

Remuneration policy statement

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

The remuneration of staff in control functions should allow the Group to employ qualified and experience personnel in those functions and should be predominantly fixed so as to reflect the nature of their responsibilities.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

In 2021 the Group revised the remuneration policy in line with updates emanating from CRD V and engaged an independent firm to carry out a review in order to assess and report on the adequacy and effective implementation of the Group Remuneration Policy across the group entities. This review focused on the following key areas: policy documentation, mapping of the Group Remuneration Policy to relevant directives, regulations and guidelines, assessing the governance setup around remuneration processes, performing a walkthrough of the year end process, review of documentation pertaining to the process in determining the Material Risk Takers and sample testing of payroll records. Whilst in 2022 it was updated to reflect ESMA guidance on MIFID II.

The allocations of individual variable remuneration awards are correlated to the staff member's formalised annual individual appraisal, that takes into consideration quantitative and qualitative objectives known to the employee, as well as risk management considerations.

The Group's reward strategy

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

Fixed remuneration

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

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

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

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

Home loan subsidy
MeDirect Malta continues to grant its employees based in Malta an annual subsidy in respect of home loans up to a specific amount, that such employees have acquired from MeDirect Malta or from third party banks. This latter third party subsidy ceased as from 2023, since going forward all staff home loans will be offered in-house at a competitive rate to staff.

Variable remuneration

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

Performance bonuses represent additional remuneration payable to employees as a reward for achieving specific goals or hitting predetermined targets, but such variable remuneration is discretionary as the Group does not set an expectation to its employees that a bonus will be paid if certain goals are met and the amount of the bonus is not determined in advance. Besides the annual performance bonus the Group may also award ad hoc bonuses that are linked to pre set KPIs in relation to specific projects.

Retention bonus is variable remuneration awarded on the condition that staff stays at the Group or subsidiary company of the Group for a predefined period of time. Retention bonuses have been awarded by the Group in the financial year ended 31 December 2022. This is targeted to ensure best performance, by securing the retention of critical employees who are key to success of the realisation of the strategic plan of the Group.

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

(a) Determination of the performance bonus variable remuneration pools

A performance bonus pool is established for the Group as a whole and is calculated at Group level based on the success of the Group in meeting its business objectives. The variable remuneration pool shall not be directly or solely linked to the amount of profits or revenues generated. Assessment of performance shall be made in the context of a multi-year analysis, taking into account the business cycle and the Group's business risks. In determining the variable remuneration pool, the Group applies a prudent, forward-looking approach,

A bonus pool is allocated per department based on the bonus pool of the group. A percentage of fixed salary is allocated to each performance rating scale in each jurisdiction.

consistent with maintaining a sound capital base. The Group expects that in aggregate variable remuneration shall not have a significant impact on its capital base and is immaterial in relation to its overall capital and operating income.

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

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

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

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

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

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

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

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

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

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

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

  When appraising the performance in 2022, 360 appraisals will be introduced for all senior management.

(c) Individual allocation of the variable remuneration

All staff (including material risk takers)

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

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

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

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

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

Internal control functions

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

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

Other matters on variable remuneration

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

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

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

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

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

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

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

Signed by Michael Bussey (Chairman) and Arnaud Denis (Chief Executive Officer) on 21 March 2023.

Financial Statements

	Notes	Group 31 December 2022 €000	Group 31 December 2021 €000	Company 31 December 2022 €000	Company 31 December 2021 €000 Restated	Company 1 January 2021 €000 Restated
ASSETS						
Balances with central banks and cash	4	**149,929**	328,626	**-**	-	-
Derivative financial instruments	5	**363,382**	42,688	**-**	-	-
Loans and advances to financial institutions	6	**403,145**	193,826	**158**	102	646
Loans and advances to customers	7	**2,389,293**	2,324,303	**-**	-	-
Investments						
- Securities portfolio	8	**694,038**	769,917	**-**	-	-
- Securitisation portfolio	8	**574,001**	507,351	**-**	-	-
- Subsidiary	9	**-**	-	**242,557**	232,924	252,267
Property and equipment	10	**7,574**	9,186	**-**	-	-
Intangible assets	11	**13,767**	13,492	**-**	-	-
Non-current assets classified held for sale	12	**1,785**	1,785	**-**	-	-
Current tax assets		**591**	1,302	**2**	6	6
Deferred tax assets	13	**17,524**	18,377	**-**	-	-
Prepayments and accrued income	14	**18,473**	14,314	**-**	-	-
Other assets	15	**30,501**	15,329	**13,328**	12,890	1,608
Total assets		**4,664,003**	4,240,496	**256,045**	245,922	254,527
EQUITY						
Called up issued share capital	16	**55,738**	55,738	**55,738**	55,738	55,738
Share premium	16	**13,756**	13,756	**13,756**	13,756	13,756
Shareholders' contributions	16	**136,300**	136,300	**136,300**	136,300	136,300
Reserve for general banking risks	16	**3,798**	3,798	**3,798**	3,798	3,357
Other reserves	16	**(1,050)**	(2,059)	**224**	(785)	1,261
Retained earnings	16	**36,668**	27,960	**34,311**	25,729	43,461
Total equity		**245,210**	235,493	**244,127**	234,536	253,873
LIABILITIES						
Derivative financial instruments	5	**5,306**	1,131	**-**	-	-
Amounts owed to financial institutions	17	**545,135**	273,349	**-**	-	-
Amounts owed to customers	18	**2,787,600**	2,960,865	**-**	-	-
Debt securities in issue	19	**969,569**	658,293	**-**	-	-
Subordinated liabilities	20	**65,141**	65,130	**10,310**	10,136	-
Current tax liabilities		**2**	2	**-**	-	-
Deferred tax liabilities	13	**358**	803	**-**	-	-
Provisions for liabilities and other charges	21	**1,263**	1,223	**-**	-	-
Accruals and deferred income	22	**25,265**	24,700	**962**	977	9
Other liabilities	23	**19,154**	19,507	**646**	273	645
Total liabilities		**4,418,793**	4,005,003	**11,918**	11,386	654
Total equity and liabilities		**4,664,003**	4,240,496	**256,045**	245,922	254,527
Memorandum items						
Commitments to purchase financial assets	7	**-**	11,000	**-**	-	-
Commitments to extend credit, guarantees and other commitments	32 -33	**342,233**	377,572	**-**	-	-

The notes on pages 52 to 196 are an integral part of these financial statements. The financial statements on pages 46 to 196 were signed by Michael Bussey (Chairman) and Arnaud Denis (Chief Executive Officer) on 21 March 2023.

Statements of comprehensive income

	Notes	Group 2022 €000	Group 2021 €000	Company 2022 €000	Company 2021 €000 Restated
Interest income		**80,687**	74,156	**1,227**	1,099
Interest expense		**(22,949)**	(27,108)	**(1,227)**	(1,099)
Net interest income	24	**57,738**	47,048	**-**	-
Fee and commission income		**9,216**	8,320	**-**	-
Fee and commission expense		**(3,088)**	(2,637)	**(1)**	(1)
Net fee and commission income	25	**6,128**	5,683	**(1)**	(1)
Net trading income	26	**1,408**	2,687	-	-
Net gain from financial instruments at fair value through profit or loss		**4,728**	353	**-**	-
Share of results of subsidiary undertaking	9	**-**	-	**8,624**	(15,325)
Other operating income					
– Realised gains on disposal of loans and advances		**4,579**	317	**-**	-
– Other income		**170**	143	**-**	17
Total operating income		**74,751**	56,231	**8,623**	**(15,309)**
Personnel expenses	27	**(24,296)**	(22,512)	**-**	-
Depreciation and amortisation	10-11	**(6,156)**	(6,876)	**-**	-
Other administrative expenses	28	**(37,172)**	(38,400)	**(41)**	(10)
Total operating expenses		**(67,624)**	(67,788)	**(41)**	(10)
Net operating profit/(loss) before changes in expected credit losses		**7,127**	(11,557)	**8,582**	(15,319)
Change in expected credit losses and other credit impairment charges	29	**2,041**	(2,326)	**-**	-
Profit/(loss) before tax		**9,168**	(13,883)	**8,582**	(15,319)
Tax expense		**(460)**	(1,324)	**-**	-
Profit/(loss) for the year					
- Attributable to equity holders of the parent		**8,708**	(15,207)	**8,582**	(15,319)
Other comprehensive income					
Items that may be reclassified subsequently to profit or loss					
Fair valuation of financial investments measured at fair value through other comprehensive income:					
- Net change in fair value, before tax		**(31,421)**	(3,823)	**-**	-
- Reversal due to reclassification to amortised cost	16	**32,823**	-	**-**	-
Income tax relating to these items		**(393)**	1,109	**-**	-
		1,009	(2,714)	**-**	-
Items that will not be reclassified subsequently to profit or loss					
Fair valuation of financial investments measured at fair value through other comprehensive income:					
- Net change in fair value		**-**	1,991	**-**	-
Share of other comprehensive income of subsidiary undertaking		**-**	-	**1,009**	(4,018)
Other comprehensive income, net of tax		**1,009**	(723)	**1,009**	(4,018)
Total comprehensive income, net of tax		**9,717**	(15,930)	**9,591**	(19,337)

The notes on pages 52 to 196 are an integral part of these financial statements

Statements of changes in equity

Group	Share capital €000	Share premium €000	Shareholders' contributions €000	Reserve for general banking risks €000	Other reserves €000	Retained earnings €000	Total €000
Balance at 1 January 2021	55,738	13,756	136,300	3,357	(13)	45,580	254,718
Total comprehensive income							
Loss for the year	-	-	-	-	-	(15,207)	(15,207)
Other comprehensive income, net of tax:							
Items that may be reclassified subsequently to profit or loss							
Fair valuation of financial investments measured at fair value through other comprehensive income:							
- Net change in fair value arising during the year, net of tax	-	-	-	-	(2,714)	-	(2,714)
Items that will not be reclassified subsequently to profit or loss							
Fair valuation of financial investments measured at fair value through other comprehensive income:							
- Net change in fair value arising during the year	-	-	-	-	1,991	-	1,991
- Reclassification of gain on disposal of investments to retained earnings	-	-	-	-	(1,323)	1,323	-
	-	-	-	-	668	1,323	1,991
Total comprehensive income, net of tax	-	-	-	-	(2,046)	(13,884)	(15,930)
Transfer to Reserve for General Banking Risks	-	-	-	441	-	(441)	-
Transaction with owners							
Acquisition of subisidiary (note 9)	-	-	-	-	-	(3,295)	(3,295)
Balance at 31 December 2021	55,738	13,756	136,300	3,798	(2,059)	27,960	235,493
Balance at 1 January 2022	**55,738**	**13,756**	**136,300**	**3,798**	**(2,059)**	**27,960**	**235,493**
Total comprehensive income							
Profit for the year	**-**	**-**	**-**	**-**	**-**	**8,708**	**8,708**
Other comprehensive income, net of tax:							
Items that may be reclassified subsequently to profit or loss							
Fair valuation of financial investments measured at fair value through other comprehensive income:							
- Net change in fair value arising during the year, net of tax	**-**	**-**	**-**	**-**	**(22,743)**	**-**	**(22,743)**
- Reclassification adjustments - net amounts reclassified to profit or loss, net of tax	**-**	**-**	**-**	**-**	**23,752**	**-**	**23,752**
	-	**-**	**-**	**-**	**1,009**	**-**	**1,009**
Total comprehensive income, net of tax	**-**	**-**	**-**	**-**	**1,009**	**8,708**	**9,717**
Balance at 31 December 2022	**55,738**	**13,756**	**136,300**	**3,798**	**(1,050)**	**36,668**	**245,210**

The notes on pages 52 to 196 are an integral part of these financial statements

Statements of changes in equity

Company	Share capital €000	Share premium €000	Shareholders' contributions €000	Reserve for general banking risks €000	Other reserves €000	Retained earnings €000	Total €000
Balance at 1 January 2021 - as previously stated	55,738	13,756	136,300	-	-	59,922	265,716
Impact of changes in accounting policy							
Accounting for investment in subsidiary using the equity method	-	-	-	3,357	1,261	(16,461)	(11,843)
Balance at 1 January 2021 – restated	55,738	13,756	136,300	3,357	1,261	43,461	253,873
Total comprehensive income							
Profit for the year	-	-	-	-	-	(15,319)	(15,319)
Share of other comprehensive income of subsidiary undertaking (Note 9)	-	-	-	441	(2,046)	(2,413)	(4,018)
	-	-	-	441	(2,046)	(17,732)	(19,337)
Balance at 31 December 2021	55,738	13,756	136,300	3,798	(785)	25,729	234,536
Balance at 1 January 2022 - as previously stated	**55,738**	**13,756**	**136,300**	**-**	**-**	**59,928**	**265,722**
Impact of changes in accounting policy							
Accounting for investment in subsidiary using the equity method	**-**	**-**	**-**	**3,798**	**(785)**	**(34,199)**	**(31,186)**
Balance at 1 January 2022 – restated	**55,738**	**13,756**	**136,300**	**3,798**	**(785)**	**25,729**	**234,536**
Total comprehensive income							
Profit for the year	-	-	-	-	-	8,582	8,582
Share of other comprehensive income of subsidiary undertaking (Note 9)	-	-	-	-	1,009	-	1,009
	-	**-**	**-**	**-**	**1,009**	**8,582**	**9,591**
Balance at 31 December 2022	**55,738**	**13,756**	**136,300**	**3,798**	**224**	**34,311**	**244,127**

Statements of cash flows

	Notes	Group 2022 €000	Group 2021 €000	Company 2022 €000	Company 2021 €000
Cash flows from operating activities					
Interest and commission receipts		**93,797**	78,073	**-**	-
Interest and commission payments		**(21,642)**	(30,972)	**-**	-
Payments to employees and suppliers		**(65,680)**	(65,724)	**-**	-
Operating cash flows before changes in operating assets/liabilities		**6,475**	(18,623)	**-**	-
(Increase)/decrease in operating assets:					
- Reserve deposit with central banks		**(561)**	(2,390)	**-**	-
- Loans and advances to financial institutions and customers		**(621,510)**	(307,382)	**-**	-
(Decrease)/increase in operating liabilities:					
- Amounts owed to financial institutions and customers		**(16,079)**	197,927	**-**	-
- Other payables		**1,426**	4,272	**370**	-
Tax refunded/(paid)		**261**	(227)	**4**	-
Net cash (used in)/from operating activities		**(629,988)**	(126,423)	**374**	-
Cash flows from investing activities					
Acquisition of property and equipment	10	**(1,455)**	(803)	**-**	-
Acquisition and development of intangible assets	11	**(4,304)**	(3,650)	**-**	-
Acquisition of investments measured at amortised cost	8	**(271,819)**	(65,000)	**-**	-
Acquisition of investments measured at fair value through other comprehensive income	8	**-**	(448,569)	**-**	-
Redemption of investments measured at amortised cost	8	**35,000**	255,295	**-**	-
Redemption of investments measured at fair value through other comprehensive income	8	**240,653**	122,297	**-**	-
Net advances to subsidiary		**-**	-	**(318)**	(10,549)
Net cash used in investing activities		**(1,925)**	(140,430)	**(318)**	(10,549)
Cash flows from financing activities					
Issuance of debt securities	19 - 20	**366,437**	508,960	**-**	10,005
Redemption of debt securities	19	**(55,161)**	(393,082)	**-**	-
Principal element of lease payments	23	**(1,148)**	(1,166)	**-**	-
Net advances (to)/from immediate parent company		**(37)**	318	**-**	-
Net advances to ultimate parent company		**(107)**	(48)	**-**	-
Net advances from other group companies		**-**	8,448	**-**	-
Net cash from financing activities		**309,984**	123,430	**-**	10,005
Net (decrease)/increase in cash and cash equivalents		**(321,929)**	(143,423)	**56**	(544)
Cash and cash equivalents at beginning of year		**158,759**	302,182	**102**	646
Cash and cash equivalents at end of year	31	**(163,170)**	158,759	**158**	102

The notes on pages 52 to 196 are an integral part of these financial statements

Notes to the Financial Statements

Notes to the financial statements

1. Summary of significant accounting policies

1.1 Reporting entity

MDB Group Limited (the "Company") is a limited liability company domiciled in Malta and incorporated in Malta with its registered address at The Centre, Tigne' Point, Sliema, Malta, TPO 0001.

The consolidated financial statements of the Company as at and for the financial year ended 31 December 2022 comprise the financial statements of the Company and its subsidiaries, together referred to as "the Group". Therefore, these financial statements report the consolidated financial results of MDB Group Limited for the financial year ended 31 December 2022, including the financial results of MeDirect Bank (Malta) plc ("MeDirect Malta"); its principal subsidiary, namely MeDirect Bank SA ("MeDirect Belgium"); Bastion 2020-1 NHG B.V. ("Bastion 2020-1"), Bastion 2021-1 NHG B.V. ("Bastion 2021-1") and Bastion 2022-1 NHG B.V. ("Bastion 2022-1"), three controlled special purpose entities utilised as part of the Group's funding strategy in respect of the Dutch Mortgage business; Grand Harbour I B.V. ("GH I"), a controlled special purpose entity that used to be utilised as part of the Group's funding strategy in respect of the International Corporate Lending portfolio; MeHomeLoans B.V. that is in the process of liquidation; Medifin Leasing Limited ("Medifin Leasing") that leases computer hardware and software to MeDirect Malta and MeDirect Belgium; and Medifin Estates, a property leasing partnership.

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

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

MeDirect Belgium invests in Dutch residential mortgages via an established third-party mortgage originator in the Netherlands. In December 2021, MeDirect Belgium launched a Belgian residential mortgage loan product in partnership with Allianz Benelux S.A/N.V.. This offering is underpinned by a robust credit risk framework and will continue to diversify the asset base of MeDirect Belgium into the residential mortgage sector. Also as from November 2022, MeDirect Belgium launched its Dutch buy-to-let mortgage business whereas in March 2021, MeDirect Malta started offering innovative and attractive home loan products in a client-oriented process.

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

Following the Group's diversification strategy, both MeDirect Malta and MeDirect Belgium still hold a small portfolio of senior secured loans and revolving credit facilities to finance the business of European corporates. The Group has retained substantially all risks and rewards pertaining to the activities of GH I, Bastion 2020-1, Bastion 2021-1 and Bastion 2022-1 and hence to assets, liabilities and related income and expenditure attributable to these entities, and as such, all assets, liabilities and related income and expenditure have been reflected within the Group's consolidated financial statements.

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

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

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

In September 2020, MeDirect Belgium established a €350 million warehouse funding facility provided by a major Dutch bank through Cavalier 2020 B.V., a special purpose vehicle established in the Netherlands, which was controlled by MeDirect Belgium.

Notes to the financial statements

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.

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

In November 2022, the Group successfully securitised part of its Dutch Mortgage portfolio raising €369 million through a RMBS. As part of the transaction, a sub-portfolio of the Dutch Mortgage portfolio amounting to €528.3 million was sold to Bastion 2022-1, a special purpose securitisation vehicle established in the Netherlands, which is controlled by MeDirect Belgium.

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

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

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

MeDirect Malta paid a cash consideration of €0.5 million for this acquisition, which approximates both the fair value and carrying amounts of the assets acquired and liabilities assumed as at the date of acquisition. The difference between the consideration given and the aggregate carrying value of the assets and liabilities of Medifin Leasing at the date of the transaction as well as the difference between the carrying value of the assets and liabilities of Medifin Leasing and of the Right-of-use (ROU) assets and corresponding lease liabilities previously recognised by the Group in respect of the lease arrangements between Group entities and Medifin Leasing, amounting to €3.3 million in total, have been included in equity in retained earnings at the date of the transaction.

1.2 Basis of preparation

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

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

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

- financial investments measured at fair value through other comprehensive income and at fair value through profit or loss;
- derivative financial instruments which are measured at fair value;
- recognised financial assets designated as hedged items in qualifying fair value hedge relationships which are measured at amortised cost adjusted for changes in fair value attributable to the risk being hedged; and
- investment in subsidiary in the Company's separate financial statements that are measured using the equity method.

Notes to the financial statements

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

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

Change in the accounting of investment in subsidiary

Previously, investment in subsidiary was accounted for in the separate financial statements of the Company at cost less impairment. Directors concluded that there exist no indicators for impairing the investment in subsidiary after assessing all available information, in particular future business growth and profit projections including most recent financial forecasts approved by management covering a five-year period.

During the current reporting period, the Company effected a change in accounting policy whereby, in the separate financial statements of the Company, the investment in subsidiary started being accounted for using the equity method as permitted by IAS 27. It is the opinion of the directors that this change in accounting policy will better reflect the financial performance of its subsidiary in the separate financial statements of the Company as it will be more consistent with the consolidated financial statements of the Group. The following table provides an overview of the impact on prior years of this change in accounting policy.

The change in accounting policy was applied retrospectively from the beginning of the earliest period presented i.e. 1 January 2021. The following table provides an overview of the effect on previous years of this change in accounting policy at MDB Group level.

	31 December 2021		**1 January 2021**	
	As previously stated €000	Restated €000	**As previously stated €000**	Restated €000
Statement of financial position				
Investment in subsidiary	**264,110**	232,924	**264,110**	252,267
Total assets	**277,108**	245,922	**266,370**	254,527
Reserve for general banking risks	**-**	3,798	**-**	3,357
Other reserves	**-**	(785)	**-**	1,261
Retained earnings	**59,928**	25,729	**59,922**	43,461
Total equity	**265,722**	234,536	**265,716**	253,873

	Financial year ending 31 December 2021	
	As previously stated €000	Restated €000
Statement of comprehensive income		
Share of results of subsidiary undertaking	**-**	(15,325)
Profit before tax	**6**	(15,319)
Profit for the year	**6**	(15,319)

Standards, interpretations and amendments to published standards effective in 2022

During the financial year ended 31 December 2022, the Group adopted the following amendments to existing standards but the adoption of these revisions to the requirements of IFRSs as adopted by the EU did not result in significant changes to the Group's accounting policies impacting the Group's financial performance and position.

- Amendments to IAS 16 Property, plant and equipment – Proceeds before intended use, effective 1 January 2022;
- Amendments to IAS 37 Provisions, contingent liabilities and contingent assets – onerous contracts— cost of fulfilling a contract, effective 1 January 2022;
- Amendments to IFRS 3 Business combinations – References to the conceptual framework, effective 1 January 2022; and
- Annual Improvements Cycle - 2018-2020, effective 1 January 2022.

Notes to the financial statements

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

Interest Rate Benchmark Reform

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

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

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

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

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

As a result, the Group embarked on an IBOR transition programme, under the governance of the Chief Financial Officer, to facilitate an orderly transition from libors to RFRs. During the financial year ended 31 December 2021, the Group successfully transitioned its GBP Libor and Eonia exposures to SONIA and ESTR, respectively, and is on track to complete its transition of all remaining exposures with USD Libor dependency by June 2023.

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

Meanwhile, during 2021, model changes were also effected to the valuation of interest rate derivative instruments with a notional value of €1.7 billion by replacing the Eonia with the ESTR discount curve. This change resulted in an adjustment to the carrying amount of derivatives amounting to €0.3 million which has been recognised in profit or loss during that year.

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

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

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

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

Notes to the financial statements

- Amendments to IAS 1 Presentation of Financial Statements – Classification of Liabilities as Current or Non-current (the 2020 amendments and 2022 amendments), effective 1 January 2024;
- Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting policies, effective 1 January 2023;
- Amendments to IAS 8 Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates, effective 1 January 2023;
- Amendments to IAS 12 Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction, effective 1 January 2023;
- Amendments to IFRS 16 Leases: Lease Liability in a Sale and Leaseback, effective 1 January 2024;
- Amendments to IFRS 17 Insurance contracts: Initial Application of IFRS 17 and IFRS 9 – Comparative Information, effective 1 January 2023; and
- IFRS 17 Insurance Contracts, effective 1 January 2023.

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

The Group remains well positioned to achieve business growth through diversification, and is well capitalised, soundly funded and has access to the required levels of liquidity.

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

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

Russia and Ukraine conflict

In 2022, an armed conflict between Russia and Ukraine commenced as a result of which economic sanctions were imposed by the EU, the US and other countries on Russia and Belarus as well as a number of Russian and Belarussian individuals. The Group will ensure compliance with any applicable sanctions and will continue to follow closely the developing situation and any potential effects on its business, customers and operations.

The war and related sanctions are contributing to deteriorating macroeconomic outlook and global economic dislocation, including disruption of energy supplies, higher inflation and additional credit and market risk. The Group performed an assessment of the effects the current situation may have on its business. The continued conflict in Ukraine and higher inflation led to rising interest rates, lower expectations for economic growth, lower consumer confidence and weaker financial markets. We can expect continued volatility and uncertainty in the coming quarters. Higher interest rates will dampen economic activity, but should result in more income from our lending portfolios. Furthermore MeDirect is adequately hedged to the interest rate risk due to the fixed income nature of its International Mortgage portfolio through a series of interest rate swaps.

The Group's assessment also considered the effect on the Group's processes and on its borrowers' business environment and supply chains. The Group has virtually no direct exposure to assets in Russia, Belarus or Ukraine and in fact it did not have material effects on the Group or its businesses. The Group updated its macroeconomic forecast used in financial forecasts and IFRS 9 expected credit loss modelling but there was no significant impact on the expected credit losses recognised throughout this financial period.

The Group will continue to monitor the potential impact of this prolonged conflict and take all the necessary steps to mitigate the risks.

Notes to the financial statements

1.3 Consolidation

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

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

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

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

Accounting for business combinations between entities under common control

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

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

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

Prior 1 January 2022
Previously, in the Company's separate financial statements, investments in subsidiaries were accounted for by the cost method of accounting i.e. at historical cost less impairment. An impairment test would be performed on investments in subsidiaries for determining the recoverable amount when in the opinion of the Directors there is an indication for impairment and a provision recorded if the carrying amount exceeds the recoverable amount.

Where there was an impairment in the value of an investment in a subsidiary, it would have been recognised as an expense in the period in which the diminution is identified.

The results of the subsidiary were reflected in the Company's separate financial statements only to the extent of dividends receivable. On disposal of an investment, the difference between the net disposal proceeds and the carrying amount would have been charged or credited to profit or loss.

Post 1 January 2022
During the current reporting period, the Company effected a change in accounting policy whereby, in the separate financial statements of the Company, the investment in subsidiary started being accounted for using the equity method. Under the equity method, the investment is initially recognised at cost and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss and movement in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investments. When the Company's share of losses in a subsidiary equals or exceeds its interest in the subsidiary, including any other unsecured receivables, the Company does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the subsidiary.

Notes to the financial statements

Unrealised gains on transactions between the Company and its subsidiary are eliminated to the extent of the Company's interest in the subsidiary. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the subsidiary have been changed where necessary to ensure consistency with the policies adopted by the Company.

For the disclosure in change in accounting policy refer to note 1.3 of the financial statements.

1.4 Foreign currency transactions and balances

a) Functional and presentation currency

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

b) Transactions and balances

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

1.5 Financial assets

Initial recognition and derecognition

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

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

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

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

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

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

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

Modification of terms

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

Notes to the financial statements

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

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

Classification and measurement

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

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

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

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

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

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

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

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

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

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

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

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

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

Notes to the financial statements

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

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

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

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

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

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

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

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

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

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

(iii) Expectations about future sales activity.

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

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

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

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

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

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

Financial assets measured at amortised cost

Financial assets that are held to collect the contractual cash flows and which contain contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest are measured at amortised cost. These financial assets are

Notes to the financial statements

initially measured at fair value, which is generally the cash consideration to originate or purchase the asset including any direct and incremental transaction costs, upon recognition. The Group's financial assets measured at amortised cost comprise primarily loans and advances to banks, loans and advances to customers, comprising the International Corporate Lending portfolio, the Dutch Mortgage portfolio, the Belgian Mortgage portfolio, the Maltese Business Lending portfolio and the Maltese Mortgage portfolio, and a portfolio of debt securities classified under the Securities and Securitisation Investment portfolio.

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

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

Financial assets measured at fair value through other comprehensive income

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

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

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

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

Financial instruments designated at fair value through profit or loss

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

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

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

Assets acquired in exchange for loans

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

Notes to the financial statements

Impairment of amortised cost and FVOCI financial assets

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

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

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

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

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

Three stage expected credit loss approach

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

- Stage 1 - Financial instruments that have not had a significant increase in credit risk (SICR) since initial recognition, or that have "low credit risk" at the reporting date are classified in Stage 1. 12-month ECLs are recorded to measure the expected losses that result from default events that are possible within 12 months after the reporting date;

- Stage 2 - Financial instruments that have experienced a SICR since initial recognition are classified in Stage 2. Lifetime ECLs are recorded to measure the expected losses that result from all possible default events over the expected life of the financial instrument; and

- Stage 3 - Financial instruments that demonstrate objective evidence of impairment, and which are considered to be in default or credit-impaired, are classified in Stage 3, also requiring the measurement of lifetime ECLs.

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

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

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

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

Notes to the financial statements

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

Significant increase in credit risk (SICR) or Stage 2

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

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

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

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

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

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

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

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

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

Notes to the financial statements

- ***International Corporate Lending portfolio:***

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

- Use of qualitative SICR triggers, including the following qualitative triggers which are taken into consideration by the Group in the quarterly SICR trigger assessments:

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

- Use of quantitative SICR assessment based on a ratings-based approach using lifetime 'Point in Time' (PiT) Probabilities of Default (PDs) (i.e. PD in current economic conditions)

- Hard trigger (Internal credit classification) - financial asset that has a credit quality classification of "Under surveillance" is Stage 2, classification of "Impaired" is Stage 3

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

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

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

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

Notes to the financial statements

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

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

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

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

Notes to the financial statements

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

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

Hard Trigger based on Internal Risk Classifications

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

- ***Dutch Mortgage portfolio***

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

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

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

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

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

The following are also deemed to give rise to SICR:

1. Forbearance events where exposures are not 30 DPD;

2. Where payments in respect of the exposure are 30 DPD or more.

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

- ***Belgian Mortgage portfolio***

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

Notes to the financial statements

- ***Maltese Business Lending portfolio***

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

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

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

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

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

Financial instruments that:

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

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

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

- ***Maltese Mortgage portfolio***

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

- ***Securities Investment portfolio***

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

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

- ***Securitisation Investment portfolio***

Investment in tranches within a Collateralised Loan Obligation Structured Entity ("CLO SE") originated and managed by the Group: The Group assesses the staging of the tranche rather than the facilities within the underlying portfolio of financial assets. The Group determines an Implied Rating (as a proxy measure of credit risk) for each tranche at different points in time. Expected losses and average life are used to assign an Implied Rating to each tranche based on an external vendor's methodology and observed defaults in the industry sectors of the underlying assets. The Implied Rating at reporting date is benchmarked to the Implied Rating at origination date of the tranche in order to determine whether a SICR has occurred since initial recognition.

In line with the Group's approach for the identification of SICR events and the determination of staging for the International Corporate Lending and Securities Investment portfolios, a quantitative ratings-based approach is utilised in order to assess the movement in credit risk since initial recognition of the Group's investment in the tranches of the CLO.

Notes to the financial statements

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

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

Credit impaired (Stage 3)

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

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

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

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

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

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

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

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

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

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

- Significant financial difficulty of the issuer or borrower;
- A breach of contract, such as default or past due event;
- The lender(s) of the borrower having granted a concession(s) to the borrower for economic or contractual reasons relating to the borrower's financial difficulty (this would not have otherwise been considered);

Notes to the financial statements

- It is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- The disappearance of an active market for that financial asset because of financial difficulties; or
- The purchase or recognition of a financial asset at a deep discount that reflects the incurred credit losses.

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

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

Notes to the financial statements

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

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

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

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

Write-offs

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

Modified financial assets

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

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

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

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

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

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

Notes to the financial statements

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

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

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

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

Purchased or originated credit-impaired

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

Movement between stages

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

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

- Where qualitative triggers were used to determine SICR: Stage transfer from Stage 2 to Stage 1 is subjective. Where implied rating SICR triggers were not a determinant for reclassification in the first instance, it is expected that any qualitative SICR triggers that were observed that derived the SICR event must be fully resolved and evidenced for a 90-day period prior to any reclassification.

- Where quantitative triggers were used to determine SICR, the financial asset must evidence an improvement and return to the external or implied default risk rating at the point of inception (instrument should evidence an implied default rating in line or better than the original inception rating in order to trigger a reclassification from Stage 2 to Stage 1).

- Any instrument that is no longer 30-days past due can only be reclassified to Stage 1 when: (i) all contractual arrears have been remediated (Nil days past due); and (ii) no further non-payment has been observed for a minimum of 90 days. This is subject to regulatory materiality thresholds defined in the Group Credit Risk policy.

Notes to the financial statements

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

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

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

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

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

Measurement of expected credit losses

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

- If no evidence of impairment exists (Stage 1 and Stage 2 assets), the Group uses statistical models developed by an external vendor to measure ECLs for exposures within the International Corporate Lending portfolio and Maltese Business Lending portfolio at facility level.

- For credit-impaired exposures (Stage 3 assets), the Group generally models ECLs based on an internally developed methodology to estimate the expected cash flows by reference to borrowers' enterprise values and forecasted operating cash flows for exposures within the International Corporate Lending portfolio and the individual valuation of the underlying asset / collateral for exposures within the Maltese Business Lending portfolio.

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

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

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

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

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

This section provides a detailed description of the methodology used by the Group to measure credit loss allowances in respect of exposures classified as Stage 1 and Stage 2 assets using statistical models developed by an external vendor (for the Dutch Mortgages, Securitisation Investment and Securities Investment portfolios) and internally developed models (for the Belgian and Maltese Mortgages).

Notes to the financial statements

Probability of Default

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

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

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

Loss Given Default

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

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

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

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

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

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

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

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

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

Notes to the financial statements

Exposure at Default

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

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

- International Corporate Lending portfolio

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

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

- Dutch Mortgage portfolio

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

- Belgian Mortgage portfolio

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

- Maltese Business Lending portfolio

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

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

- Maltese Mortgage portfolio

The EAD for the Maltese Residential Mortgage portfolio is based on the outstanding exposure amount as at reporting date. To measure the EAD of off-balance sheet assets (commitments to lend), the Group applies a 90% CCF.

- Securities Investment portfolio

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

- Securitisation Investment portfolio

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

Notes to the financial statements

Credit-Impaired financial assets (Stage 3)

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

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

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

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

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

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

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

Forward looking information

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

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

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

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

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

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

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

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

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

Presentation of ECL in the Statement of financial position

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

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

1.6 Offsetting financial instruments

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

Notes to the financial statements

1.7 Intangible assets

1.7.1 Goodwill

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

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

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

1.7.2 Computer software

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

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

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

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

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

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

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

1.8 Property, plant and equipment

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

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

Notes to the financial statements

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

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

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

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

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

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

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

1.9 Impairment of non-financial assets

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

1.10 Non-current assets classified as held for sale

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

1.11 Current and deferred income tax

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

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

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

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

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

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

1.12 Share capital

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

1.13 Financial liabilities

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

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

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

1.14 Derivative financial instruments

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

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

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

1.14.1 Fair value hedges

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

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

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

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

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

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

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

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

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

1.15 Provisions

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

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

1.16 Interest income and expense

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

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

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Interest income and expense presented in the profit or loss include:

- interest on financial assets and financial liabilities measured at amortised cost calculated using the effective interest method;
- interest on investments measured at fair value through other comprehensive income calculated using the effective interest method; and
- the effective portion of fair value changes attributable to qualifying hedging derivatives designated in fair value hedges of interest rate risk, together with changes in fair value of the hedged items attributable to interest rate risk.

Fair value changes attributable to other derivatives in hedging relationships which are discontinued are presented in 'net trading income' with effect from the last date on which the hedge was demonstrated to be effective.

Interest on credit-impaired financial assets is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the credit loss allowance.

1.17 Fees and commissions

Fee and commission income and expenses that are an integral part of the effective interest rate on a financial asset or liability are included in the calculation of the effective interest rate and treated as part of interest income or interest expense.

Other fee and commission income, comprising account servicing fees, underwriting fees, investment management fees, foreign exchange fees, guarantee fees, placement fees and syndication fees, are recognised in profit or loss as the related services are performed.

Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan.

When a loan commitment is not expected to result in the drawdown of a loan, the related loan commitment fees are recognised in profit or loss on a straight-line basis over the commitment period.

Fee and commission expense, relating mainly to transaction and service fees, is expensed as the services are received.

Notes to the financial statements

Consideration payable to customers, comprising incremental costs in the form of cash amounts that the Group pays to wealth management customers, are incurred in acquiring new customer contracts. These costs are deferred within "Other assets" and subsequently recognised as an offset within fee and commission income, as follows:

- For customer contracts with a contractual fixed period, these costs are amortised over the contractual life.

- For customer contracts with no contractual fixed period, these costs are amortised over the estimated life of the contracts, which is reviewed periodically by reference to the Group's experience with attrition rates by wealth management customers.

1.18 Net trading income

Net trading income comprises all realised and unrealised foreign exchange differences and all fair value changes arising on derivatives held for trading, including derivatives that are not designated as hedging instruments and derivatives that no longer meet the criteria for hedge accounting.

1.19 Net income from other financial instruments carried at fair value through profit or loss

Net income from other financial instruments carried at fair value through profit or loss comprises all realised and unrealised fair value changes, interest income, dividends and foreign exchange differences attributable to financial assets carried at fair value through profit or loss.

1.20 Leases

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the future lease payments. Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are generally comprising the amount of the initial measurement of the lease liability and are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

1.21 Share-based compensation

The Group operates a deferred bonus plan in the form of a share-based compensation plan whereby selected officers or employees are awarded performance bonuses upon meeting specific performance conditions, or retention bonuses.

Together with upfront cash amounts, bonuses may comprise upfront share-linked awards and deferred share-linked awards. Share-linked awards consist of share-linked instruments in the form of a number of notional ordinary shares of MDB Group Limited computed by dividing the related portion of the bonus amount by the market value of these ordinary shares at award date. Share-linked award bonuses are eventually settled in cash on the settlement date (the expiry of the retention or delay period) on the basis of the market value of the ordinary shares of MDB Group Limited determined on the settlement date, multiplied by the number of notional shares computed on the date of award. Deferred share-linked awards attributable to retention bonuses are subject to a vesting period during which period the specific officer or employee must remain in employment for vesting to occur. Meanwhile, performance bonuses vest immediately, but are also subject to a deferral period. Therefore, both upfront and deferred share-linked awards are subject to a retention or delay period, for settlement purposes, post vesting. These share-based payment transactions are considered as cash-settled as the Group pays cash amounts based on the fair value of equity instruments of a group entity.

Notes to the financial statements

Share-based compensation is recognised as an employee benefit expense from grant date over the relative vesting period, which is the period over which all of the specified vesting conditions are to be satisfied, which in the case of retention bonuses occurs through graded vesting. The total amount to be expensed from grant date over the vesting period is determined by reference to the fair value of the awards at the grant date, reflecting the fair valuation of MDB Group Limited's ordinary shares on award date. Accordingly, the Group amortises on a straight-line basis the compensation cost arising on the grant of such awards over the nominal vesting period for employees based on the graded vesting of the plan. The resultant liability is re-measured at the end of each reporting period and at the date of settlement, with changes in fair value recognised in profit or loss.

1.22 Financial guarantee contracts and loan commitments

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers.

In the ordinary course of business, the Group gives financial guarantees, consisting of guarantees and acceptances.

Financial guarantee contracts are initially measured at fair value and subsequently measured at higher of:

- The amount of the credit loss allowance (calculated as described in Note 1.5); and

- The premium received on initial recognition less income recognised in accordance with the principles of IFRS 15.

Loan commitments are the Group's commitments to provide credit under pre-specified terms and conditions and are measured at the amount of the credit loss allowance (calculated as described in Note 1.5).

For loan commitments and financial guarantee contracts, the credit loss allowance is recognised as a provision. However, for contracts that include both a loan and an undrawn commitment and the Group cannot separately identify the expected credit losses on the undrawn commitment component from those on the loan component, the expected credit losses on the undrawn commitment are recognised together with the credit loss allowance for the loan. To the extent that the combined expected credit losses exceed the gross carrying amount of the loan, the expected credit losses are recognised as a provision.

1.23 Cash and cash equivalents

Cash and cash equivalents are carried in the statement of financial position at face value less expected credit losses. Cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash in hand, unrestricted balances held with central banks, deposits held at call with financial institutions and other short-term highly liquid investments with original maturities of three months or less.

Amounts owed to financial institutions that are repayable on demand or have a contractual maturity of three months or less and which form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

1.24 Customer assets

Customer assets are held with the Group in a fiduciary capacity and are segregated from the assets of the Group in accordance with the applicable rules and regulations on protection of customer assets, except when such customer assets are held by the Group to cover a required margin or when they are used to secure an obligation towards the Group.

Customer assets are not presented within the Group's statement of financial position.

1.25 Dividend distribution

Dividend distribution to the Group's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Group's shareholders.

Notes to the financial statements

2. Financial Risk Management

2.1 Introduction and overview

The Group's core business activities include:
- deposit taking;
- the provision of wealth management and investment services;
- the granting of loans to international and Maltese corporates; and
- the granting of residential mortgage loans in the Dutch, Belgian and Maltese markets, the granting of buy-to-let mortgages in the Dutch market and the relative securitisation of sub-portfolios of such Dutch residential mortgage loans through RMBS transactions.

The Group also provides basic retail services such as money transfer and spot currency exchange. Currency swaps, foreign exchange forwards and interest rate swaps are also entered into for risk management purposes.

In respect of funding, the Group continues to do securitisations of Dutch mortgages portfolios and to access the international wholesale funding markets through bilateral repo lines and the Eurex repo platform.

The major components within the Group's asset base are: the International Corporate Lending portfolio, comprising loans to international corporates; the Dutch Mortgage portfolio, comprising residential mortgage lending to Dutch customers; and the new buy-to-let mortgage portfolio that was launched in November 2022; the Belgian Mortgage portfolio, comprising residential mortgage lending to Belgian customers, the Maltese Mortgage and Business Lending portfolios, comprising residential mortgage loans to retail customers to support the purchase of residential properties as their own dwellings and loans to Maltese corporates; the Securities Investment portfolio principally comprising investment-grade debt securities; and the Securitisation Investment portfolio, comprising investments in Collateralised Loan Obligation ("CLO") transactions originated by the Group (representing a 5% vertical slice in each structured note tranche of the Grand Harbour CLO 2019-1 Designated Activity Company ("GH1-2019")), as well as acquired positions in CLO transactions managed by third party entities.

The Group continued the diversification and de-risking of its asset portfolio through continued focus on the Dutch national-guaranteed mortgage market (relying on strong partners for origination and servicing) and continued to de-emphasise investment in international corporate lending markets. In 2022 the Group also started financing Belgian Residential mortgages and also Dutch buy-to-let mortgages, The Dutch national-guaranteed mortgage lending activity represents prime Dutch mortgages that benefit from a guarantee from a private non-profit fund and indirectly from a government guarantee (the "Nationale Hypotheek Garantie" or "NHG"). The Dutch Mortgage business continued to grow during the financial year ended 31 December 2022, growing from a total gross exposure amounting to €1,643.2 million as at 31 December 2021 to €1,818.2 million as at 31 December 2022.

Another key development during the financial year ended 31 December 2022 included the third securitisation of a sub-portfolio of the Dutch Mortgage portfolio, which was sold to Bastion 2022-1, an additional special purpose securitisation vehicle established in the Netherlands, raising a further €369 million in funding through a RMBS in November 2022.

In March 2021, MeDirect Malta also launched a residential mortgage 'home-loan' product for retail customers in Malta to facilitate the purchase of dwellings for their own occupancy as part of its broader asset diversification strategy. The product was launched to strong effect, with a total gross exposure amounting to €19.0 million as at 31 December 2021, that grew to a total gross exposure amounting to €68.0 million as at 31 December 2022, alongside €33.2 million of approved home-loan applications pending completion as at 31 December 2022.

MeDirect Malta continued to participate in the MeAssist lending product, which is an assistance package issued in collaboration with the Malta Development Bank ("MDB"), aimed at supporting and enhancing access to bank financing to corporate customers in the Group's Maltese Business Lending portfolio in Malta. Such financing, offered in the form of working capital facilities granted to assist customers with their operational requirements in view of the market disruptions brought about by the outbreak of the COVID-19 pandemic, is up to 90% secured by guarantees provided under the MDB COVID-19 Guarantee Scheme ("CGS"). The Group's total gross exposures emanating from this product as at 31 December 2022 amounted to €1.4 million (2021: €1.4 million).

The main risks assumed by the Group are: (a) counterparty credit risk arising primarily from loans and advances to customers, but also from other financial instruments; (b) liquidity risk arising from maturity mismatches and committed but undrawn revolving credit facilities; (c) market risk, including interest rate risk; and (d) operational risk, including cyber security related threats.

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing these risks and the Group's management of capital.

Notes to the financial statements

These risks principally relate to the Group's banking activities and are managed by MeDirect Malta's Board of Directors. As a result, this note presents information about the financial risk management of the MeDirect Malta Group, which comprises MeDirect Malta and MeDirect Belgium ("MeDirect Malta Group"), thus excluding MDB Group Limited that is just a holding company.

The only major difference between the MDB Group consolidated position and the MeDirect Malta consolidated position related to the €11 million fixed rate reset callable subordinated notes issued by MDB Group Limited on 10 February 2031, the proceeds of which was lent to MeDirect Malta under identical terms to those of the subordinated notes issued by MDB Group Limited. These two instruments have the same carrying amount and are subject to the same liquidity and interest rate terms but in the MDB Group consolidated financial statements the subordinated notes are classified under "Subordinated liabilities" whereas in the MeDirect Malta consolidated financial statements these are classified within "Other liabilities". Since this note presents information at MeDirect Malta consolidation level, the subordinated notes are accordingly classified within "Other liabilities" throughout.

2.1.1 Risk management framework

The Group recognises the need to have an effective and efficient Risk Management Function and has therefore adopted a comprehensive risk management process that provides a balance between growth and maximising profitability while managing the associated risks. The Risk Management Function is actively involved in all material risk management decisions and is adequately structured to deliver a holistic view of the whole range of risks faced by the Group in its strategic decision-making.

The Risk Management Framework ("RMF") aims to outline and define the Group's risk management processes to enable informed risk-based decision-making. This framework outlines the process of how the Group identifies, manages and monitors material risks. It refers to the risk management processes that include policies, procedures, risk limits and risk controls ensuring adequate, timely and continuous identification, measurement or assessment, monitoring, management, mitigation and reporting of the risks at the business line, institution and consolidated or sub-consolidated levels.

The Group's objective is to deploy an integrated risk management approach that ensures an awareness of, and accountability for, the risks taken throughout the Group and also to develop the tools needed to address those risks.

Strong risk management and internal controls are core elements of the Group's strategy. The Group has adopted a risk management and internal control structure, referred to as the Three Lines of Defence (Figure 1), to ensure it achieves its strategic objectives while meeting regulatory and legal requirements and fulfilling its responsibilities to shareholders, customers and staff.

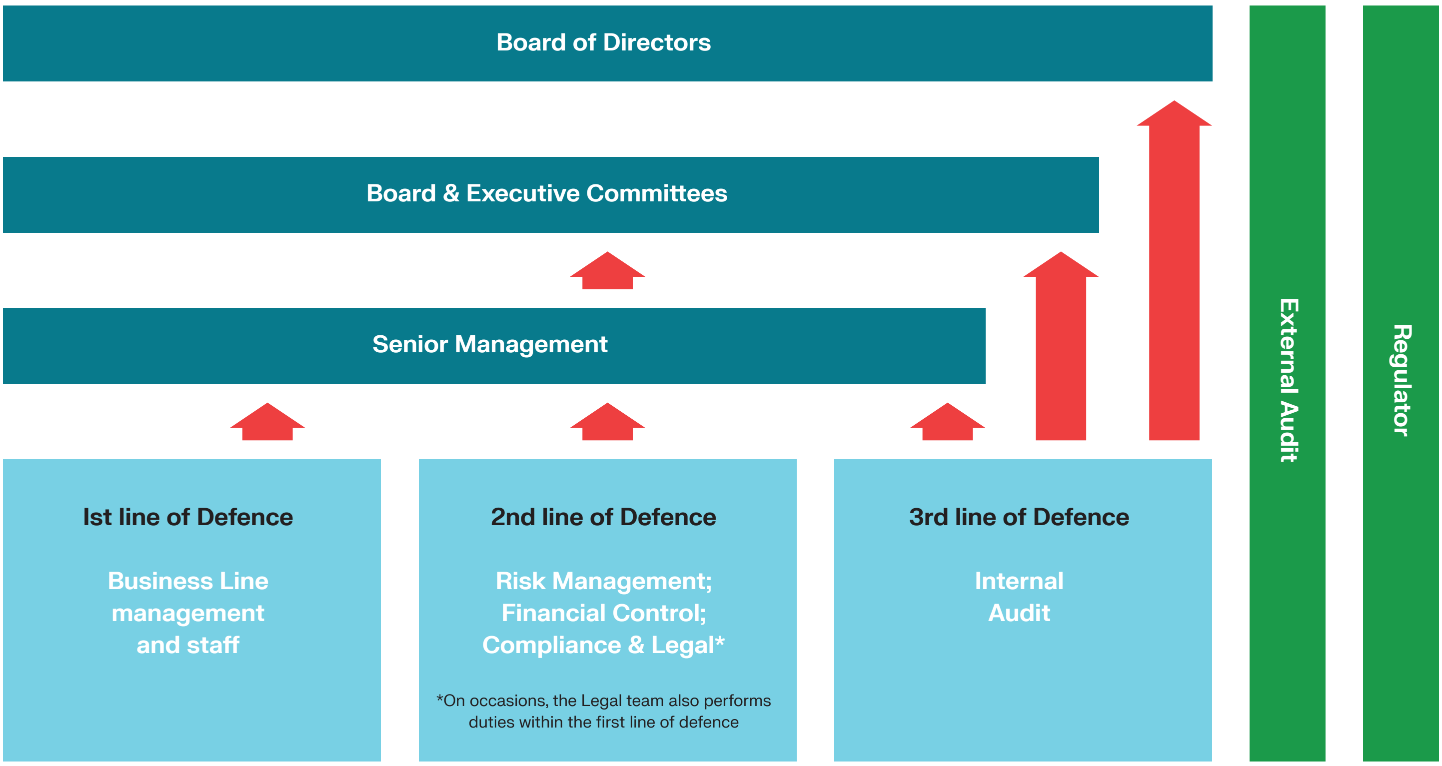

Figure 1: Three Lines of Defence Model

Notes to the financial statements

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

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

2.2 Credit risk

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

2.2.1 Management of credit risk

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

The Group's Board of Directors has defined risk appetite limits based on the Capital Requirements Regulation ("CRR") governing large exposures as well as prudential requirements. Exposure limits are monitored on a regular basis by the Risk, Corporate Credit and Treasury teams. Amongst other things, the Credit Policy outlines the following specific exposure and trading limits:
- Concentration limits;
- Country limits;
- Portfolio limits; and
- Minimum credit quality within each asset class.

Limits on counterparty exposures are established by the Group's Management Risk Committee ("MRC") in line with the Credit Framework. Such limits relate to net exposure, after application of cash (and cash equivalent) collateral, as provided in industry-standard documentation, and are established to manage credit risk to banks and other financial institutions in connection with the Group's over-the-counter ("OTC") derivative and repurchase agreement transactions. Settlement and delivery risk are mitigated through the use of industry-standard documentation such as the Loan Management Association ("LMA") and International Swaps and Derivative Association ("ISDA") agreements, alongside associated Credit Support Annex ("CSA") legal documents. Any bilateral secured financing transaction is executed under a signed Global Master Repurchase Agreement ("GMRA") or an ISDA agreement.

The Group's objective is to maximise its returns while maintaining a sound and prudent credit risk profile. To facilitate achieving this target, the Group invests in a diversified portfolio of financial assets, including both high quality securities with strong ratings stability and a diversified portfolio of loans to corporates, whose higher returns are viewed as justifying a greater level of risk. In accordance with its business strategy, the Group is de-risking its asset portfolio by reducing its exposure to the International Corporate Lending portfolio, with the portfolio size having been reduced by 14.3% since the beginning of the previous financial period. In addition, the Group is further diversifying its business through growth in a Dutch National Mortgage portfolio, which portfolio benefits from favourable credit risk weighting treatment as a result of the NHG provided under the Dutch national-guaranteed mortgage programme (the so called NHG mortgages); the launch of the Belgian retail mortgages and Dutch buy-to-let mortgages and the growth in the Maltese Mortgage business and Maltese Business Lending; and investments in AAA-rated CLO notes managed by third parties. In respect of the latter, the Group's only exposure to CLO notes that are rated below AAA pertains to tranches in a CLO originated by the Group, which are held specifically to meet risk retention rules as required under the Capital Requirements Regulation (CRR).

The Group's financial assets are managed on a portfolio basis, considering correlations between asset classes. The Group diversifies its exposures to avoid excessive concentration in particular countries, industries or types of financial institutions through its risk appetite framework and statement.

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

Notes to the financial statements

All exposures classified under the International Corporate Lending and Securitisation Investment portfolios undergo a thorough analysis process, not only from an internal credit perspective but also from a legal, financial and credit ratings perspective.

The Group's Corporate Credit and Risk teams, which manage the credit analysis and research process, are composed of highly trained individuals with specialised skill sets and years of experience in Corporate Syndicated Loans markets. The credit analysis and research process subjects potential investments to scenario analysis to determine whether they can withstand significant adverse credit, idiosyncratic and market events. Additionally, the portfolio is subject to a continual, thorough monitoring and oversight process in order to identify any financial instruments which require increased monitoring of performance. Further details on the credit approval and monitoring processes are provided within the Group's Pillar 3 Disclosures report available in the following webpage: https://www.medirect.com.mt/about-us/investor-relations.

In respect of the Maltese Business Lending portfolio, MeDirect Malta's Corporate lending team is responsible for performing the primary credit analysis on proposed credits, as well as performing regular borrower reviews to monitor the performance of the underlying exposures, recommending appropriate courses of action and co-ordinating the decision-making process. The local Risk team is responsible for reviewing the primary credit analysis performed by the Corporate Credit team, challenging key views and assumptions adopted by the first line of defence, including engaging in discussion during Management Credit Committee meetings and providing recommendations on the appropriate course of action. Portfolio and credit file reviews are performed regularly to monitor the performance of the underlying exposures and to evaluate the level of credit risk within the portfolio, including the performance of market sectors and concentrations therein, with the objective to build and maintain assets of high quality.

The Maltese Mortgage lending portfolio is not managed on an individual borrower basis, due to the high volume of relatively low value and homogenous exposures but is instead monitored on a portfolio level basis. The Maltese lending unit will alert the Management Credit Committee of any material issues or early warning signs identified and any MCC member may ask for any credit to be reviewed in detailed.

As referred to previously, the Group also has a Dutch and Belgian mortgage business line. The Dutch national-guaranteed mortgage business line benefits from a private non-profit fund guarantee and government guarantee (indirectly), credit risk is deemed to be low. The residual credit risk arising therefrom is managed by MeDirect Belgium's Credit and Risk teams. On a regular basis a sample file review is performed by the Business and Credit Teams with the Risk and Compliance Teams shadowing the process. A number of mortgages that would have been originated in the prior months are selected, some of which are subject to a detailed and complete file review with the remaining subject to a high-level review. Emphasis is placed on NHG compliance, the borrower's labour situation and income as well as on the veracity of the collateral valuation. Furthermore, meetings are held on a regular basis in which the Dutch economy, Dutch mortgage market, NHG developments and the snapshot of the credit risk profile of the portfolio is discussed, by reference to risk appetite limits, internal credit classification of the current portfolio along with the development of the staging and expected credit losses of the portfolio.

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

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

The Group focuses on the quality and timeliness of the data used to inform management decisions. In particular it enhanced credit risk monitoring within the International Corporate Loan portfolio and reviewed in a timelier manner those borrowers that are more vulnerable to the impacts of Covid-19. The active risk management performed at the level of both management and the board, particularly in the case of loan recoveries, continued during 2021 and 2022, most recently with a focus on the potential impact on borrowers of the Ukraine crisis, inflationary cost pressures including energy price rises, and risk of energy rationing.

Since the outbreak of the pandemic, the Group has continued to adopt a discounted cash flow ("DCF") approach for determining specific expected credit losses in respect of non-performing exposures within the ICL portfolio, whereby the Enterprise Value ("EV") of borrowers is prudently determined by reference to expected future cash flows under different scenarios over the upcoming

Notes to the financial statements

three-year period. The projected cash flows used recent management information for each borrower as the starting point. Expert judgement is then applied to determine the cashflows under base and downside scenarios. This methodology enables the Group to take a view of the steady state cashflows of borrowers over the short to medium term, after which point a terminal value is estimated. The recoverable amount under each scenario is therefore estimated by reference to the EV, plus available cash, less exit fees, discounted using the borrowers individually estimated weighted average cost of capital ("WACC"), which is determined using multiple assumptions in respect of both the cost of debt and cost of equity. An element of prudence is also built in the WACC calculation for each borrower.

The following table presents the maximum exposure to credit risk from on-balance sheet and off-balance sheet financial instruments, before taking account of any collateral held or other credit enhancements. For financial assets recognised on balance sheet, the maximum exposure to credit risk equals their carrying amount. For financial guarantees granted, it is the maximum amount that the Group would have to pay if the guarantees were called upon. For loan commitments and other credit-related commitments, it is generally the full amount of the committed facilities.

For the purposes of Note 2.2 – Credit risk, amounts related to "Investments measured at amortised cost" are inclusive of basis adjustments attributable to the hedged risk.

	MeDirect Malta Group	
	2022	2021
	€000	€000
Net exposure:		
Financial assets measured at amortised cost		
Balances with central banks	**149,925**	328,625
Loans and advances to financial institutions	**402,987**	193,724
Loans and advances to customers	**2,389,293**	2,324,303
- International Corporate Lending portfolio	**512,114**	593,359
- Dutch Mortgage portfolio	**1,818,002**	1,643,014
- Belgian Mortgage portfolio	**132,000**	-
- IFRS basis adjustment: International Mortgage portfolio	**(271,273)**	(37,149)
- Maltese Business Lending portfolio	**130,852**	106,126
- Maltese Mortgage portfolio	**67,598**	18,953
Investments measured at amortised cost	**1,262,175**	298,796
- Securities portfolio	**688,746**	119,700
- Securitisation portfolio	**573,429**	179,096
Accrued income	**14,097**	10,873
Loans to related parties (included in other assets)	**654**	283
Other receivables (included in other assets)	**27,680**	12,363
	4.246,811	3,168,967
Instruments measured at fair value through other comprehensive income	**-**	977,327
- Investments - Securities portfolio	**-**	650,217
- Investments - Securitisation portfolio	**-**	327,110
Instruments mandatorily measured at fair value through profit or loss	**7,879**	1,658
- Held for trading derivative financial instruments	**2,015**	513
- Investments - Securities portfolio	**5,292**	-
- Investments - Securitisation portfolio	**572**	1,145
	4,254,690	4,147,952
Commitments to purchase financial assets	**-**	11,000
Commitments to extend credit, guarantees and other commitments	**342,233**	377,572

Notes to the financial statements

Summary of financial instruments to which the impairment requirements in IFRS 9 are applied

The following disclosures present the gross carrying/nominal amount of financial instruments measured at amortised cost to which the impairment requirements in IFRS 9 are applied and the associated credit loss allowances, as well as the fair value of financial instruments measured at FVOCI and the associated credit loss allowances.

MeDirect Malta Group	2022 Gross carrying/ nominal amount €000	2022 Credit loss allowance €000	2021 Gross carrying/ nominal amount €000	2021 Credit loss allowance €000
Financial assets measured at amortised cost				
Balances with central banks	**149,927**	**(2)**	328,627	(2)
Loans and advances to financial institutions	**402,988**	**(1)**	193,725	(1)
Loans and advances to customers	**2,404,714**	**(15,421)**	2,346,218	(21,915)
- International Corporate Lending portfolio	**526,813**	**(14,699)**	614,814	(21,455)
- Dutch Mortgage portfolio	**1,818,186**	**(184)**	1,643,163	(149)
- Belgian Mortgage portfolio	**132,130**	**(130)**	-	-
- IFRS basis adjustment: International Mortgage portfolio	**(271,273)**	**-**	(37,149)	-
- Maltese Business Lending portfolio	**131,065**	**(213)**	106,360	(234)
- Maltese Mortgage portfolio	**67,793**	**(195)**	19,030	(77)
Investments measured at amortised cost	**1,262,550**	**(375)**	299,072	(276)
- Securities portfolio	**688,942**	**(196)**	119,836	(136)
- Securitisation portfolio	**573,608**	**(179)**	179,236	(140)
Accrued income	**14,392**	**(295)**	10,983	(110)
Loans to related parties (included in other assets)	**654**	**-**	283	-
Other receivables (included in other assets)	**27,680**	**-**	12,363	-
	4,262,905	**(16,094)**	3,191,271	(22,304)
Commitments to purchase financial assets	**-**	**-**	11,000	-
Commitments to extend credit, guarantees and other commitments	**343,496**	**(1,263)**	378,730	(1,158)
	343,496	**(1,263)**	389,730	(1,158)
Total	**4,606,401**	**(17,357)**	3,581,001	(23,462)

	2022 Fair value €000	2022 Credit loss allowance €000	2021 Fair value €000	2021 Credit loss allowance €000
Instruments measured at fair value through other comprehensive income				
- Investments - Securities portfolio	**-**	**-**	650,217	(27)
- Investments - Securitisation portfolio	**-**	**-**	327,110	(32)

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

	MeDirect Malta Group 2022 €000	2021 €000
Instruments mandatorily measured at fair value through profit or loss		
- Held for trading derivative financial instruments	**2,015**	513
- Investments - Securities portfolio	**5,292**	-
- Investments - Securitisation portfolio	**572**	1,145
	7,879	1,658

2.2.2 Summary of credit quality of financial assets to which impairment requirements in IFRS 9 are applied

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

As previously explained in the accounting policy (refer to Note 1.5), the Group adopts a five-point internal credit classification rating scale in order to assess the relative credit quality of exposures within its portfolios of financial instruments. In this respect, the members of the respective Management Credit Committees review the grading proposed by the business and the Group's Credit Risk teams. Each of the five internal credit classification ratings within the scale is aligned to the Group's approach for determining the relative staging of financial assets in line with the requirements emanating from IFRS 9 as follows:

Stage 1 (Performing)
1. Regular - no material credit concerns.
2. Focus - no immediate prospect that a credit loss will ultimately be suffered, but worthy of close credit oversight.

Stage 2 (Underperforming)
3. Under Surveillance - significant increase in credit risk with identified concerns and some prospect that a credit loss may ultimately be suffered.

Stage 3 (Non-performing)
4. Doubtful - it is likely that the contractual terms of the debt will not be met and that a credit loss will be suffered.
5. Write-off - full or partial write-down of exposures with little prospect of recovery.

The financial assets recorded in each stage have the following characteristics:
- Stage 1: Non credit-impaired and without significant increase in credit risk on which a 12-month ECL is recognised (Regular and Focus internal classifications)
- Stage 2: A significant increase in credit risk has been experienced since initial recognition on which a lifetime ECL is recognised (Under Surveillance internal classification)
- Stage 3: Objective evidence of impairment and are therefore considered to be in default or otherwise credit-impaired on which a lifetime specific ECL is recognised (Doubtful and Write-off internal classifications)

Deteriorating Credits
The Group determines that a financial instrument is credit-impaired and in Stage 3 by considering relevant objective evidence, primarily whether:
- contractual payments of either principal or interest are past due by more than 90 days;
- there are other indications that the borrower is unlikely to pay, such as when a concession has been granted to the borrower for economic or legal reasons relating to the borrower's financial condition; and
- the loan is otherwise considered to be in default.

Credit impaired loans and advances are those that are classified as "Doubtful" or "Write-off". These grades are assigned when the Group considers that either the customer is unlikely to pay its credit obligations in full, without recourse to security, or when the customer is more than 90 days past due on any material credit obligation to the Group. If unlikeliness to pay is not identified at an earlier stage, it is deemed to occur when an exposure is more than 90 days past due.

The Group is required to identify non-performing exposures ("NPEs") and to assess the recoverability of the recognised exposures.

The principal guidance on the definition of NPEs, as referred to in Commission Implementing Regulation (EU) No 680/2014 (referred to as the "EBA International Technical Standard on supervisory reporting"), seeks to ensure the consistent implementation of the key drivers of the NPE definition, namely the "past due" and the "unlikely-to-pay" criteria.

According to the EBA International Technical Standards on supervisory reporting, "non-performing exposures" are those that satisfy either or both of the following criteria:
a) material exposures which are more than 90 days past-due; and
b) the debtor is assessed as unlikely to pay its credit obligations in full without realisation of collateral, regardless of the existence of any past-due amount or of the number of days past due.

Notes to the financial statements

Assessment is made at an obligor (rather than facility) level. This implies that in those cases where a particular debtor has multiple facilities with the Group, the Group considers whether there are indications of unlikeliness to pay at the level of the debtor, irrespective of the different levels of losses that can be incurred in respect of the different facilities resulting from different levels of seniority.

Therefore, the definitions of credit-impaired is aligned as far as possible to the regulatory definition of 'non-performing' so that Stage 3 represents all loans that are considered defaulted or otherwise credit-impaired. For further clarity, exposures in respect of which a "default" is considered to have occurred, and exposures that have been found "credit impaired" in accordance with IFRS as adopted by the EU, shall always be considered as "non-performing exposures".

As described in more detail in section 1.5 of the financial statements, the Group's staging assessment in respect of exposures classified within the International Corporate Lending portfolio takes into consideration both qualitative and quantitative criteria.

The impact on borrowers' financial performance of post COVID-19 pandemic headwinds and the macroeconomic impacts of the Ukraine conflict, seeing increased cost inflation, energy inflation and interest rate rises on the financial performance of borrowers within the Group's lending portfolios, is captured within the quantitative assessment determined within the Group's IFRS 9 model, since it is taken into account within the macro-economic scenarios used to determine the probability weighted ECL, as well as in the life-time PiT PDs at reporting date used to determine SICR by comparing the magnitude of the difference between the corresponding reporting date implied rating and the origination date implied rating.

The Group exercises a degree of caution in respect of determining whether a significant increase in credit risk has occurred since origination. In this respect, management has introduced certain caps/notch downgrades to the implied ratings assigned to borrowers within the International Corporate portfolio that have undergone significant restructuring to reflect an increased level of credit risk since origination. Notch downgrades were also applied to exposures that have qualitatively been considered 'under surveillance', due to management's concerns that credit losses may potentially be incurred in the future.

Credit information in respect of exposures classified within the Maltese Business Lending portfolio is typically more limited when compared to that in the International Corporate Lending portfolio. As a result, the Group prioritised the performance of credit risk assessments in respect of exposures that requested general public moratoria in line with the conditions established within Directive No. 18 On Moratoria on Credit Facilities in Exceptional Circumstances ('Directive No. 18') issued by the Central Bank of Malta or customers requesting financial relief in the form of guaranteed financial assistance packages (e.g., MeAssist), which are guaranteed under the MDB CGS. In such cases, there was the risk that relief measures designed to alleviate liquidity shortfalls in the aftermath of the outbreak of the pandemic might conceal a long-term deterioration in financial condition, thereby delaying the identification of SICR or UTP events. In this respect, exposures benefiting from such relief measures are being monitored on a more frequent basis in order to follow progress on the situation. No SICR and UTP events were observed, and all moratoria expired by December 2021 and repayments resumed as expected.

As described in more detail in section 1.5 of the financial statements, the staging criteria applied in respect of exposures classified within the Dutch Mortgage portfolio are based on credit deterioration indicators such as delinquency levels, forbearance activity and changes in PDs modelled by an external vendor on the basis of forecasted macro-economic scenarios which are revised to reflect the elevated level of economic uncertainty driven by the outbreak of the pandemic and the military conflict between Russia and Ukraine, as explained in more detail in Note 2.2.7 - 'Current Conditions and Forward-looking information incorporated in the ECL model'. In this regard, the staging criteria are still deemed to be appropriate, with the impact of the pandemic on the credit risk profile of the Dutch Mortgage portfolio being captured in the modelling of PDs. By comparison to the Maltese Business Lending portfolio, the Dutch and Belgian Mortgage portfolio were not subject to COVID-19 relief measures in the form of the moratoria referred to above.

With respect to the Maltese and Belgian Residential Mortgages outstanding, no loans have shown any deterioration in credit risk and no Covid-19 relief measures were granted.

Exposures within the Securities Investment and Securitisation Investment portfolios are typically rated, with the exception of the Group's investment in the GH1-2019 equity tranche measured at FVTPL. Publicly rated exposures predominantly meet the definition of investment-grade rating and, in this respect, are considered to have low credit risk. A SICR assessment is only performed in respect of exposures to which a sub-investment-grade rating has been attributed.

Notes to the financial statements

The following table presents information about the credit quality of financial assets held by the Group to which the impairment requirements in IFRS 9 are applied:

	Performing		Under performing	Non-performing		
	Regular	Focus	Under surveillance	Doubtful	POCI	Total
MeDirect Malta Group	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**
As at 31 December 2022						
On balance sheet at amortised cost:						
Balances with central banks	149,925	-	-	-	-	149,925
Gross	*149,927*	-	-	-	-	*149,927*
Credit loss allowances	*(2)*	-	-	-	-	*(2)*
Loans and advances to financial institutions	402,987	-	-	-	-	402,987
Gross	*402,988*	-	-	-	-	*402,988*
Credit loss allowances	*(1)*	-	-	-	-	*(1)*
Loans and advances to customers	2,083,930	156,626	94,854	53,672	211	2,389,293
- International Corporate Lending portfolio	272,553	127,688	74,649	37,013	211	512,114
Gross	*275,644*	*129,762*	*77,591*	*43,381*	*435*	*526,813*
Credit loss allowances	*(3,091)*	*(2,074)*	*(2,942)*	*(6,368)*	*(224)*	*(14,699)*
- Dutch Mortgage portfolio	1,809,918	810	6,775	499	-	1,818,002
Gross	*1,810,024*	*810*	*6,846*	*506*	-	*1,818,186*
Credit loss allowances	*(106)*	-	*(71)*	*(7)*	-	*(184)*
- Belgian Mortgage portfolio	107,191	23,037	1,772	-	-	132,000
Gross	*107,286*	*23,056*	*1,788*	-	-	*132,130*
Credit loss allowances	*(95)*	*(19)*	*(16)*	-	-	*(130)*
- IFRS basis adjustment: International Mortgage portfolio	(271,273)	-	-	-	-	(271,273)
- Maltese Business Lending portfolio	97,943	5,091	11,658	16,160	-	130,852
Gross	*98,146*	*5,096*	*11,662*	*16,161*	-	*131,065*
Credit loss allowances	*(203)*	*(5)*	*(4)*	*(1)*	-	*(213)*
- Maltese Mortgage portfolio	67,598	-	-	-	-	67,598
Gross	*67,793*	-	-	-	-	*67,793*
Credit loss allowances	*(195)*	-	-	-	-	*(195)*
Investments measured at amortised cost	1,249,738	-	12,437	-	-	1,262,175
- Securities portfolio	676,711	-	12,035	-	-	688,746
Gross	*676,805*	-	*12,137*	-	-	*688,942*
Credit loss allowances	*(94)*	-	*(102)*	-	-	*(196)*
- Securitisation portfolio	573,027	-	402	-	-	573,429
Gross	*573,085*	-	*523*	-	-	*573,608*
Credit loss allowances	*(58)*	-	*(121)*	-	-	*(179)*
Accrued income	12,126	1,480	438	48	5	14,097
Gross	*12,146*	*1,504*	*454*	*283*	*5*	*14,392*
Credit loss allowances	*(20)*	*(24)*	*(16)*	*(235)*	-	*(295)*
Loans to related parties (included in other assets)	654	-	-	-	-	654
Other receivables (included in other assets)	27,680	-	-	-	-	27,680
	3,927,040	**158,106**	**107,729**	**53,720**	**216**	**4,246,811**
Off balance sheet at nominal amount:						
Commitments to extend credit, guarantees and other commitments						
Nominal amount	*294,892*	*35,214*	*7,781*	*5,609*	-	*343,496*
Credit loss allowances	*(393)*	*(167)*	*(63)*	*(640)*	-	*(1,263)*
	294,499	**35,047**	**7,718**	**4,969**	**-**	**342,233**

Notes to the financial statements

	Performing		Under performing	Non-performing	
	Regular	Focus	Under surveillance	Doubtful	Total
MeDirect Malta Group	**€000**	**€000**	**€000**	**€000**	**€000**
As at 31 December 2021					
On balance sheet at amortised cost:					
Balances with central banks	328,625	-	-	-	328,625
Gross	*328,627*	-	-	-	*328,627*
Credit loss allowances	*(2)*	-	-	-	*(2)*
Loans and advances to financial institutions	193,724	-	-	-	193,724
Gross	*193,725*	-	-	-	*193,725*
Credit loss allowances	*(1)*	-	-	-	*(1)*
Loans and advances to customers	1,902,706	149,118	180,024	92,455	2,324,303
- International Corporate Lending portfolio	210,756	131,125	170,894	80,584	593,359
Gross	*211,661*	*132,350*	*174,749*	*96,054*	*614,814*
Credit loss allowances	*(905)*	*(1,225)*	*(3,855)*	*(15,470)*	*(21,455)*
- Dutch Mortgage portfolio	1,637,997	1,168	3,441	408	1,643,014
Gross	*1,638,068*	*1,168*	*3,503*	*424*	*1,643,163*
Credit loss allowances	*(71)*	-	*(62)*	*(16)*	*(149)*
- IFRS basis adjustment: Dutch Mortgage portfolio	(37,149)	-	-	-	(37,149)
- Maltese Business Lending portfolio	72,149	16,825	5,689	11,463	106,126
Gross	*72,240*	*16,840*	*5,704*	*11,576*	*106,360*
Credit loss allowances	*(91)*	*(15)*	*(15)*	*(113)*	*(234)*
- Maltese Mortgage portfolio	18,953	-	-	-	18,953
Gross	*19,030*	-	-	-	*19,030*
Credit loss allowances	*(77)*	-	-	-	*(77)*
Investments measured at amortised cost	286,074	12,327	395	-	298,796
- Securities portfolio	107,373	12,327	-	-	119,700
Gross	*107,399*	*12,437*	-	-	*119,836*
Credit loss allowances	*(26)*	*(110)*	-	-	*(136)*
- Securitisation portfolio	178,701	-	395	-	179,096
Gross	*178,720*	-	*516*	-	*179,236*
Credit loss allowances	*(19)*	-	*(121)*	-	*(140)*
Accrued income	7,403	1,110	1,814	546	10,873
Gross	*7,409*	*1,119*	*1,855*	*600*	*10,983*
Credit loss allowances	*(6)*	*(9)*	*(41)*	*(54)*	*(110)*
Loans to related parties (included in other assets)	283	-	-	-	283
Other receivables (included in other assets)	12,363	-	-	-	12,363
	2,731,178	**162,555**	**182,233**	**93,001**	**3,168,967**

Notes to the financial statements

	Performing		Under performing	Non-performing	
	Regular	Focus	Under surveillance	Doubtful	Total
MeDirect Malta Group	**€000**	**€000**	**€000**	**€000**	**€000**
Off balance sheet at nominal amount:					
Commitments to purchase financial assets					
Nominal amount	*11,000*	-	-	-	*11,000*
Credit loss allowances	-	-	-	-	-
Commitments to extend credit, guarantees and other commitments					
Nominal amount	*209,416*	*121,966*	*42,490*	*4,858*	*378,730*
Credit loss allowances	*(93)*	*(221)*	*(330)*	*(514)*	*(1,158)*
	220,323	**121,745**	**42,160**	**4,344**	**388,572**
Instruments measured at fair value through other comprehensive income					
- Investments - Securities portfolio					
Fair value	*650,217*	-	-	-	*650,217*
Credit loss allowances	*(27)*	-	-	-	*(27)*
- Investments - Securitisation portfolio					
Fair value	*327,110*	-	-	-	*327,110*
Credit loss allowances	*(32)*	-	-	-	*(32)*

Notes to the financial statements

For securities within both the Securities Investment and Securitisation Investment portfolios, the Group's credit quality classifications encompass a range of more granular external rating grades attributed by external agencies to debt securities. The following table illustrates this information:

MeDirect Malta Group	Measured at amortised cost		Measured at fair value through other comprehensive income	
	2022	2021	**2022**	2021
	€000	€000	**€000**	€000
Securities Investment portfolio				
National and regional government securities, supranationals and agencies				
· AAA	**348,689**	30,477	**-**	35,984
· AA+ to AA-	**303,760**	55,691	**-**	196,743
· A- to BBB-	**24,262**	-	**-**	17,511
Other securities				
· AAA	**-**	10,020	**-**	266,964
· AA+ to AA-	**-**	11,185	**-**	133,015
Not rated	**12,035**	12,327	**-**	-
	688,746	119,700	**-**	650,217
Securitisation Investment portfolio				
AAA	**567,553**	173,238	**-**	327,110
AA+ to AA-	**2,950**	2,950	**-**	-
A- to BBB-	**1,399**	1,399	**-**	-
BB+ to B-	**1,527**	1,509	**-**	-
	573,429	179,096	**-**	327,110
Total	**1,262,175**	298,796	**-**	977,327

These portfolios are also categorised under the five credit quality classifications used by the Group (i.e. regular, focus, under surveillance, doubtful and write-off) and these ratings are determined by MeDirect Malta's Management Credit Committee.

As at 31 December 2022 and 2021, all the investments in the Securities Investment portfolio and the Securitisation Investment portfolio are classified as regular, with the exception of the Group's investment in the most junior non-equity GH1-2019 tranche measured at amortised cost, which is rated B (2021: B-) and which is deemed to have experienced a SICR since initial recognition hence being classified as "Under Surveillance". Staging in respect of the Group's investment in the GH1-2019 structured note tranches is determined by reference to Implied Ratings determined in accordance with the methodology described in Note 1.5 of the financial statements, whereby a SICR assessment is only performed when Implied Ratings fall below investment-grade.

Notes to the financial statements

2.2.3 Detailed information on credit quality of financial assets

The following table provides an overview of the Group's credit risk by stage and business segment, and the associated ECL coverage.

Summary of credit risk (excluding financial instruments not subject to impairment requirements) by stage distribution and ECL coverage

	Gross carrying/nominal amount					Credit loss allowance					ECL coverage %				
MeDirect Malta Group	Stage 1 €000	Stage 2 €000	Stage 3 €000	POCI €000	Total €000	Stage 1 €000	Stage 2 €000	Stage 3 €000	POCI €000	Total €000	Stage 1 %	Stage 2 %	Stage 3 %	POCI %	Total %
As at 31 December 2022															
On balance sheet at amortised cost:															
Balances with central banks	149,927	-	-	-	149,927	(2)	-	-	-	(2)	-	-	-	-	-
Loans and advances to financial institutions	402,988	-	-	-	402,988	(1)	-	-	-	(1)	-	-	-	-	-
Loans and advances to customers															
- International Corporate Lending portfolio	405,406	77,591	43,381	435	526,813	(5,165)	(2,942)	(6,368)	(224)	(14,699)	1.3	3.8	14.7	51.5	2.8
- Dutch Mortgage portfolio	1,810,834	6,846	506	-	1,818,186	(106)	(71)	(7)	-	(184)	-	1.0	1.4	-	-
- Belgian Mortgage portfolio	130,342	1,788	-	-	132,130	(114)	(16)	-	-	(130)	0.1	0.9	-	-	0.1
- IFRS basis adjustment: International Mortgage portfolio	(271,273)	-	-	-	(271,273)	-	-	-	-	-	-	-	-	-	-
- Maltese Business Lending portfolio	103,242	11,662	16,161	-	131,065	(208)	(4)	(1)	-	(213)	0.2	-	-	-	0.2
- Maltese Mortgage portfolio	67,793	-	-	-	67,793	(195)	-	-	-	(195)	0.3	-	-	-	0.3
Investments															
- Securities portfolio	676,805	12,137	-	-	688,942	(94)	(102)	-	-	(196)	-	0.8	-	-	-
- Securitisation portfolio	573,085	523	-	-	573,608	(58)	(121)	-	-	(179)	-	23.1	-	-	-
Accrued income	13,650	454	283	5	14,392	(44)	(16)	(235)	-	(295)	0.3	3.5	83.0	0.0	2.0
Loans to related parties (included in other assets)	654	-	-	-	654		-	-	-	-	-	-	-	-	-
Other receivables (included in other assets)	27,680	-	-	-	27,680	-	-	-	-	-	-	-	-	-	-
Off balance sheet at nominal amount:															
Commitments to extend credit, financial guarantees and other commitments	330,106	7,781	5,609	-	343,496	(560)	(63)	(640)	-	(1,263)	0.2	0.8	11.4	-	0.4
	4,421,239	**118,782**	**65,940**	**440**	**4,606,401**	**(6,547)**	**(3,335)**	**(7,251)**	**(224)**	**(17,357)**	**0.1**	**2.8**	**11.0**	**50.9**	**0.4**

Notes to the financial statements

	Gross carrying/nominal amount				Credit loss allowance				ECL coverage %			
	Stage 1 €000	Stage 2 €000	Stage 3 €000	Total €000	Stage 1 €000	Stage 2 €000	Stage 3 €000	Total €000	Stage 1 %	Stage 2 %	Stage 3 %	Total %
MeDirect Malta Group												
As at 31 December 2021												
On balance sheet at amortised cost:												
Balances with central banks	328,627	-	-	328,627	(2)	-	-	(2)	-	-	-	-
Loans and advances to financial institutions	193,725	-	-	193,725	(1)	-	-	(1)	-	-	-	-
Loans and advances to customers												
- International Corporate Lending portfolio	344,011	174,749	96,054	614,814	(2,130)	(3,855)	(15,470)	(21,455)	0.6	2.2	16.1	3.5
- Dutch Mortgage portfolio	1,639,236	3,503	424	1,643,163	(71)	(62)	(16)	(149)	-	1.8	3.8	-
- IFRS basis adjustment: Dutch Mortgage portfolio	(37,149)	-	-	(37,149)	-	-	-	-	-	-	-	-
- Maltese Business Lending portfolio	89,080	5,704	11,576	106,360	(106)	(15)	(113)	(234)	0.1	0.3	1.0	0.2
- Maltese Mortgage portfolio	19,030	-	-	19,030	(77)	-	-	(77)	0.4	-	-	0.4
Investments												
- Securities portfolio	119,836	-	-	119,836	(136)	-	-	(136)	0.1	-	-	0.1
- Securitisation portfolio	178,720	516	-	179,236	(19)	(121)	-	(140)	-	23.4	-	0.1
Accrued income	8,528	1,855	600	10,983	(15)	(41)	(54)	(110)	0.2	2.2	9.0	1.0
Loans to related parties (included in other assets)	283	-	-	283	-	-	-	-	-	-	-	-
Other receivables (included in other assets)	12,363	-	-	12,363	-	-	-	-	-	-	-	-
Off balance sheet at nominal amount:												
Commitments to purchase financial assets	11,000	-	-	11,000	-	-	-	-	-	-	-	-
Commitments to extend credit, financial guarantees and other commitments	331,382	42,490	4,858	378,730	(314)	(330)	(514)	(1,158)	0.1	0.8	10.6	0.3
	3,238,672	**228,817**	**113,512**	**3,581,001**	**(2,871)**	**(4,424)**	**(16,167)**	**(23,462)**	**0.1**	**1.9**	**14.2**	**0.7**

	Gross carrying/nominal amount				Credit loss allowance				ECL coverage %			
	Stage 1 €000	Stage 2 €000	Stage 3 €000	Total €000	Stage 1 €000	Stage 2 €000	Stage 3 €000	Total €000	Stage 1 %	Stage 2 %	Stage 3 %	Total %
As at 31 December 2021												
Investments at fair value through other comprehensive income												
- Investments - Securities portfolio	650,217	-	-	650,217	(27)	-	-	(27)	-	-	-	-
- Investments - Securitisation portfolio	327,110	-	-	327,110	(32)	-	-	(32)	-	-	-	-

Notes to the financial statements

An exposure is "past due" when any amount of principal, interest or fee has not been paid on the date it was due. Past due but not credit-impaired loans are those loans and advances for which contractual interest or principal payments are past due but do not meet the Group's criteria for "credit-impaired" as outlined in the Three stage expected credit loss (ECL) approach.

MeDirect Malta and MeDirect Belgium do not have any exposures forming part of the International Corporate Lending, Securities Investment and Securitisation Investment portfolios which are past due but not credit impaired. Past due but not credit-impaired facilities are attributable to the Maltese Business Lending portfolio, representing exposures to counterparties domiciled in Malta and concentrated within the real estate and construction sector, the Dutch Mortgage portfolio, representing residential mortgage exposures to households and individuals domiciled in the Netherlands, as well as a small portfolio of professional lending exposures held for rental purposes and the Maltese Mortgage portfolio, representing home loans granted to Malta individuals.

Unless identified at an earlier stage, all financial assets are deemed to have experienced a significant increase in credit risk when they are more than 30 days past due. As at 31 December 2022 and 2021, no exposures within the Belgian and Maltese Mortgage portfolio, Securities Investment and Securitisation Investment portfolios were classified as Stage 2, with the exception of the Group's investment in the most junior GHI-2019 tranche measured at amortised cost, which was not past due but classified as "Under Surveillance" as at 31 December 2022 and 2021. None of the Stage 2 exposures within the International Corporate Lending portfolio were past due as at 31 December 2022 and 2021.

In this regard, the following disclosure only presents the ageing of Stage 2 financial assets in the Maltese Business Lending and Dutch Mortgage portfolios. It distinguishes between those assets that are classified as Stage 2 when they are either not past due or up to 30 days past due from those that are classified as Stage 2 due to ageing and are more than 30 days past due (>30 DPD). Past due financial instruments are those loans where customers have failed to make payments in accordance with the contractual terms of their facilities. Stage 1 exposures with a gross carrying amount of €0.7 million as at 31 December 2022 (2021: €1.2 million) classified within the Dutch Mortgage portfolios and Stage 1 exposures with a gross carrying amount of €0.2 million as at 31 December 2021 classified within the Maltese Business Lending portfolio were classified as past due but not credit-impaired.

Notes to the financial statements

	Gross exposure			Credit loss allowance		
	Stage 2	Of which up to 30 DPD	Of which more than 30 DPD	Stage 2	Of which up to 30 DPD	Of which more more than 30 DPD
	€000	€000	€000	€000	€000	€000
MeDirect Malta Group						
As at 31 December 2022						
Dutch Mortgage portfolio						
- Loans and advances to customers	6,846	5,667	1,179	(71)	(1)	(70)
Maltese Business Lending portfolio						
- Loans and advances to customers	11,662	11,662	-	(4)	(4)	-
- Accrued income	44	44	-	-	-	-
Belgian Mortgage portfolio						
- Loans and advances to customers	1,788	352	1,436	(24)	(16)	(8)
	20,340	**17,725**	**2,615**	**(99)**	**(21)**	**(78)**

	Gross exposure			Credit loss allowance		
	Stage 2	Of which up to 30 DPD	Of which more than 30 DPD	Stage 2	Of which up to 30 DPD	Of which more more than 30 DPD
	€000	€000	€000	€000	€000	€000
MeDirect Malta Group						
As at 31 December 2021						
Dutch Mortgage portfolio						
- Loans and advances to customers	3,503	782	2,721	(62)	(1)	(61)
Maltese Business Lending portfolio						
- Loans and advances to customers	5,704	5,687	17	(15)	(15)	-
- Accrued income	9	9	-	-	-	-
	9,216	**6,478**	**2,738**	**(77)**	**(16)**	**(61)**

Notes to the financial statements

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

	Gross carrying amount/nominal amount							
	Regular €000	**Focus €000**	**Under surveillance €000**	**Doubtful €000**	**POCI €000**	**Total €000**	**Credit loss allowance €000**	**Net €000**
MeDirect Malta Group								
As at 31 December 2022								
On balance sheet at amortised cost:								
Balances with central banks	149,927	-	-	-	-	149,927	(2)	149,925
Loans and advances to financial institutions	402,988	-	-	-	-	402,988	(1)	402,987
Loans and advances to customers								
- International Corporate Lending portfolio								
- Stage 1	275,644	129,762	-	-	-	405,406	(5,165)	400,241
- Stage 2	-	-	77,591	-	-	77,591	(2,942)	74,649
- Stage 3	-	-	-	43,381	435	43,816	(6,592)	37,224
- Dutch Mortgage portfolio								
- Stage 1	1,810,024	810	-	-	-	1,810,834	(106)	1,810,728
- Stage 2	-	-	6,846	-	-	6,846	(71)	6,775
- Stage 3	-	-	-	506	-	506	(7)	499
- Belgian Mortgage portfolio								
- Stage 1	107,286	23,056	-	-	-	130,342	(114)	130,228
- Stage 2	-	-	1,788	-	-	1,788	(16)	1,772
	-							
- IFRS basis adjustment: International Mortgage portfolio	(271,273)	-	-	-	-	(271,273)	-	(271,273)
- Maltese Business Lending portfolio								
- Stage 1	98,146	5,096	-	-	-	103,242	(208)	103,034
- Stage 2	-	-	11,662	-	-	11,662	(4)	11,658
- Stage 3	-	-	-	16,161	-	16,161	(1)	16,160
- Maltese Mortgage portfolio								
- Stage 1	67,793	-	-	-	-	67,793	(195)	67,598
Investments measured at amortised cost								
- Securities portfolio								
- Stage 1	676,805	-	-	-	-	676,805	(94)	676,711
- Stage 2	-	-	12,137	-	-	12,137	(102)	12,035
- Securitisation portfolio								
- Stage 1	573,085	-	-	-	-	573,085	(58)	573,027
- Stage 2	-	-	523	-	-	523	(121)	402
Accrued income								
- Stage 1	12,146	1,504	-	-	-	13,650	(44)	13,606
- Stage 2	-	-	454	-	-	454	(16)	438
- Stage 3	-	-	-	283	5	288	(235)	53
Loans to related parties (included in other assets)								
- Stage 1	654	-	-	-	-	654	-	654
Other receivables (included in other assets)								
- Stage 1	27,680	-	-	-	-	27,680	-	27,680

Notes to the financial statements

	Gross carrying amount/nominal amount Regular €000	Focus €000	Under surveillance €000	Doubtful €000	POCI €000	Total €000	Credit loss allowance €000	Net €000
Off balance sheet at nominal amount:								
Commitments to extend credit, financial guarantees and other commitments								
- Stage 1	294,892	35,214	-	-	-	330,106	(560)	329,546
- Stage 2	-	-	7,781	-	-	7,781	(63)	7,718
- Stage 3	-	-	-	5,609	-	5,609	(640)	4,969
	4,225,797	**195,442**	**118,782**	**65,940**	**440**	**4,606,401**	**(17,357)**	**4,589,044**

	Gross carrying amount/nominal amount Regular €000	Focus €000	Under surveillance €000	Doubtful €000	Total €000	Credit loss allowance €000	Net €000
MeDirect Malta Group							
As at 31 December 2021							
On balance sheet at amortised cost:							
Balances with central banks	328,627	-	-	-	328,627	(2)	328,625
Loans and advances to financial institutions	193,725	-	-	-	193,725	(1)	193,724
Loans and advances to customers							
- International Corporate Lending portfolio							
- Stage 1	211,661	132,350	-	-	344,011	(2,130)	341,881
- Stage 2	-	-	174,749	-	174,749	(3,855)	170,894
- Stage 3	-	-	-	96,054	96,054	(15,470)	80,584
- Dutch Mortgage portfolio							
- Stage 1	1,638,068	1,168	-	-	1,639,236	(71)	1,639,165
- Stage 2	-	-	3,503	-	3,503	(62)	3,441
- Stage 3	-	-	-	424	424	(16)	408
- IFRS basis adjustment: Dutch Mortgage portfolio	(37,149)	-	-	-	(37,149)	-	(37,149)
- Maltese Business Lending portfolio							
- Stage 1	72,240	16,840	-	-	89,080	(106)	88,974
- Stage 2	-	-	5,704	-	5,704	(15)	5,689
- Stage 3	-	-	-	11,576	11,576	(113)	11,463
- Maltese Mortgage portfolio							
- Stage 1	19,030	-	-	-	19,030	(77)	18,953
Investments measured at amortised cost							
- Securities portfolio							
- Stage 1	107,399	12,437	-	-	119,836	(136)	119,700
- Securitisation portfolio							
- Stage 1	178,720	-	-	-	178,720	(19)	178,701
- Stage 2	-	-	516	-	516	(121)	395

Notes to the financial statements

	Gross carrying amount/nominal amount						
	Regular €000	Focus €000	Under surveillance €000	Doubtful €000	Total €000	Credit loss allowance €000	Net €000
Accrued income							
- Stage 1	7,409	1,119	-	-	8,528	(15)	8,513
- Stage 2	-	-	1,855	-	1,855	(41)	1,814
- Stage 3	-	-	-	600	600	(54)	546
Loans to related parties (included in other assets)							
- Stage 1	283	-	-	-	283	-	283
Other receivables (included in other assets)							
- Stage 1	12,363	-	-	-	12,363	-	12,363
Off balance sheet at nominal amount:							
Commitments to purchase financial assets							
- Stage 1	11,000	-	-	-	11,000	-	11,000
Commitments to extend credit, financial guarantees and other commitments							
- Stage 1	209,416	121,966	-	-	331,382	(314)	331,068
- Stage 2	-	-	42,490	-	42,490	(330)	42,160
- Stage 3	-	-	-	4,858	4,858	(514)	4,344
	2,952,792	**285,880**	**228,817**	**113,512**	**3,581,001**	**(23,462)**	**3,557,539**

	Gross carrying amount/nominal amount					
	Regular €000	Focus €000	Under surveillance €000	Doubtful €000	Total €000	Credit loss allowance €000
MeDirect Malta Group As at 31 December 2021 Investments measures at fair value through other comprehensive income						
- Securities portfolio						
- Stage 1	650,217	-	-	-	650,217	(27)
- Securitisation portfolio						
- Stage 1	327,110	-	-	-	327,110	(32)

Reconciliation of changes in gross carrying/nominal amount and credit loss allowances for loans and advances to customers, including accrued income, and other credit-related commitments.

The following disclosure provides a reconciliation by stage of the Group's gross carrying/nominal amounts and credit loss allowances for loans and advances to customers for the International Corporate Lending portfolio, including credit-related commitments. On-balance sheet exposures are shown at their gross carrying amounts whereas off-balance sheet exposures are shown at their nominal amounts.

Within the following tables the line items "New business" and "Repayments and disposals" represent movements within the Group's International Corporate Lending portfolio in respect of gross carrying/nominal amounts and associated credit loss allowances. "New business" represents new lending sanctioned during the financial year. Meanwhile, "Repayments and disposals" reflect loan repayments and disposals that occurred during the financial year, which however relate to loans that would only have existed on the Group's balance sheet as at the end of the preceding financial reporting period. Accordingly, repayments and disposals relating to loans sanctioned during the financial reporting period are netted off against new lending included within "New business".

The line item "Transfers of financial instruments" represents the impact of stage transfers on gross carrying/nominal amounts and associated credit loss allowances determined as at the end of the financial reporting period. The line item "Net re-measurement of ECL arising from stage transfers and changes in risk parameters" represents the increase or decrease in credit loss allowances due

Notes to the financial statements

to modified measurement basis from 12-month to lifetime in relation to stage transfers. It also includes the effects of changes in other expected credit loss measurement factors and model parameters such as, but not limited to, changes in time to maturity of assets; changes in underlying credit ratings; changes in measurement of loss given default and changes in respect of multiple economic scenarios. Finally, this line item also comprises the increase in ECL in respect of assets written off during the period measured as the movement between 1 January and the date of write-off.

The decrease in credit loss allowances in the financial year ended 31 December 2022 was principally driven by the general improvement in financial condition experienced by borrowers within the portfolio, leading to significant repayments and in turn a decrease in ECLs of €6.5 million. Also, the expected credit loss allowances decreased as a result of the disposal of Stage 3 loans and the realisation of ECLs on Stage 3 loans by way of write-off amounting to €7.7 million as disclosed in the line item "Realisation of ECL through restructuring and disposals".

The decrease in credit loss allowances in the financial year ended 31 December 2021 was principally driven by the general improvement in financial condition experienced by borrowers within the portfolio, leading to significant repayments and in turn a decrease in ECLs of €34.6 million. Also, the expected credit loss allowances decreased as a result of the disposal of Stage 3 loans and the realisation of ECLs on Stage 3 loans by way of write-off following restructuring amounting to €38 million as disclosed in the line item "Realisation of ECL through restructuring and disposals".

As per the table below, no exposures were transferred out of Stage 1 into Stages 2 or 3 during the year (2021: €12 million), with net transfers to Stage 3 amounting to €22 million (2021: €41 million). The net remeasurement of ECLs reflects in the increase in PDs and LGDs driven by point-in-time economic adjustments and more pessimistic forward-looking macroeconomic scenarios being forecasted in the modelling of ECLs. As explained in more detail in Note 2.2.7 – 'Current Conditions and Forward-looking information incorporated in the ECL model', the Group deemed that forward-looking macroeconomic scenarios provided by the external supplier now appropriately reflected the uncertainty within the wider economy and reflects this increase in PDs and LGDs.

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

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

ECL released for the year	6,502
Assets written off	(7,673)
Other	(112)
Change in expected credit losses and other credit impairment charges for the year	**(1,283)**

Notes to the financial statements

	As at 31 December 2022		Year ended 31 December 2022
	Gross carrying/ nominal amount €000	**Credit loss allowance €000**	**ECL (charge)/ release €000**
MeDirect Malta Group			
As per preceding table	655,767	(16,219)	(1,283)
Balances at central banks	149,927	(2)	-
Loans and advances to financial institutions	402,988	(1)	-
Loans and advances to customers			
- Dutch Mortgage portfolio: drawn exposures	1,546,913	(184)	(35)
- Dutch Mortgage portfolio: undrawn commitments	92,420	(4)	(2)
- Belgian Mortgage portfolio: drawn exposures	132,130	(130)	(130)
- Belgian Mortgage portfolio: undrawn commitments	63,808	(34)	(34)
- Maltese Business Lending portfolio: drawn exposures	131,065	(213)	3,691
- Maltese Business Lending portfolio: undrawn commitments	13,370	-	-
- Maltese Mortgage portfolio: drawn exposures	67,793	(169)	(92)
- Maltese Mortgage portfolio: undrawn commitments	33,248	-	-
Investments measured at amortised cost			
- Securities portfolio	688,942	(196)	(65)
- Securitisation portfolio	573,608	(179)	(7)
Other accrued income	27,680	(4)	(2)
Summary of financial instruments to which the impairment requirements in IFRS 9 are applied through profit or loss	4,579,659	(17,335)	2,041
Total credit loss allowance/total income statement ECL release for the year		**(17,335)**	**2,041**

Expected credit losses measured in respect of exposures within the Maltese Business Lending portfolio classified as Stage 1 and Stage 2 remained constant at €0.2 million during the year (2021: a decrease from €0.5 million to €0.2 million). The impact of the pandemic on the Group's Maltese Business Lending portfolio has been limited since the majority of exposures within the Maltese Business Lending portfolio relate to the real estate and construction sectors, which sectors have largely managed to resume operations in the aftermath of the outbreak of the pandemic and are more dependent on the longer-term economic recovery of the country. The Group's credit risk is also mitigated through the maintenance of adequate levels of collateralisation, typically by charges on real estate properties. In this regard, movements in expected credit losses were largely driven by model and risk parameter changes, primarily due to the economic recovery during the year, improving macroeconomic scenarios and to a lesser extent due to stage transfers and net book movements during the year.

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

Notes to the financial statements

The following table provides a reconciliation of movements in gross carrying/nominal amounts and credit loss allowances by stage for the International Corporate Lending portfolio for the financial year ended 31 December 2021:

	Non credit-impaired				Credit-impaired		Total	
	Stage 1		Stage 2		Stage 3			
	Gross carrying/ nominal amount €000	Credit loss allowance €000	Gross carrying/ nominal amount €000	Credit loss allowance €000	Gross carrying/ nominal amount €000	Credit loss allowance €000	Gross carrying/ nominal amount €000	Credit loss allowance €000
International Corporate Lending portfolio MeDirect Malta Group Year ended 31 December 2021								
At beginning of year	857,774	(8,958)	239,061	(5,285)	176,859	(43,125)	1,273,694	(57,368)
New business	50,217	(145)	1,475	(11)	-	-	51,692	(156)
Repayments and disposals	(373,581)	4,005	(14,480)	537	(60,264)	29,139	(448,325)	33,681
Transfers of financial instruments								
- Transfers from Stage 1 to Stage 2	(67,388)	1,375	67,388	(1,375)	-	-	-	-
- Transfers from Stage 2 to Stage 1	67,953	(1,411)	(67,953)	1,411	-	-	-	-
- Transfers to Stage 3	(12,858)	127	(28,492)	933	41,350	(1,060)	-	-
- Transfers from Stage 3	-	-	18,632	(8,300)	(18,632)	8,300	-	-
Net remeasurement of ECL arising from stage transfers and changes in risk parameters	-	3,309	-	9,246	-	(47,309)	-	(34,754)
Uncertainty adjustment	-	(757)	-	(1,382)	-	-	-	(2,139)
Realisation of ECL through restructuring and disposals	-	-	-	-	(38,017)	38,017	(38,017)	38,017
At end of year	522,117	(2,455)	215,631	(4,226)	101,296	(16,038)	839,044	(22,719)
ECL charge for the year								34,649
Effect of foreign exchange differences								(38,017)
Realisation of ECL through restructuring and disposals								557

Notes to the financial statements

Change in expected credit losses and other credit impairment charges for the year	(2,811)

	As at 31 December 2021		Year ended 31 December 2021
	Gross carrying/ nominal amount €000	**Credit loss allowance €000**	**ECL (charge)/ release €000**
MeDirect Malta Group			
As per preceding table	839,044	(22,719)	(2,811)
Balances at central banks	328,627	(2)	-
Loans and advances to financial institutions	198,776	(1)	-
Loans and advances to customers			
- Dutch Mortgage portfolio: drawn exposures	1,606,014	(149)	(2)
- Dutch Mortgage portfolio: undrawn commitments	72,079	(2)	15
- Maltese Business Lending portfolio: drawn exposures	106,360	(234)	307
- Maltese Business Lending portfolio: undrawn commitments	60,737	-	-
- Maltese Mortgage portfolio: drawn exposures	19,030	(77)	(77)
- Maltese Mortgage portfolio: undrawn commitments	37,504	-	-
Investments measured at amortised cost			
- Securities portfolio	119,836	(136)	107
- Securitisation portfolio	179,236	(140)	11
Other accrued income	10,992	(2)	-
Summary of financial instruments to which the impairment requirements in IFRS 9 are applied through profit or loss	3,578,235	(23,462)	(2,450)
Investments measured at fair value through other comprehensive income			
- Securities portfolio	650,217	(27)	156
- Securitisation portfolio	327,110	(32)	(32)
Total credit loss allowance/total income statement ECL charge for the year		**(23,521)**	**(2,326)**

Credit loss allowances attributable to loans and advances to customers

The following table shows the credit loss allowances on loans and advances to customers recognised on the Group's balance sheet as at 31 December 2022 and 2021, excluding credit loss allowances on accrued interest and other credit-related commitments, analysed by stage distribution.

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

Notes to the financial statements

	MeDirect Malta Group			
	Stage 1 €000	Stage 2 €000	Stage 3 €000	Total €000
As at 31 December 2021				
International Corporate Lending portfolio	2,130	3,855	15,470	21,455
Dutch Mortgage portfolio	71	62	16	149
Maltese Business Lending portfolio	106	15	113	234
Maltese Mortgage portfolio	77	-	-	77
	2,384	3,932	15,599	21,915

The movement in credit loss allowances and the ECL charge for the financial year ended 31 December 2022 and 2021 are analysed in detail in the tables presented in the previous section.

During the financial year ended 31 December 2022, interest income amounting to €4.2 million (2021: €5.1 million) of the Group was recognised in profit or loss on credit-impaired loans.

2.2.4 Loans and advances to customers with renegotiated terms and the Group's forbearance policy

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

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

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

A concession is defined in the European Banking Authority ("EBA") final draft Implementing Technical Standards (2014) and further set out in the EBA final guidance on Management of Non-performing and Forborne Exposures (2018), which refer to either of the following actions:

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

The revised terms usually applied by the Group include extending the maturity, amending the terms of loan covenants and partial write-offs where there is reasonable financial evidence to demonstrate the borrower's inability to repay the loan in full. MeDirect Malta's Management Credit Committee regularly reviews reports on forbearance activities.

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

Typically, the Group either categorises a forborne exposure as performing or classifies the exposure as forborne non-performing if unlikely-to-pay indicators are evidenced, as outlined in the Non-Performing and Default Exposure section of the Group's Credit Policy.

Renegotiated loans can be classified as non-credit-impaired where the renegotiation has resulted from significant concern about a borrower's ability to meet their contractual payment terms, but the renegotiated terms are based on current market rates and contractual cash flows are expected to be collected in full following the renegotiation.

Notes to the financial statements

Non-credit-impaired renegotiated loans also include previously impaired renegotiated loans that have demonstrated satisfactory performance over a period of time or have been assessed based on all available evidence as having no remaining indicators of impairment.

On renegotiation, where the existing agreement is cancelled and a new agreement is made on substantially different terms, or if the terms of an existing agreement are modified, such that the renegotiated loan is substantially a different financial instrument, the loan would be derecognised and a new loan is recognised, for accounting purposes. However, newly recognised loans retain the "non-performing forborne" classification for regulatory reporting purposes.

When determining whether a loan that is restructured should be derecognised and a new loan recognised, the Group considers the extent to which the changes to the original contractual terms result in the renegotiated loan, considered as a whole, being a substantially different financial instrument.

As outlined previously, renegotiated loans that are classified as credit-impaired/Stage 3 exposures at the renegotiation date which have not had a substantial modification in terms, are not derecognised and remain disclosed as credit-impaired/Stage 3 exposures until there is sufficient evidence of cure to demonstrate a significant reduction in the risk of non-payment of future cash flows observed over a one-year period and there are no other indicators of impairment. In contrast, when substantial modification has been made to the terms of the renegotiated loan, the old financial asset is derecognised and a new financial asset is recognised, the latter being classified as a Stage 1 asset unless originated credit-impaired, in which case it is classified as a POCI financial asset.

During the previous year it was determined that substantial modifications were deemed to have occurred in respect of a renegotiated loan with a pre-restructuring gross carrying amount of €11.3 million, thereby requiring derecognition in accordance with the principles emanating from IFRS 9. Group balances amounting to €3.4 million were written off in 2021 as at the date of renegotiation. The new financial assets attributable to these exposures was classified as Stage 1 on the basis that contractual cash flows under the renegotiated terms are expected to be recovered in full.

In response to the outbreak of the pandemic, during the financial year ended 31 December 2020, a number of government support schemes and regulatory relief measures were implemented. This is particularly relevant in the context of the Maltese Business Lending portfolio, which comprises exposures that benefited from the granting of government induced moratoria on capital and/or interest payments aimed at providing relief to individual and corporate customers to enable them to overcome temporary liquidity constraints. In this regard, during 2020 the Central Bank of Malta issued Directive No. 18 in order to provide guidance on the treatment of such instances, in line with European Banking Authority ('EBA') Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the Covid-19 crisis (the 'EBA Guidelines'). Moratoria meeting the conditions emanating from Directive No. 18 and the EBA Guidelines are referred to as general payment moratoria. As a consequence of the protracted impact of the Covid-19 pandemic, on 14 January 2021 the Central Bank of Malta reactivated Directive 18 by reopening the application period for moratoria until 31 March 2021. Under the amendments introduced during 2021, first time applicants were eligible for moratoria of maximum durations of up to nine months from the application date, whereas existing moratoria were allowed to be extended for a further six months as long as the total moratorium period would not exceed nine months.

In line with the guidelines mentioned above, borrowers availing themselves of general payment moratoria are not classified as renegotiated/forborne loans, unless such borrowers were already experiencing financial difficulties prior to the granting of the general payment moratorium, in which case the exposure would be classified as non-performing forborne / Stage 3.

Nevertheless, the regulatory relief measure afforded to exposures benefiting from a general payment moratorium does not automatically lead to a Stage 1 classification, nor does the granting of the general payment moratorium automatically trigger the assumption that credit deterioration has occurred, requiring a downgrade in classification to Stage 2. In this respect and in accordance with the requirements emanating from Directive No. 18 and the EBA Guidelines, the Group performed an assessment on the basis of available information in order to determine whether the financial difficulties being experienced by borrowers benefiting from a general payment moratorium are temporary in nature. If, notwithstanding the granting of the general payment moratorium, the impact of the pandemic was deemed to have led to a more permanent deterioration in the borrower's financial condition, the exposure was downgraded to Stage 2 or Stage 3, depending on the magnitude of the assessed impact. In case of extensions of general payment moratoria beyond the maximum period prescribed by Directive No. 18, such exposures are considered to be renegotiated / forborne.

No similar COVID-19 relief measures are applicable in respect of exposures classified within the Dutch Mortgage portfolio and, in this regard, the treatment of modifications and renegotiations of such exposures follows the regular principles established in the Group's accounting and credit policies.

Notes to the financial statements

As at 31 December 2022 and 2021, none of the exposures within the Maltese Mortgage portfolio, the Dutch Buy to Let Mortgage portfolio, the Belgian Mortgage portfolio, Securities Investment and Securitisation Investment portfolios were forborne reflecting the fact that both the Securitisation Investment portfolio and the Securities Investment portfolio principally comprise of investment-grade exposures and that the Maltese, the Dutch Buy to Let mortgage and Belgian Mortgage portfolios are relatively new portfolios. In this regard, any amounts disclosed in this section relate to forbearance activity within the International Corporate Lending, Dutch Mortgage and Maltese Business Lending portfolios.

The following table shows the carrying amount of the Group's loans and advances to customers classified within the International Corporate Lending and Maltese Business Lending portfolios reflecting forbearance activity, by stage and by past due status. For the avoidance of doubt, exposures benefiting from a general payment moratorium meeting the conditions established within Directive No. 18 and the EBA Guidelines are classified as non-forborne exposures in the table below.

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

Notes to the financial statements

MeDirect Malta Group	International Corporate Lending portfolio		Maltese Business Lending portfolio		
	Non-forborne exposures €000	Forborne exposures €000	Non-forborne exposures €000	Forborne exposures €000	Total €000
As at 31 December 2021					
Stage 1					
Neither past due nor credit-impaired	276,284	67,727	-	-	344,011
Past due but not credit-impaired					
- by up to 30 days	-	-	89,080	-	89,080
Stage 2					
Neither past due nor credit-impaired	77,449	97,300	3,409	312	178,470
Past due but not credit-impaired					
- by up to 30 days	-	-	1,022	944	1,966
- by up to 60 days	-	-	17	-	17
Stage 3					
Credit-impaired, net of credit loss allowances	20,185	60,399	1,041	10,422	92,047
Loans and advances to customers, net of Stage 3 credit loss allowances	**373,918**	**225,426**	**94,569**	**11,678**	**705,591**
Stage 1 credit loss allowances	1,280	850	106	-	2,236
Stage 2 credit loss allowances	1,258	2,597	15	-	3,870
Stage 3 credit loss allowances	6,651	8,819	112	1	15,583

During the financial year ended 31 December 2021, general payment moratoria meeting the criteria emanating from Directive No. 18 and the EBA Guidelines were granted to 6 borrowers in respect of gross exposures amounting to €5.8 million. As at 31 December 2022, there were no exposures subject to general payment moratoria within the Maltese Business Lending portfolio given that in terms of the Directive, applications for such moratoria ended on 31 March 2021 and could only be granted for a maximum period of 9 months.

As at 31 December 2022 and 2021 no forborne exposures within the Maltese Business Lending portfolio were benefitting from general payment moratoria.

In May 2020, MeDirect Malta launched the MeAssist lending product to enhance access to bank financing to corporate customers in the Group's Maltese Business Lending portfolio in Malta. Individual loan facilities offered in the form of working capital facilities granted to assist customers with their operational requirements in view of the market disruptions brought about by the outbreak of the COVID-19 pandemic under this product are up to 90% secured by guarantees provided under the MDB CGS, capped at 50% of the actual portfolio volume. In this respect, total commitments entered into with corporate customers within the Group's Maltese Business Lending portfolio meeting the criteria of the MeAssist lending product amounted to €1.4 million as at 31 December 2022 (2021: €1.4 million), of which €0.5 million (2021: €0.5 million) was drawn down and classified in Stage 1 and €0.9 million was classified in Stage 3 (2021: €0.9 million).

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

Notes to the financial statements

MeDirect Malta Group	Dutch Mortgage Portfolio		Belgian Mortgage Portfolio		
	Non-forborne exposures €000	Forborne exposures €000	Non-forborne exposures €000	Forborne exposures €000	Total €000
As at 31 December 2022					
Stage 1					
Neither past due nor credit-impaired	1,810,834	-	107,286	-	1,918,120
Past due but not credit-impaired:					
- by up to 30 days	-	-	23,056	-	23,056
Stage 2					
Neither past due nor credit-impaired	1,790	3,877	-	352	6,019
Past due but not credit-impaired:					
- by more than 30 days and up to 90 days	1,179	-	1,436	-	2,615
Stage 3					
Credit-impaired, net of credit loss allowances	-	499	-	-	499
Loans and advances to customers, net of Stage 3 credit loss allowances	1,813,803	4,376	131,778	352	1,950,309
Stage 1 credit loss allowances	106	-	114	-	220
Stage 2 credit loss allowances	63	8	8	8	87
Stage 3 credit loss allowances	-	7	-	-	7

MeDirect Malta Group	Dutch Mortgage Portfolio		
	Non-forborne exposures €000	Forborne exposures €000	Total €000
As at 31 December 2021			
Stage 1			
Neither past due nor credit-impaired	1,638,068	-	1,638,068
Past due but not credit-impaired:			
- by up to 30 days	1,168	-	1,168
Stage 2			
Neither past due nor credit-impaired	-	782	782
Past due but not credit-impaired:			
- by more than 30 days and up to 90 days	1,842	879	2,721
Stage 3			
Credit-impaired, net of credit loss allowances	408	-	408
Loans and advances to customers, net of Stage 3 credit loss allowances	1,641,486	1,661	1,643,147
Stage 1 credit loss allowances	71	-	71
Stage 2 credit loss allowances	33	29	62
Stage 3 credit loss allowances	16	-	16

As at 31 December 2022 and 2021, all exposures within the Maltese Mortgage portfolio were classified as Stage 1 – neither past due nor credit-impaired. In addition, none of the exposures classified therein were forborne as at 31 December 2022 and 2021.

As at 31 December 2022, total gross forborne loans and advances to customers as a percentage of total gross loans and advances to customers of the Group were equivalent to 4.5% (2021: 10.6%).

Interest income recognised by the Group during the financial year ended 31 December 2022 in respect of forborne exposures amounted to €8.9 million (2021: €13.8 million).

Notes to the financial statements

The movement in the gross carrying amount of forborne loans and advances to customers, before credit loss allowances is analysed below:

	MeDirect Malta Group	
	2022	2021
	€000	€000
Year ended 31 December		
At beginning of year	**247,585**	328,514
Loans to which forbearance measures have been extended during the year/period without derecognition	**12,934**	40,876
Capitalised interest	**10,347**	5,234
Capitalised fees	**(29)**	(60)
Repayments or disposals	**(65,262)**	(86,532)
Derecognised forborne loans due to further forbearance measures	**-**	(19,209)
Loans exiting forborne status during the year without derecognition	**(85,742)**	-
Newly recognised loans as a result of forbearance measures	**-**	7,896
Write-offs	**(15,341)**	(38,017)
Write-backs	**6,338**	-
Amortisation of premium or discount	**692**	1,855
Exchange differences	**(3,464)**	7,028
At end of year	**108,058**	247,585

Capitalised fees included in the table above reflect amounts disbursed by customers in relation to the origination of the exposure. Such amounts are recognised as part of the gross carrying amount of the exposure in the form of deferred income and amortised over the life of the instrument.

As at 31 December 2022, credit loss allowances in respect of the Group's forborne loans were equivalent to €4.3 million (2021: €12.3 million). Additions to credit loss allowances on forborne loans during the year ended 31 December 2022 amounted to €1.6 million (2021: €6.1 million). Reversals of credit loss allowances on forborne loans during the year ended 31 December 2022 amounted to €9.6 million (2021: €26.2 million).

The following tables show the gross carrying amounts of the Group's holdings of renegotiated loans and advances to customers analysed by industry sector and stage:

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

Notes to the financial statements

	MeDirect Malta Group			
	Stage 1 €000	Stage 2 €000	Stage 3 €000	Total €000
As at 31 December 2021				
Accommodation and food service activities	-	18,692	-	18,692
Administrative and support services	-	-	22,620	22,620
Real estate and construction	-	1,256	10,423	11,679
Financial and insurance activities	26,940	35,873	45,219	108,032
Human health and social work activities	14,931	-	-	14,931
Information and communication	-	16,893	-	16,893
Manufacturing	16,471	11,935	-	28,406
Professional, scientific and technical activities	9,385	13,907	-	23,292
Households and individuals	-	1,661	-	1,661
Wholesale and retail trade; Repair of motor vehicles and motorcycles	-	-	1,379	1,379
	67,727	**100,217**	**79,641**	**247,585**

The Group's forborne loans classified within the International Corporate Lending portfolio as at 31 December 2022 consist of corporate exposures based in Europe, amounting to €74.5 million (2021: €198.2 million) , and in the United States, amounting to €8.0 million (2021: €23.8 million). The forborne loans classified within the Maltese Business Lending portfolio are mainly categorised as exposures to corporate customers within the real estate and construction sector. Forbearance measures in respect of exposures classified within the Dutch Mortgage portfolio are limited to payment arrangements, allowing customers to repay the amounts in arrears in addition to the regular monthly instalment. Past due amounts are thereby regularised within an agreed number of months. The forborne loans classified within the Dutch Mortgage portfolio are categorised as exposures to households and individuals in the tables above.

2.2.5 Write-offs

Financial assets written off by the Group during the financial year ended 31 December 2022 amounted to €7.7 million (2021: €38 million) and were all resulting from renegotiations of financial instruments as described in further detail in note 2.2.4 – "Loans and advances to customers with renegotiated terms and the Group's forbearance policy".

2.2.6 Collateral

The Group holds collateral against loans and advances to customers classified under the Maltese Business Lending and the Dutch, Belgian and Maltese Mortgage portfolios in the form of hypothecary rights over immovable assets, and registered rights over movable assets and guarantees. The assets held as collateral are assigned a fair value at the time of credit approval. The assigned value is regularly monitored to identify assets that need revaluation.

Depending on the customer's standing and the type of product, in certain circumstances facilities may be provided on an unsecured basis, although the Group has limited appetite for such agreements. In most lending facilities, a charge over collateral is obtained and considered in determining the credit risk appetite and risk-return profile of all lending decisions. In the event of a default, the Group may utilise the collateral as a source of repayment. Depending on its form, collateral can have a significant financial effect in mitigating exposure to credit risk.

Collateral received by the Group includes residential and commercial property, as well as financial collateral such as debt securities and cash on deposit. The immovable property collateral received in respect of exposures within the Maltese Business Lending, the Maltese mortgage, the Dutch Mortgage portfolios and the Belgian Mortgage portfolios are mainly located in Malta, the Netherlands and Belgium respectively.

Exposures meeting the eligibility criteria of the MeAssist lending product launched by MeDirect Malta to aid Maltese corporate customers classified within the Maltese Business Lending portfolio in the aftermath of the outbreak of the pandemic benefit from unfunded credit risk protection in the form of guarantees covering up to 90% of individual exposure amounts capped at 50% of the portfolio and provided under the MDB CGS.

Notes to the financial statements

The following tables show the gross carrying amount (before credit loss allowances) of the loans and advances to customers classified under the Maltese Business Lending portfolio by level of collateral expressed through the loan-to-value ("LTV") ratio. The collateral measured for the purposes of the tables below consists of fixed first charges on real estate, and charges over cash and marketable financial instruments, as well as guarantees provided under the MDB CGS. The collateral amounts represent the expected market value on an open market basis for real estate: no adjustment has been made to the collateral for any expected costs of recovery. Cash is valued at its nominal value and marketable securities at their fair value. If an exposure is fully cash secured (100% LTV), no ECL is measured in this respect, whereas ECL is calculated on exposures which are partially cash secured and having a LTV ratio less than 100%. Guarantees provided in respect of the MeAssist lending product under the MDB CGS are shown at 90% of the guaranteed exposure amount.

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

Notes to the financial statements

MeDirect Malta Group	Non-forborne		Forborne		Total	
	Gross carrying amount €000	Credit loss allowance €000	Gross carrying amount €000	Credit loss allowance €000	Gross carrying amount €000	Credit loss allowance €000
As at 31 December 2021						
Stage 1						
a) Not collateralised	712	(14)	-	-	712	(14)
b) Fully collateralised						
- Up to 50% LTV	46,834	(1)	-	-	46,834	(1)
- 51% to 75% LTV	31,984	(48)	-	-	31,984	(48)
- 76% to 90% LTV	4,725	(16)	-	-	4,725	(16)
- 91% to 100% LTV	1,825	(11)	-	-		
c) Partially collateralised						
Greater than 100% LTV	3,000	(16)	-	-	3,000	(16)
	89,080	**(106)**	**-**	**-**	**87,255**	**(95)**
Stage 2						
a) Fully collateralised						
- Up to 50% LTV	1,039	-	1,256	-	2,295	-
- 51% to 75% LTV	3,409	(15)	-	-	3,409	(15)
	4,448	**(15)**	**1,256**	**-**	**5,704**	**(15)**
Stage 3						
a) Not collateralised	2	(18)	55	(1)	57	(19)
b) Fully collateralised						
- Up to 50% LTV	262	(5)	1,214	-	1,476	(5)
- 76% to 90% LTV	-	-	2,547	-		2,547
- 91% to 100% LTV	889	(89)	-	-	889	(89)
- greater than 100% LTV	-	-	6,607	-	6,607	-
	1,153	**(112)**	**10,423**	**(1)**	**11,576**	**(113)**

The following table shows the gross carrying amount (before credit loss allowances) of the loans and advances to customers classified under the Dutch Mortgage portfolio by level of collateral expressed through the LTV ratio. The collateral measured for the purposes of the table below consists of fixed first charges on real estate.

Notes to the financial statements

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

MeDirect Malta Group	Non-forborne		Forborne		Total	
	Gross carrying amount €000	Credit loss allowance €000	Gross carrying amount €000	Credit loss allowance €000	Gross carrying amount €000	Credit loss allowance €000
As at 31 December 2021						
Stage 1						
a) Fully collateralised						
- Up to 50% LTV	33,290	-	-	-	33,290	-
- 51% to 75% LTV	238,738	(7)	-	-	238,738	(7)
- 76% to 90% LTV	373,003	(16)	-	-	373,003	(16)
- 91% to 100% LTV	896,559	(43)	-	-	896,559	(43)
b) Partially collateralised						
- greater than 100%	97,646	(5)	-	-	97,646	(5)
	1,639,236	**(71)**	**-**	**-**	**1,639,236**	**(71)**
Stage 2						
a) Fully collateralised						
- 51% to 75% LTV	124	(1)	119	(4)	243	(5)
- 76% to 90% LTV	223	-	133	-	356	-
- 91% to 100% LTV	1,307	(31)	956	(7)	2,263	(38)
b) Partially collateralised						
- greater than 100%	188	(1)	453	(18)	641	(19)
	1,842	**(33)**	**1,661**	**(29)**	**3,503**	**(62)**
Stage 3						
a) Fully collateralised						
- 51% to 75% LTV	267	(10)	-	-	267	(10)
- 76% to 90% LTV	157	(6)	-	-	157	(6)
	424	**(16)**	**-**	**-**	**424**	**(16)**

Notes to the financial statements

The following table shows the gross carrying amount (before credit loss allowances) of the loans and advances to customers classified under the Belgian Mortgage portfolio by level of collateral expressed through the LTV ratio. The collateral measured for the purposes of the table below consists of fixed first charges on real estate.

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

The following table shows the gross carrying amount (before credit loss allowances) of the loans and advances to customers classified under the Maltese Mortgage portfolio by level of collateral expressed through the LTV ratio. The collateral measured for the purposes of the table below consists of fixed first charges on real estate.

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

Notes to the financial statements

MeDirect Malta Group	Non-forborne		Forborne		Total	
	Gross carrying amount €000	Credit loss allowance €000	Gross carrying amount €000	Credit loss allowance €000	Gross carrying amount €000	Credit loss allowance €000
As at 31 December 2021						
Stage 1						
a) Fully collateralised						
- Up to 50% LTV	2,923	(4)	-	-	2,923	(4)
- 51% to 75% LTV	7,147	(13)	-	-	7,147	(13)
- 76% to 90% LTV	8,609	(19)	-	-	8,609	(19)
- 91% to 100% LTV	351	(41)	-	-	351	(41)
	19,030	**(77)**	**-**	**-**	**19,030**	**(77)**

As at 31 December 2022 the Group held senior secured loans to international borrowers classified under the International Corporate Lending portfolio which amounted to €0.5 billion (2021: €0.6 billion). In respect of such financial assets, the Group normally has a right over the borrower's unencumbered assets.

All the Group's exposures classified under the Securities Investment portfolio as at 31 December 2022 and 2021 are unsecured with the exception of a sub-portfolio of covered bonds amounting to €386.8 million (2021: €471.2 million), which are backed by a separate group of assets in the form of loans. Similarly, all exposures classified under the Securitisation Investment portfolio as at 31 December 2022 and 2021 are also backed by a separate group of assets in the form of loans.

2.2.7 Current Conditions and Forward-looking information incorporated in the ECL model

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

The modelling methodology used by the Group in the measurement of credit loss allowances in respect of Stage 1 and Stage 2 exposures leverages current and multiple scenarios of future projections of macroeconomic data beyond the reporting date in order to determine point-in-time PDs and incorporate forward-looking information. Statistical models used are developed by an external vendor.

As explained in more detail in Note 1.5 of the financial statements, for the International and Maltese Corporate Lending and Securities portfolios the models use rating scale to TTC PD matrices calibrated on the basis of an underlying dataset of market observations to firstly determine a TTC PD and accordingly an implied rating for each borrower. The TTC PD/implied rating is determined by calibrating borrowers' financial and non-financial profile with those of observable rated peers. An exposure's implied rating is then converted to an unconditional PiT PD using a methodology which utilises market capitalisation/equity volatility and leverage of comparable firms, with shocks to a firm's stock price translated into corresponding shocks to the credit risk metric attributable to the underlying exposure. Therefore, equity market performance is a key variable for incorporating current conditions into the Group's ECL modelling methodology, particularly in the conversion from TTC to PiT PDs.

The methodology then utilises macroeconomic correlation models in order to determine the historical correlation of a borrower's financial performance with overall country or region-level macroeconomic conditions, with the correlation factors estimated principally by reference to borrower size as well as the industry in which the borrower operates. Multiple macroeconomic forecasts developed by an external vendor are then applied to PiT PDs to produce probability-weighted forward-looking conditioned PiT PDs in line with the requirements of IFRS 9. The conditioning of PDs by reference to multiple macroeconomic scenarios reflects forecasted quarter-on-quarter changes in macroeconomic variables (such as GDP, unemployment and HPI) over the PD term structure of the exposure. The Group's modelling methodology therefore estimates a point-in-time and forward-looking measure of default risk. The same methodology is also used to estimate PiT LGDs.

Input parameters similar to those of the Corporate and Securities portfolios do not exist for determining implied ratings of the Maltese Business Lending portfolio, mainly due to existing data limitations within the Maltese market. Therefore, implied ratings are assigned by the Credit Risk team using professional judgement by reference to default rates experienced in similar markets as well as the financial performance and position of the borrower in relation to financial performance and position at origination. A similar approach to that adopted for Corporate and Securities portfolios is applied to determine conditional PiT PDs, using the TTC implied risk ratings based on internal risk classifications by the Credit Risk team which are then adjusted to PiT forward looking PDs as described above.

For Dutch residential mortgages, PiT PDs and LGDs are determined using loan and borrower characteristics such as loan-to-value ('LTV') and loan-to-income ('LTI') inputs, calibrated based on historical data of proxy NHG loans from RMBS transactions which are adjusted to incorporate current and forward-looking macroeconomic variables and data such as unemployment rates, real GDP growth and the House Price Index.

PiT PDs for Maltese mortgages are based on the actual six months lagged NPL ratio published by the Central Bank of Malta in its Financial Stability Report adjusted to incorporate forward-looking macroeconomic variables including unemployment rates, real GDP growth and the House Price Index.

For the Belgian mortgages, the PiT PDs are mainly based on the actual NPL ratio published by the European Banking Authority in its Risk Dashboard Report adjusted to incorporate forward-looking macroeconomic variables including unemployment rates, real GDP growth and the House Price Index.

In respect of defaulted / Stage 3 exposures classified within the International Corporate Lending portfolio, the Group utilises an internally developed discounted cash flow methodology in order to estimate the net present value of forecasted operating cash flows under multiple forward-looking scenarios discounted using the borrower-specific weighted average cost of capital ("WACC"). In this regard, forward-looking expectations based on the impact of changing macroeconomic conditions on the borrower are reflected in multiple scenarios of operating cash flows developed by management, which are discounted and probability-weighted in accordance with the requirements of IFRS 9.

Similarly, the expected recoveries in respect of defaulted / Stage 3 exposures classified within the Maltese Business Lending portfolio are estimated by reference to multiple work-out options determined on the basis of an individual borrower assessment and taking into consideration the impact of macroeconomic conditions on the recoverable amount under each scenario.

Notes to the financial statements

The model used to measure credit loss allowances in respect of all exposures classified within the Dutch, Belgian and Maltese Mortgage portfolio estimates PDs and LGDs by reference to historical information observed in that jurisdiction for similar assets as well as multiple forward-looking macroeconomic forecasts for the respective economy developed by the external vendor.

As at 31 December 2022, a degree of uncertainty remains as a mild contraction in the economic activity is expected owing to surging energy and food prices caused by the conflict between Russia and Ukraine combined with rapid tightening of monetary policy by the ECB. In this respect, the macroeconomic modelling aspect within the estimation of ECLs has been particularly affected by the Russia Ukraine conflict, and the forecasting of economic conditions is still subject to an inherent level of risk and highly subjective.

This has required an elevated level of review and expert judgement to ensure that the macroeconomic methodology used by the Group results in plausible scenarios which adequately capture the risks resulting from the end of the pandemic and the military conflict between Russia and Ukraine to the best extent possible.

Significant judgement is therefore still required in the determination of macroeconomic forecasts reflecting potential future economic conditions under different scenarios and their impact on PDs and LGDs.

Forecasts of future economic conditions

The Group applies macroeconomic scenarios sourced from an external vendor to the PD and LGD term structures for the estimation of credit loss allowances in respect of Stage 1 and Stage 2 exposures classified within the International Corporate Lending and Maltese Business Lending portfolios, as well as in respect of all exposures classified within the Dutch Mortgage, Belgian Mortgage, Maltese Mortgage, Securities Investment and Securitisation Investment portfolios. The macroeconomic scenarios represent the Group's view of the range of potential outcomes, and application of these scenarios captures the non-linearity of expected credit losses under different scenarios for all portfolios.

The Group has chosen three macroeconomic scenarios that include a central, or baseline, scenario and two "alternative" scenarios to reflect upside and downside scenarios. The scenarios are constructed by the external vendor based on a target severity for each of the scenarios. While the baseline scenario is by design in the middle of possible future economic outcomes, the alternative scenarios capture alternative economic conditions that are equally distanced from the baseline in terms of their severity as per the assumptions of the external vendor. After their construction, the scenarios are each assigned probability weights based on the external vendor's severity distribution and on how well they approximate (simulated) possible future economic developments. The scenarios are generated/refreshed on a quarterly basis.

The macroeconomic scenarios used in the Group's modelling of credit loss allowances reflect possible macroeconomic paths taking into consideration a range of potential economic impacts driven by epidemiological assumptions in respect of future waves of the pandemic, monetary policy assumptions regarding the ECB tightening of the policy rates, as well as the continuation of the conflict between Russia and Ukraine. Therefore, economic forecasts remain subject to a high degree of uncertainty in the current environment.

In the aftermath of the outbreak of the COVID-19 pandemic and with the current Russia-Ukraine conflict, more rigorous monitoring of macroeconomic forecasts developed by the external vendor was performed by the Group in order to challenge the adequacy and reasonableness of the developed scenarios. In this respect, the macroeconomic scenarios were reviewed on a quarterly basis in full consideration of the guidance issued by the ECB to Significant Institutions on 1 April 2020 ("IFRS 9 in the context of the coronavirus (COVID-19) pandemic").

The scenarios have been benchmarked and assessed against the macroeconomic forecasts for the Euro area published by the ECB, in line with ECB guidance, with the latest publication available being the one published in December 2022. In this respect, the Group's forward-looking macroeconomic scenarios are deemed to be aligned with the ECB's macroeconomic forecasts for the Euro area. Therefore, necessary adjustments were made to the number, selection, and probability weightings of macroeconomic forecasts from externally sourced modelled scenarios.

As at 31 December 2022, Management selected to use three scenarios developed and recommended by the external vendor which are deemed to be mostly aligned with the December 2022 ECB Staff projections. Specifically, Management selected the Baseline, the Upside, and the Downside 2 scenarios. In the preceding year, Management had selected the Baseline, the Upside, the Downside 1 and Downside 2 scenarios.

Notes to the financial statements

The scenarios used for the purposes of determining the ECL as at 31 December 2022 are described below.

Baseline

- Economy experiences a growth recession, with growth suffering from the effects of energy crisis combined with a rapid tightening of monetary policy
- Global oil prices remain around current levels until mid-2023
- Natural gas prices remain extremely high
- Businesses and households conserve energy but there is no need for gas rationing
- Supply chain bottlenecks ease throughout the second half of 2022 but do not completely abate before 2023
- Inflation peaks during the fall and starts declining afterwards. The decline is drawn-out over the whole of 2023, and core inflation does not fall back to 2% before 2024.

Downside 1

- The fading of the pandemic and geopolitical tensions leads to a strong rebound in demand
- The supply side of the economy expands robustly, driven by productivity gains, while slack in the economy proves more substantial than initially thought, allowing output to expand quickly without causing higher inflation
- Global energy prices are slightly higher than in the baseline, reflecting stronger demand that is met by robust supply

Downside 2

- Geopolitical tensions caused by the conflict between Russia and Ukraine escalating further, causing a sharp deterioration in the economic sentiment
- Policy disagreements between the U.S. and China worsen, leading to barriers to shipping along the Taiwan Strait. The disruption further damages supply chains and exacerbate shortages for manufactured goods, pushing up prices
- Escalating geopolitical tensions combined with pressure on private and public finances lead to the re-emergence of domestic political tensions that cause a selloff in financial markets
- A sustained period of low investment in innovative industries and human capital weighs on productivity growth, eroding the economy's potential

The year-on-year forecasts for 2022 to 2025 for key macro-economic variables (MEVs) under each of the scenarios described above together with the MEVs for the Severe Upside and Severe Downside scenarios are disclosed below.

Moreover, during 2022, Management has re-calibrated its probability weights with the severity of the scenarios. In this respect, the Group's weighting allocation approach is that weights represent the share of outcomes that are best approximated by a scenario (not the likelihood of a specific scenario occurring). The Group has assigned the probability weightings to each scenario using the mid-point approach through which the probability weight assigned to each scenario would be dependent on the mid-points between the percentiles (representing the severity of the scenario) which each scenario represents along the distribution curve. Management selected this mid-point approach since it is an approach recommended by the external vendor and, the scenarios and probability weight chosen are deemed to be mostly aligned with the December 2022 ECB Staff projections.

The scenarios selected versus those selected in the prior year, together with the relative probability weightings relative to the severity distribution provided by the external vendor for each scenario, are disclosed in the table below:

External vendor Scenarios	Severe Upside	Upside	Baseline	Downside 1	Downside 2	Severe Downside
External Vendor Severity	96%	90%	50%	25%	10%	4%
Probability Weight 2021		25%	50%	20%	5%	
Probability Weight 2022		30%	40%		30%	

The following tables present the year-on-year growth rates for the key macroeconomic variables provided by the external vendor under the baseline and the five alternative scenarios referred to above for the measurement of ECL for all portfolios as at 31 December 2022 and 2021.

For the International Corporate Lending and Securities portfolios, MEVs are determined for each country, with the forecasted MEV data in respect of the countries to which the Group is mostly exposed being presented in the tables below. Eurozone MEVs are used in some cases, rather than country-level MEVs, as the former are deemed to have a higher correlation to the country specific portfolio assets. For exposures within the Maltese Business Lending portfolio and the Maltese Mortgages portfolio, Malta-specific MEVs are used for the measurement of credit loss allowances. The key MEVs used for the estimation of ECL for exposures classified within the Corporate and Securities portfolios comprise real GDP growth, the performance of stock market indices and unemployment rates.

Notes to the financial statements

With respect to the Dutch Mortgage portfolio, the Group utilises regional-level as well as national-level MEVs as appropriate in order to capture regional level peculiarities. The key MEVs used for the estimation of ECL in respect of exposures classified within the Dutch Mortgage portfolio comprise the House Price Index, unemployment rates and 10-year treasury rates, with the national level forecasts used in the ECL calculation being disclosed in the table hereunder.

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

With respect to the Maltese Residential Mortgages portfolio, the key MEVs used for the estimation of ECL are national levels of House Price Index, and Unemployment Rate and real GDP growth, and actual six months lagged NPL ratio published by the Central Bank of Malta in its Financial Stability Report.

The ECL model for the measurement of credit loss allowances in respect of exposures classified within the Securitisation Investment portfolio uses Euribor and GBP Libor 3-month and 1-month rates as well as the same MEVs used for the purposes of the International Corporate Lending portfolio, since the pool of underlying assets securing the Group's investment in CLO structured tranches is similar to the exposures classified within the International Corporate Lending portfolio.

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

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

Notes to the financial statements

Economic Scenarios: Year-on-Year Forecasts (2021-2024) for key MEVs

		International Lending & Securities												Maltese Lending				Dutch Mortgages				Belgian Mortgages			
		UK				US				Eurozone				Malta				Netherlands				Belgium			
	ECL Scenario	2021	2022	2023	2024	2021	2022	2023	2024	2021	2022	2023	2024	2021	2022	2023	2024	2021	2022	2023	2024	2021	2022	2023	2024
Key Drivers Real GDP - Growth %	Severe Upside	6.6%	9.1%	2.1%	1.3%	5.4%	8.6%	2.2%	1.6%	4.5%	6.9%	2.9%	1.6%	4.5%	6.4%	3.5%	2.4%	-	-	-	-	4.4%	7.9%	2.0%	0.6%
	Upside	6.6%	7.7%	1.7%	1.2%	5.4%	6.1%	1.5%	2.0%	4.5%	5.5%	2.4%	1.6%	4.5%	5.7%	2.8%	2.4%	-	-	-	-	4.4%	5.6%	2.0%	0.8%
	Baseline	6.6%	3.9%	3.1%	1.4%	5.4%	3.5%	2.9%	2.7%	4.5%	3.0%	2.4%	1.9%	4.5%	3.7%	2.8%	2.4%	-	-	-	-	4.4%	2.3%	2.3%	1.4%
	Downside 1	6.6%	0.4%	4.4%	1.8%	5.4%	1.1%	2.8%	2.9%	4.5%	1.4%	2.6%	2.1%	4.5%	2.5%	3.3%	2.5%	-	-	-	-	4.4%	1.1%	2.8%	1.5%
	Downside 2	6.6%	-2.3%	5.7%	2.4%	5.4%	-2.2%	2.8%	3.6%	4.5%	-2.6%	2.9%	2.8%	4.5%	-2.1%	3.5%	3.4%	-	-	-	-	4.4%	-3.5%	3.0%	2.3%
	Severe Downside	6.6%	-3.9%	5.4%	2.2%	5.4%	-3.8%	0.3%	3.7%	4.5%	-5.3%	3.3%	2.8%	4.5%	-5.0%	4.1%	3.6%	-	-	-	-	4.4%	-6.9%	3.8%	2.6%
Unemployment Rate - Average %	Severe Upside	4.6%	3.9%	2.7%	2.5%	5.4%	2.7%	2.5%	2.6%	8.3%	7.2%	6.6%	6.7%	3.7%	3.9%	4.1%	4.2%	3.2%	3.4%	3.3%	3.5%	6.3%	4.8%	3.3%	3.2%
	Upside	4.6%	4.4%	3.4%	3.4%	5.4%	3.3%	3.0%	3.1%	8.3%	7.5%	7.1%	7.1%	3.7%	4.0%	4.3%	4.5%	3.2%	3.4%	3.6%	3.7%	6.3%	5.1%	4.2%	4.3%
	Baseline	4.6%	4.8%	4.5%	4.4%	5.4%	3.6%	3.5%	3.6%	8.3%	8.0%	7.7%	7.7%	3.7%	4.0%	4.4%	4.6%	3.2%	3.6%	3.8%	4.0%	6.3%	5.5%	5.3%	5.5%
	Downside 1	4.6%	5.5%	5.6%	5.5%	5.4%	5.9%	4.3%	4.4%	8.3%	8.4%	8.4%	8.3%	3.7%	4.1%	4.4%	4.6%	3.2%	3.7%	4.1%	4.1%	6.3%	5.8%	5.7%	5.8%
	Downside 2	4.6%	5.7%	6.6%	6.6%	5.4%	7.7%	8.2%	6.2%	8.3%	9.3%	10.1%	10.0%	3.7%	4.2%	5.0%	5.3%	3.2%	3.9%	5.3%	5.4%	6.3%	6.3%	7.8%	8.4%
	Severe Downside	4.6%	6.2%	7.6%	7.2%	5.4%	7.9%	10.0%	9.4%	8.3%	10.0%	11.3%	11.4%	3.7%	4.3%	5.3%	5.9%	3.2%	4.1%	5.8%	6.5%	6.3%	6.8%	9.3%	10.4%
Stock Market Index - Growth %	Severe Upside	17.1%	10.8%	-2.7%	-0.3%	28.6%	8.9%	1.4%	3.6%	25.0%	18.6%	0.1%	-1.3%	3.4%	45.5%	3.5%	-0.3%	-	-	-	-	-	-	-	-
	Upside	17.1%	7.9%	-2.4%	-0.1%	28.6%	4.1%	1.2%	2.9%	25.0%	12.5%	0.1%	-1.2%	3.4%	33.4%	2.8%	1.0%	-	-	-	-	-	-	-	-
	Baseline	17.1%	-2.2%	0.2%	2.6%	28.6%	-9.2%	-1.9%	4.2%	25.0%	0.4%	0.9%	2.0%	3.4%	15.5%	2.8%	5.0%	-	-	-	-	-	-	-	-
	Downside 1	17.1%	-4.9%	0.1%	2.9%	28.6%	-12.2%	-2.3%	2.7%	25.0%	-6.5%	3.2%	2.7%	3.4%	5.4%	3.3%	10.1%	-	-	-	-	-	-	-	-
	Downside 2	17.1%	-20.4%	9.2%	8.3%	28.6%	-31.9%	8.9%	5.2%	25.0%	-22.4%	12.2%	6.8%	3.4%	-16.9%	3.5%	19.1%	-	-	-	-	-	-	-	-
	Severe Downside	17.1%	-33.5%	5.7%	12.2%	28.6%	-39.7%	0.6%	4.7%	25.0%	-37.3%	15.5%	11.8%	3.4%	-31.7%	4.1%	31.4%	-	-	-	-	-	-	-	-
10Yr Treasury Rate - Average %	Severe Upside	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-0.3%	0.4%	1.3%	2.4%	-	-	-	-
	Upside	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-0.3%	0.1%	0.8%	1.7%	-	-	-	-
	Baseline	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-0.3%	-0.1%	0.2%	0.7%	-	-	-	-
	Downside 1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-0.3%	-0.4%	-0.3%	0.4%	-	-	-	-
	Downside 2 -	-	-	-	-	-	-	-	-	-	-	-	-	-	-0.3%	-0.6%	-0.5%	-0.1%	-	-	-	-			
	Severe Downside	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-0.3%	-0.7%	-0.6%	-0.4%	-	-	-	-
House Price Index %	Severe Upside	-	-	-	-	-	-	-	-	-	-	-	-	-7.3%	8.9%	9.3%	0.7%	10.8%	3.3%	2.8%	-0.8%	10.8%	14.1%	7.5%	2.3%
	Upside	-	-	-	-	-	-	-	-	-	-	-	-	-7.3%	8.0%	7.2%	0.6%	10.8%	1.0%	0.9%	-1.5%	10.8%	12.1%	6.1%	2.5%
	Baseline	-	-	-	-	-	-	-	-	-	-	-	-	-7.3%	4.8%	5.5%	2.1%	10.8%	-0.1%	-0.7%	-1.4%	10.8%	8.6%	6.4%	3.9%
	Downside 1	-	-	-	-	-	-	-	-	-	-	-	-	-7.3%	2.4%	4.2%	2.7%	10.8%	-0.9%	-2.0%	-2.0%	10.8%	7.8%	5.8%	4.1%
	Downside 2	-	-	-	-	-	-	-	-	-	-	-	-	-7.3%	1.1%	3.2%	1.9%	10.8%	-5.4%	-7.2%	-3.5%	10.8%	7.6%	3.9%	2.8%
	Severe Downside	-	-	-	-	-	-	-	-	-	-	-	-	-7.3%	0.0%	1.5%	1.5%	10.8%	-7.1%	-12.2%	-6.6%	10.8%	8.2%	3.6%	1.4%

Notes to the financial statements

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

To ensure that the Group is adequately capturing the level of credit risk in its International Corporate Lending portfolio, an assessment was performed and the Group introduced caps to implied internal ratings to borrowers that have undergone distressed restructuring and where necessary have applied notch downgrades to exposures that are classified as 'Under Surveillance' through qualitative factors not captured by the models to reflect the increase in credit risk since origination.

Given the sensitivity of the models used by the Group to equity values of comparable firms in determining PiT PDs, the significant drop in equity prices during 2022 has led to a significant increase in PiT PDs within the Group's ECL model for Corporates.

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

ECL sensitivity analysis in respect of macroeconomic scenarios

Notwithstanding the significant number of assumptions and different aspects forming part of the Group's methodology for modelling credit loss allowances in respect of exposures classified within the Group's portfolios of financial instruments, the ECL measurement is deemed to be most sensitive to the inherent level of estimation uncertainty in respect of the modelling of macroeconomic forecasts.

The Group is hereby presenting the sensitivity analysis in respect of credit loss allowances attributable to Stage 1 and Stage 2 exposures classified within the International Corporate Lending portfolio as at 31 December 2022 and 2021, estimated by determining the range of credit loss allowances which would have been measured as at each date by assigning a 100% weighting to each of the macroeconomic scenarios developed by the external vendor, as presented in the table below.

Scenario sensitivity	Severe Upside	Upside	Baseline	Downside 1	Downside 2	Severe Downside
MeDirect Malta Group						
2022						
Probability Weight 2022	-	30%	40%	-	30%	-
ECL as at 31 December 2022	-	4,008,718	6,420,667	-	16,606,354	-
2021						
Probability Weight 2021	-	25%	50%	20%	5%	
ECL as at 31 December 2021	-	4,262,517	5,822,813	9,426,032	19,518,519	-

It is to be noted that the weighted average ECL cannot be reconciled by applying the relative probability weights to the ECL outcomes under each scenario since staging might change across the scenarios when using a 100% weighting (e.g. an exposure might be classified as Stage 2 in one out of five individual scenarios, and as Stage 1 in the weighted average scenarios).

The estimated weighted average ECL under each scenario as at 31 December 2022, presented in the table above, is not directly comparable with the estimated weighted average ECL under each scenario as at 31 December 2021, since the size of the International Corporate Lending portfolio decreased significantly compared to the prior financial year.

Although duly taken into consideration, the impact of macroeconomic scenarios on the measurement of credit loss allowances in respect of credit-impaired / Stage 3 exposures classified within the International Corporate Lending portfolio is less pronounced compared to other borrower-specific factors used to forecast operating cash flows under different scenarios. Accordingly, the sensitivity impact was not considered to be significant.

The sensitivity impact of macroeconomic scenarios on the ECL outcome measured in respect of exposures classified within the Dutch, Belgian and Maltese Mortgage, Maltese Business Lending, Securities Investment and Securitisation Investment portfolios is not considered to be significant taking cognisance of the level of credit loss allowances estimated at 31 December 2022 and 2021.

2.2.8 Concentration of credit risk exposures

2.2.8.1 Concentration of investment securities

Securities Investment portfolio

The Group's exposure to sovereign Eurozone government bonds as at 31 December 2022 represented 22.9% (2021: 23.2%), of the total investment securities within the Securities Investment portfolio.

Credit loss allowances for the Group amounting to €23 thousand were recognised in respect of these exposures as at 31 December 2022 (2021: €11 thousand).

The Group monitors concentrations of investment securities for credit risk by type of exposure. An analysis of concentrations of credit risk at the reporting date for the financial year ended 31 December 2022 and 2021 is shown below.

	Measured at amortised cost		Measured at fair value through other comprehensive income	
MeDirect Malta Group	**2022 €000**	2021 €000	**2022 €000**	2021 €000
Concentration by type				
As at 31 December:				
Carrying amount:				
Covered bonds	**387,035**	21,209	**-**	399,979
National and regional government	**135,590**	25,194	**-**	150,439
Supranational and agencies	**154,086**	60,970	**-**	99,799
Corporations	**12,035**	12,327	**-**	-
Total	**688,746**	119,700	**-**	650,217

Securitisation Investment portfolio

The Group's Securitisation Investment portfolio comprises the investment in GH1-2019 structured note tranches, amounting to €19.1 million as at 31 December 2022 (2021: €19.6 million), as well as CLO transactions managed by third-party entities, amounting to €555.1 million (2021: €487.8 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 27 different CLOs (2021: 22), all of which are also collateralised by a pool of leveraged loans.

As at 31 December 2022, credit loss allowances in respect of exposures classified under these two sub-portfolios and measured at amortised cost amounted to €0.2 million (2021: €0.2 million) and €0.1 million (2021: €0.1 million). The Group's investment in the equity tranche of GH1-2019, with a fair value of €0.6 million as at 31 December 2022 (2021: €1.1 million), is measured at FVTPL and accordingly is not subject to impairment in accordance with IFRS 9.

Notes to the financial statements

2.2.8.2 Concentration of loans and advances to customers

An analysis of concentration of loans and advances to customers by industry sector and geography is shown in the following tables.

As at 31 December 2022, exposures to UK counterparties classified under the International Corporate Lending portfolio and categorised as 'Other European countries' in the tables below amounted to €147.0 million (2021: €150.1 million).

Exposures classified under Maltese Business Lending, Maltese Mortgage, Dutch and Belgian Mortgage portfolios are categorised as EU exposures in the following tables with the Maltese Business Lending portfolio classified under "real estate activities" and "construction" sectors whereas the Dutch, Belgian and Maltese retail mortgage portfolio classified under the "household and individuals" sector.

MeDirect Malta Group	Gross carrying amount				Credit loss allowance			
	EU €000	Other European countries €000	North America €000	Total €000	EU €000	Other European countries €000	North America €000	Total €000
Stage 1								
As at 31 December 2022								
Activities of holding companies	15,039	-	-	15,039	(158)	-	-	(158)
Administrative and support service activities	8,484	-	-	8,484	(137)	-	-	(137)
Construction	7,894	-	-	7,894	(152)	-	-	(152)
Financial and insurance activities	114,181	48,479	30,358	193,018	(1,867)	(534)	(312)	(2,713)
Households and individuals	2,008,968	-	-	2,008,968	(415)	-	-	(415)
Human health and social work activities	14,960	-	-	14,960	(334)	-	-	(334)
Information and communication	10,001	14,433	-	24,434	(232)	(147)	-	(379)
Manufacturing	32,002	-	-	32,002	(349)	-	-	(349)
Professional, scientific and technical activities	48,679	32,068	-	80,747	(358)	(188)	-	(546)
Real estate activities	103,242	-	-	103,242	(208)	-	-	(208)
Transportation and Storage	8,964	-	-	8,964	(110)	-	-	(110)
Wholesale and retail trade, repairs of motor vehicles and motorcycles	11,889	-	7,976	19,865	(220)	-	(67)	(287)
	2,384,303	94,980	38,334	2,517,617	(4,540)	(869)	(379)	(5,788)
Stage 2								
As at 31 December 2022								
Accommodation and food service activities	-	17,704	-	17,704	-	(1,278)	-	(1,278)
Administrative and support service activities	10,000	-	-	10,000	(427)	-	-	(427)
Financial and insurance activities	12,311	11,410	-	23,721	(129)	(73)	-	(202)
Households and individuals	8,634	-	-	8,634	(87)	-	-	(87)
Information and communication	-	14,321	-	14,321	-	(229)	-	(229)
Real estate activities	11,662	-	-	11,662	(4)	-	-	(4)
Wholesale and retail trade, repairs of motorvehicles and motorcycles	-	11,845	-	11,845	-	(806)	-	(806)
	42,607	55,280	-	97,887	(647)	(2,386)	-	(3,033)

Notes to the financial statements

MeDirect Malta Group	Gross carrying amount				Credit loss allowance			
	EU €000	Other European countries €000	North America €000	Total €000	EU €000	Other European countries €000	North America €000	Total €000
Stage 3								
As at 31 December 2022								
Administrative and support service activities	-	-	9,220	9,220	-	-	(1,193)	(1,193)
Financial and insurance activities	16,687	-	17,123	33,810	(4,915)	-	(144)	(5,059)
Households and individuals	506	-	-	506	(7)	-	-	(7)
Real estate activities	16,161	-	-	16,161	(1)	-	-	(1)
Wholesale and retail trade, repairs of motor vehicles and motorcycles	351	-	-	351	(116)	-	-	(116)
	33,705	-	26,343	60,048	(5,039)	-	(1,337)	(6,376)
POCI								
As at 31 December 2022								
Financial and insurance activities	435	-	-	435	(224)	-	-	(224)
	435	-	-	435	(224)	-	-	(224)
Commitments to purchase financial assets, commitments to extend credit, guarantees and other commitments								
As at 31 December 2022								
Accommodation and food service activities	69	3,143	-	3,212	-	(22)	-	(22)
Administrative and support service activities	14,460	-	5,407	19,867	(34)	-	(640)	(674)
Construction	3,452	-	-	3,452	-	-	-	-
Financial and insurance activities	56,174	-	27,313	83,487	(213)	-	(161)	(374)
Households and individuals	201,753	-	-	201,753	(38)	-	-	(38)
Information and communication	-	8,584	-	8,584	-	(75)	-	(75)
Manufacturing	3,437	-	-	3,437	(14)	-	-	(14)
Professional, scientific and technical activities	10,060	-	-	10,060	(66)	-	-	(66)
Real estate activities	6,575	-	-	6,575	-	-	-	-
Wholesale and retail trade, repairs of motor vehicles and motorcycles	3,069	-	-	3,069	-	-	-	-
	299,049	11,727	32,720	343,496	(365)	(97)	(801)	(1,263)

Notes to the financial statements

MeDirect Malta Group	Gross carrying amount				Credit loss allowance			
	EU €000	Other European countries €000	North America €000	Total €000	EU €000	Other European countries €000	North America €000	Total €000
Stage 1								
As at 31 December 2021								
Administrative and support service activities	8,484	-	-	8,484	(57)	-	-	(57)
Construction	49,658	-	-	49,658	(74)	-	-	(74)
Financial and insurance activities	111,941	44,161	17,135	173,237	(742)	(316)	(89)	(1,147)
Households and individuals	1,658,271	-	-	1,658,271	(148)	-	-	(148)
Human health and social work activities	18,423	-	-	18,423	(249)	-	-	(249)
Manufacturing	38,630	-	-	38,630	(209)	-	-	(209)
Professional, scientific and technical activities	55,033	33,869	-	88,902	(199)	(184)	-	(383)
Real estate activities	39,422	-	-	39,422	(32)	-	-	(32)
Transportation and Storage	7,941	-	-	7,941	(43)	-	-	(43)
Wholesale and retail trade, repairs of motor vehicles and motorcycles	6,958	1,431	-	8,389	(37)	(5)	-	(42)
	1,994,761	79,461	17,135	2,091,357	(1,790)	(505)	(89)	(2,384)
Stage 2								
As at 31 December 2021								
Accommodation and food service activities	-	18,692	-	18,692	-	(1,253)	-	(1,253)
Construction	1,299	-	-	1,299	(1)	-	-	(1)
Financial and insurance activities	15,356	11,975	35,883	63,214	(431)	(183)	(274)	(888)
Households and individuals	3,503	-	-	3,503	(62)	-	-	(62)
Information and communication	-	27,250	-	27,250	-	(310)	-	(310)
Manufacturing	15,089	5,844	-	20,933	(551)	(246)	-	(797)
Professional, scientific and technical activities	44,660	-	-	44,660	(607)	-	-	(607)
Real estate activities	4,405	-	-	4,405	(14)	-	-	(14)
84,312	63,761	35,883	183,956	(1,666)	(1,992)	(274)	-	(3,932)
Stage 3								
As at 31 December 2021								
Administrative and support service activities	21,352	-	-	21,352	(1,846)	-	-	(1,846)
Construction	1,442	-	-	1,442	(1)	-	-	(1)
Financial and insurance activities	61,842	-	-	61,842	(10,514)	-	-	(10,514)
Households and individuals	424	-	-	424	(17)	-	-	(17)
Real estate activities	10,134	-	-	10,134	(112)	-	-	(112)
Wholesale and retail trade, repairs of motor vehicles and motorcycles	572	12,288	-	12,860	(181)	(2,928)	-	(3,109)
	95,766	12,288	-	108,054	(12,671)	(2,928)	-	(15,599)

Notes to the financial statements

MeDirect Malta Group	Gross carrying amount				Credit loss allowance			
	EU €000	Other European countries €000	North America €000	Total €000	EU €000	Other European countries €000	North America €000	Total €000
Commitments to purchase financial assets, commitments to extend credit, guarantees and other commitments								
As at 31 December 2021								
Accommodation and food service activities	-	3,318	-	3,318	-	(21)	-	(21)
Administrative and support service activities	18,566	-	-	18,566	(557)	-	-	(557)
Construction	58,325	-	-	58,325	(3)	-	-	(3)
Financial and insurance activities	80,266	-	37,343	117,609	(136)	-	(76)	(212)
Households and individuals	111,994	-	-	111,994	(4)	-	-	(4)
Information and communication	10,000	11,801	-	21,801	-	(81)	-	(81)
Manufacturing	5,846	-	-	5,846	(48)	-	-	(48)
Professional, scientific and technical activities	14,762	-	26,509	41,271	(57)	-	(30)	(87)
Transport and Storage	1,000	-	-	1,000	-	-	-	-
Wholesale and retail trade, repairs of motor vehicles and motorcycles	10,000	-	-	10,000	(145)	-	-	(145)
	310,759	15,119	63,852	389,730	(950)	(102)	(106)	(1,158)

2.2.9 Offsetting financial assets and financial liabilities

The Group is eligible to present certain financial assets and financial liabilities on a net basis in the statement of financial position in accordance with the Group's policy described in Note 1.6 'Offsetting Financial Instruments'.

The following tables set out:
- the impact of offsetting financial assets and financial liabilities on the consolidated statement of financial position.
- the financial impact of netting for instruments subject to an enforceable master netting arrangement or similar agreement; and
- the available financial collateral received or pledged in relation to the total amounts of assets and liabilities that were not offset."

The Group enters into derivative transactions under International Swap and Derivatives Association (ISDA) master netting agreements. In general, under such agreements the amounts owed by each counterparty on a single day in respect of all transactions outstanding in the same currency are aggregated into a single net amount that is payable by one party to the other. In certain circumstances such as when an event of default occurs, all outstanding transactions under the agreement are terminated and settled in a single net amount per currency.

The ISDA agreements do not meet the criteria for offsetting the positive and negative values in the statement of financial position. This is attributable to the fact that the Group and its counterparties do not have any currently legally enforceable right to settle on a net basis or to realise the asset and settle the liability simultaneously because the right to offset is enforceable only on the occurrence of future credit events.

The Group also pledges and receives collateral in the form of cash and marketable securities primarily for sale and repurchase agreements and for margining purposes on OTC derivative transactions. Pledges are generally conducted under terms that are usual and customary for standard contracts and transactions of this nature. The rights of set off relating to such collateral are conditional upon the default of the counterparty. The financial instruments subject to such collateral arrangements are included in the table below within 'Financial collateral pledged/(received)'.

The net amount of financial instruments that do not meet the on-balance sheet offsetting criteria, including collateral pledged and received, presented within the following tables is equal to the amount presented in the statement of financial position for that instrument.

Below is a table showing financial instruments subject to offsetting, enforceable master netting arrangements and similar agreements.

Notes to the financial statements

	Gross amounts of recognised financial instruments €000	Gross amounts of recognised financial instruments offset in the statement of financial position €000	Net amounts of financial instruments presented in the statement of financial position €000	Related amounts not offset in the statement of financial position: Amounts subject to master netting arrangements €000	Financial collateral pledged /(received) (incl. cash) €000	Net amount €000
MeDirect Malta Group						
As at 31 December 2022						
Financial assets						
Derivative financial instruments	363,382	-	363,382	(1,500)	-	361,882
Loans and advances to financial institutions	483,559	(80,572)	402,987	-	(3,806)	399,181
Investments - Securities Portfolio	694,038	-	694,038	-	(192,919)	501,119
Investments - Securitisation Portfolio	574,001	-	574,001	-	(33,442)	540,559
	2,114,980	(80,572)	2,034,408	(1,500)	(230,167)	1,802,741
Financial liabilities						
Derivative financial instruments	(85,878)	80,572	(5,306)	1,500	3,806	-
Amounts owed to financial institutions	(545,135)	-	(545,135)	-	226,361	(318,774)
	(631,013)	80,572	(550,441)	1,500	230,167	(318,774)
MeDirect Malta Group						
As at 31 December 2021						
Financial assets						
Derivative financial instruments	42,688	-	42,688	(2)	-	42,686
Loans and advances to financial institutions	198,775	(5,051)	193,724	-	(1,129)	192,595
Investments - Securities Portfolio	769,917	-	769,917	-	(170,451)	599,466
Investments - Securitisation Portfolio	507,351	-	507,351	-	(30,962)	476,389
	1,518,731	(5,051)	1,513,680	(2)	(202,542)	1,311,136
Financial liabilities						
Derivative financial instruments	(6,182)	5,051	(1,131)	2	1,129	-
Amounts owed to financial institutions	(273,349)	-	(273,349)	-	201,413	(71,936)
	(279,531)	5,051	(278,655)	2	202,542	(71,936)

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

As at 31 December 2022, the Group's derivative financial liabilities subject to master-netting agreements have a fair value of €1.5 million (2021: €1 million). Within the table above, these have been capped at the fair value of the derivative assets of the Group amounting to €1.5 million (2021: €2 thousand).

2.3 Liquidity Risk

2.3.1 Management of liquidity risk

In line with the Group's Liquidity Risk Management Policy, management of the Group's liquidity position is the responsibility of its Treasury and ALM function under the oversight of the Asset and Liability Committee ("ALCO"), Management Risk Committee ("MRC") and the Board Risk Committee. The Treasury and ALM function have primary responsibility for managing and reporting the Group's projected liquidity position (the "base case").

The Group's Risk team ensures that all liquidity risks are identified, measured, overseen and appropriately reported. In particular, the Risk team has primary responsibility for monitoring liquidity risk, including defining potential adverse liquidity scenarios ("stress cases") that are considered for assessing the Group's exposure to these scenarios and for assessing the effectiveness of contingency plan funding measures.

The Group's liquidity risks principally relate to its banking activities and the Group's Board of Directors sets, approves and oversees the implementation of the targets for liquidity management of the Group. Analysis of liquidity risk is the joint responsibility of the Group's Treasury and ALM and Risk functions under the oversight of the ALCO and of the Board Risk Committee.

Management Asset and Liability Committee

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

Board Risk Committee

The Board delegates to the Board Risk Committee its oversight responsibilities of the risk function. Therefore, the Board Risk Committee represents the principal forum for overseeing the Group's liquidity and funding risk. In addition, it is responsible for recommending to the Board an appropriate liquidity and funding risk appetite and for approving liquidity risk-related policies and recommendations. The Board Risk Committee is also responsible for ensuring that all liquidity risk controls are in accordance with regulatory requirements and best practice and for advising the Board on the coordination and prioritisation of liquidity risk management issues throughout the Group.

The Board Risk Committee reviews regular reports on the liquidity position of the Group, including the review of stress testing scenarios to assess the resilience of its liquidity buffers in relation to the minimum regulatory requirements comprising the Liquidity Coverage Ratio ("LCR") and the Net Stable Funding Ratio ("NSFR"). It is informed immediately of new and emerging liquidity concerns and ensures that Executive management takes appropriate remedial actions to address the concerns, including the viability of contingency funding options.

Roles and responsibilities

The Group's Treasury team, under the leadership of the Group Chief Financial Officer has primary responsibility for managing and reporting the Group's projected liquidity position (the "base case"). For liquidity purposes, the Group's balance sheet, encompassing both assets and liabilities, is managed on an intraday and day-to-day basis, and includes monitoring compliance with metrics of current liquidity. The department is also responsible for forecasting the Group's future cash flow profile, as well as for analysis and management of the Group's deposit book. This is executed under the leadership of the Head of Treasury Operations.

Notes to the financial statements

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

Funding strategy

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

The Group's strategy to mitigate this risk has four main components:
- Limiting its exposure to customer deposit withdrawal through the use of term and notice accounts rather than overnight deposits as its primary instrument of customer funding by focusing on the retail market to maximise granularity and by expanding outside Malta directly and indirectly through platforms to reduce its dependence on a single market;
- Limiting its exposure to wholesale funding withdrawal by locking in term, rather than short-dated, funding against illiquid assets (where this is used at all: illiquid assets are primarily deposit funded) and by either diversifying its sources of funding in general or ensuring that it does not rely on funding that is at the discretion of market counterparties;
- Maintaining a contingency source of funding by ensuring that substantially all of its HQLA Securities Investment portfolio is eligible for funding at the ECB or at Eurex, as well as ensuring that other AAA-rated debt instruments are eligible for use as collateral against multiple repo lines, if alternative sources are unavailable; and
- Holding a much higher than typical proportion of assets that could over time be liquidated in the secondary market.

The Group's objective is to maintain a prudent funding structure drawn from diverse funding sources in the short-, medium- and long-term.

Potential funding sources may include, but are not limited to:
- Deposits from retail and corporate customers;
- Bond issuance, either secured (for example through CLO structures or the issuance of RMBSs, the latter representing one of the main sources of funding for the Dutch Mortgage portfolio), senior unsecured or subordinated;
- Issuance of capital instruments;
- Interbank funding (either secured, for example through repurchase agreements, warehouse lines obtained against the Dutch Mortgage portfolio, Total Return Swaps, or unsecured); and
- Central Bank funding (although it is the Group's strategy not to rely on the Central Bank for funding in the normal course of events, but instead only used as a secondary source of financing).

To ensure that the Group has adequate liquidity to meet its near-term obligations, the Treasury team maintains good liquidity buffers and projects the Group's expected liquidity position for each day over the subsequent week, as well as the "residual" cash balance that takes into account known inflows and outflows (for example settlements of asset purchases or sales) beyond this period.

The Group complies with the Liquidity Coverage Ratio ("LCR") in relation to short-term liquidity and monitor the Net Stable Funding Ratio ("NSFR") in order to assess long-term liquidity:

- The Liquidity Coverage Ratio ("LCR"): The ratio aims to ensure that institutions are able to withstand a 30-day period of stress by virtue of having sufficient unencumbered High Quality Liquid Assets ("HQLA"). HQLA consist of cash or assets that can be converted into cash at little or no loss of value in the markets. The LCR metric is designed to promote the short-term resilience of the Group's liquidity profile.

Notes to the financial statements

The table below displays the Group's LCR as at 31 December 2022 and 2021:

	Group	
	2022	2021
	%	%
Actual LCR	**221**	363

During the year ended 31 December 2022 and 2021, the LCR was within both the regulatory minimum and the risk appetite set by the Group. As at 31 December 2022 and 2021, the Group's LCR was well above 100% at all times.

- The Net Stable Funding Ratio ("NSFR"): This ratio looks at the relationship between long-term assets and long-term funding. The NSFR requires institutions to maintain sufficient stable funding relative to required stable funding and reflects a bank's long-term funding profile (funding with a term of more than a year). It is designed to complement the LCR. The NSFR requirement of 100% came into force with the implementation of CRR II as from June 2021."

The table below displays the Group's NSFR as at 31 December 2022 and 2021:

	Group	
	2022	2021
	%	%
Actual NSFR	**119**	134

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

2.3.2 Liquidity risk reporting

Reliable management reporting provides the Executive and the Board with timely and forward-looking information on the Group's liquidity position. Reporting of risk measures is done on a frequent basis and compares current liquidity exposures to established limits to identify any emerging pressures and limit breaches.

The Group's Risk team performs regular stress testing of its liquidity profile, as well as the availability of contingency funding options through both its ILAAP and monthly Maximum Cumulative Outflow ("MCO") report. The MCO analyses the likely risks to the Group's liquidity position and quantifies its ability to withstand the associated shocks through deployment of management contingency funding plan options. Summarised results from all the various analyses are used as inputs to the MCO, with the liquidity impacts of different levels of severity of both idiosyncratic and market-wide scenarios modelled across a twelve-month time horizon. In addition, the Group's Liquidity Contingency Plan ("LCP") analyses the availability and practicability of its contingency funding measures with regards to idiosyncratic and market-wide stress scenarios. Impacts are assessed at Group level, as well as at MeDirect Malta and MeDirect Bank SA individual levels.

The Group's liquidity risk reporting reinforces the Group's oversight of liquidity risk, by not only focusing its risk reporting on the 'current' state, but also providing regular and timely reporting of the potential 'stress' liquidity profile of the Group.

The Risk team also monitors deposit concentration within its monthly risk management report where the Group's top ten depositors are monitored by also looking at the corporate sector and the product maturity ladder.

Notes to the financial statements

2.3.3 Contractual maturity ladder

The following is an analysis of financial assets and liabilities by remaining contractual maturities as at the reporting date, with the exception of the analysis of loans and advances to customers classified under the International Corporate Lending and Dutch, Belgian and Maltese Mortgage portfolios, debt securities in issue and subordinated liabilities, that are based on the expected maturities based on the date when the instruments are expected to be fully repaid, since this is how the liquidity of the Group is monitored on a regular basis. Refer also to Note 2.3.5 that provides an analysis of encumbered investments.

MeDirect Malta Group	Not more than 1 month €000	Between 1 and 3 months €000	Between 3 months and 1 year €000	Between 1 and 5 years €000	More than 5 years €000	No maturity date €000	Total €000
As at 31 December 2022							
Assets							
Balances with central banks	123,448	-	-	-	-	26,477	149,925
Derivative financial instruments	1,179	320	483	79,336	281,553	511	363,382
Loans and advances to financial institutions	402,987	-	-	-	-	-	402,987
Loans and advances to customers	2,713	14	235,316	358,540	2,063,404	(270,694)	2,389,293
- International Corporate Lending portfolio	-	-	214,220	297,894	-	-	512,114
- Dutch Mortgage portfolio	44	1	-	2,436	1,815,521	-	1,818,002
- Belgian Mortgage portfolio	-	-	858	1,685	129,457	-	132,000
- IFRS basis adjustment: International Mortgage portfolio	-	-	-	-	-	(271,273)	(271,273)
- Maltese Business Lending portfolio	2,669	13	20,238	56,525	50,828	579	130,852
- Maltese Mortgage portfolio	-	-	-	-	67,598	-	67,598
Investments	-	26,758	157,573	455,808	622,608	5,292	1,268,039
- Securities portfolio	-	26,758	157,573	455,808	48,607	5,292	694,038
- Securitisation portfolio	-	-	-	-	574,001	-	574,001
Accrued income	1,096	11,928	1,073	-	-	-	14,097
Loans to related parties (incl. in other assets)	-	-	-	-	-	654	654
Other receivables (incl. in other assets)	-	-	-	-	-	27,680	27,680
Total financial assets	531,423	39,020	394,445	893,684	2,967,565	(210,080)	4,616,057
Liabilities							
Derivative financial instruments	-	5,306	-	-	-	-	5,306
Amounts owed to financial institutions	344,497	50,638	150,000	-	-	-	545,135
Amounts owed to customers	2,114,495	39,965	412,570	220,534	36	-	2,787,600
Debt securities in issue	7,802	15,812	72,771	873,184	-	-	969,569
Subordinated liabilities	-	-	19,997	34,834	-	-	54,831
Accrued interest expense (incl. in accruals and deferred income)	1,589	522	5,746	3	2,912	-	10,772
Lease liabilities (incl. in other liabilities)	376	53	754	3,765	123	-	5,071
Amounts due to related parties (incl. in other liabilities)	-	950	-	-	10,309	1,487	12,746
Total financial liabilities	2,468,759	113,246	661,838	1,132,320	13,380	1,487	4,391,030
Liquidity gap	(1,937,336)	(74,226)	(267,393)	(238,636)	2,954,185		
Cumulative liquidity gap	(1,937,336)	(2,011,562)	(2,278,955)	(2,517,591)	436,594		

Notes to the financial statements

MeDirect Malta Group As at 31 December 2021	Not more than 1 month €000	Between 1 and 3 months €000	Between 3 months and 1 year €000	Between 1 and 5 years €000	More than 5 years €000	No maturity date €000	Total €000
Assets							
Balances with central banks	302,709	-	-	-	-	25,916	328,625
Derivative financial instruments	5,053	-	-	3,651	33,473	511	42,688
Loans and advances to financial institutions	193,724	-	-	-	-	-	193,724
Loans and advances to customers	11,094	22,291	262,171	593,444	1,472,452	(37,149)	2,324,303
- International Corporate Lending portfolio	-	12,188	210,561	370,610	-	-	593,359
- Dutch Mortgage portfolio	3,567	7,546	35,812	191,311	1,404,778	-	1,643,014
- IFRS basis adjustment: Dutch Mortgage portfolio	-	-	-	-	-	(37,149)	(37,149)
- Maltese Business Lending portfolio	7,464	2,431	15,229	28,488	52,514	-	106,126
- Maltese Mortgage portfolio	63	126	569	3,035	15,160	-	18,953
Investments	6,188	49,271	234,315	480,143	507,351	-	1,277,268
- Securities portfolio	6,188	49,271	234,315	480,143	-	-	769,917
- Securitisation portfolio	-	-	-	-	507,351	-	507,351
Accrued income	5,010	3,589	2,274	-	-	-	10,873
Loans to related parties (incl. in other assets)	-	-	-	-	-	283	283
Other receivables (incl. in other assets)	9,631	-	-	-	-	2,732	12,363
Total financial assets	533,409	75,151	498,760	1,077,238	2,013,276	(7,707)	4,190,127
Liabilities							
Derivative financial instruments	963	-	43	88	37	-	1,131
Amounts owed to financial institutions	147,879	125,470	-	-	-	-	273,349
Amounts owed to customers	2,111,739	19,056	366,998	452,685	10,387	-	2,960,865
Debt securities in issue	7,268	5,883	32,185	612,957	-	-	658,293
Subordinated liabilities	-	-	20,053	34,941	-	-	54,994
Accrued interest expense (incl. in accruals and deferred income)	337	593	4,276	103	1,548	-	6,857
Lease liabilities (incl. in other liabilities)	180	90	1,299	4,794	720	-	7,083
Amounts due to related parties (incl. in other liabilities)	-	968	-	-	10,136	1,355	12,459
Total financial liabilities	2,268,366	152,060	424,854	1,105,568	22,828	1,355	3,975,031
Liquidity gap	(1,734,957)	(76,909)	73,906	(28,330)	1,990,448		
Cumulative liquidity gap	(1,734,957)	(1,811,866)	(1,737,960)	(1,766,290)	224,158		

Current accounts and savings deposits payable on demand or at short notice amounted to €1,885 million (2021: €1,911 million) as at 31 December 2022. This amount is disclosed within the 'Not more than 1 month' maturity grouping. As at 31 December 2022 savings deposits with a withdrawal notice period of one month amounting to €2 million (2021: €3 million), are disclosed within the 'Between 1 and 3 months' maturity grouping. In addition, as at 31 December 2022 savings deposits with a withdrawal notice period of three to six months amounting to €299 million (2021: €364 million), are disclosed within the 'Between 3 months and 1 year' maturity grouping. Furthermore, as at 31 December 2022, savings deposits with a withdrawal notice period of one year amounting to €108 million (2021: €163 million), are disclosed within the 'Between 1 year and 5 years' maturity grouping. However, in practice these deposits are maintained with the Group for longer periods; hence the effective date of repayment is later than the contractual date.

Notes to the financial statements

As of 31 December 2021, unencumbered financial assets classified as Securities Investments measured at fair value through other comprehensive income, with a carrying amount of €387 million and €48.9 million and as at 31 December 2022 Securities Investments measured at amortised cost with a carrying amount of €370 million (2021: €91 million), form part of the high quality liquid asset portfolio for LCR purposes. Accordingly, they may be liquidated within one month. In addition to these instruments the Group held unencumbered financial assets classified as Securities Investments measured at amortised cost with a carrying amount of €12 million (2021: €12 million) included in the category between 1 and 3 months in the preceding table (2021: Between 3 months and 1 year).

The Group's cash from margin balances amounting to €54.5 million (2021: €57.6 million), can be available upon maturity of the contract, favourable change in the market value/change in the exchange rates or reduction in the initial margins.

2.3.4 Residual contractual maturities of financial liabilities

The following is an analysis of undiscounted cash flows payable under the principal non-derivative financial liabilities by remaining contractual maturities as at the reporting date, except for debt securities in issue and subordinated liabilities for which undiscounted cash flows payable are presented by expected maturities in line with the Contractual Maturity Ladder presented in Note 2.3.3.

MeDirect Malta Group	**Carrying amount €000**	**Total outflows €000**	**Less than 1 month €000**	**Between 1 and 3 months €000**	**Between 3 months and 1 year €000**	**Between 1 and 5 years €000**	**More than 5 years €000**
31 December 2022							
Non-derivative liabilities							
Amounts owed to financial institutions							
- Due to clearing houses	150,000	151,653	-	-	151,653	-	-
- Due to other banks	395,135	395,708	344,626	51,082	-	-	-
Amounts owed to customers	2,787,600	2,795,171	2,114,504	40,003	414,180	226,444	40
Debt securities in issue	969,569	995,254	6,916	16,698	72,771	411,799	487,070
Subordinated liabilities	54,831	58,953	-	-	22,472	36,481	
Lease liabilities (included in other liabilities)	5,071	5,838	422	77	857	4,278	204
	4,362,206	4,402,577	2,466,468	107,860	661,933	679,002	487,314

MeDirect Malta Group	**Carrying amount €000**	**Total outflows €000**	**Less than 1 month €000**	**Between 1 and 3 months €000**	**Between 3 months and 1 year €000**	**Between 1 and 5 years €000**	**More than 5 years €000**
31 December 2021							
Non-derivative liabilities							
Amounts owed to financial institutions							
- Due to clearing houses	258,121	258,429	132,709	125,720	-	-	
- Due to other banks	15,228	15,228	15,228	-	-	-	-
Amounts owed to customers	2,960,865	2,974,598	2,111,739	19,057	367,279	465,669	10,854
Debt securities in issue	658,293	661,447	7,310	6,018	32,716	615,403	-
Subordinated liabilities	54,994	60,356	-	-	22,472	37,884	-
Lease liabilities (included in other liabilities)	7,083	7,978	298	141	1,347	5,165	1,027
	3,954,584	3,978,036	2,267,284	150,936	423,814	1,124,121	11,881

Notes to the financial statements

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

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

MeDirect Malta Group	**Carrying amount €000**	**Inflows/ (Outflows) €000**	**Less than 1 month €000**	**Between 1 and 3 months €000**	**Between 3 months and 1 year €000**	**Between 1 and 5 years €000**	**More than 5 years €000**
31 December 2021							
Derivative financial instruments							
- Interest rate swaps	37,124	38,687	(119)	(882)	(3,421)	10,430	32,679
- Foreign exchange swaps	2	2	2	-	-	-	-
Inflows		3,998	3,998	-	-	-	-
Outflows		(3,996)	(3,996)	-	-	-	-
- Other derivative financial instruments (no maturity)	511	-	-	-	-	-	-
	37,637	38,689	(117)	(882)	(3,421)	10,430	32,679
Derivative liabilities							
Derivative financial instruments							
- Interest rate swaps	168	412	(18)	(22)	(187)	365	274
- Foreign exchange swaps	963	(977)	(977)	-	-	-	-
Inflows		104,219	95,290	8,929	-	-	-
Outflows		(105,196)	(96,267)	(8,929)	-	-	-
	1,131	(565)	(995)	(22)	(187)	365	274

Notes to the financial statements

2.3.5 Encumbered assets

The following tables set out the availability of the Group's financial assets to support future funding.

MeDirect Malta Group	Encumbered		Unencumbered		
	Pledged as collateral €000	**Other* €000**	**Available as collateral €000**	**Other** €000**	**Total €000**
31 December 2022					
Balances with central banks and cash (Note 4)	-	26,477	123,452	-	149,929
Derivative financial instruments	-	-	-	363,382	363,382
Loans and advances to financial institutions (Note 6)	249,634	-	-	108,353	402,987
Loans and advances to customers	-	-	-	2,389,293	2,389,293
- International Corporate Lending portfolio	-	-	-	512,114	512,114
- Dutch Mortgage portfolio	-	-	-	1,546,729	1,546,729
- Belgian Mortgage portfolio	-	-	-	132,000	132,000
- Maltese Business Lending portfolio	-	-	-	130,852	130,852
- Maltese Mortgage portfolio	-	-	-	67,598	67,598
Investments (Note 8)	466,780	-	777,019	24,240	1,268,039
- Securities portfolio	290,017	-	398,729	5,292	694,038
- Securitisation portfolio	176,763	-	378,290	18,948	574,001
Accrued income	-	-	-	14,097	14,097
Loans and advances to related parties (included in other assets)	-	-	-	654	654
Other receivables (included in other assets)	-	-	-	27,680	27,680
	761,414	26,477	900,471	2,927,699	4,616,061

MeDirect Malta Group	Encumbered		Unencumbered		
	Pledged as collateral €000	**Other* €000**	**Available as collateral €000**	**Other** €000**	**Total €000**
31 December 2021					
Balances with central banks and cash (Note 4)	-	25,916	302,710	-	328,626
Derivative financial instruments	-	-	-	42,688	42,688
Loans and advances to financial institutions (Note 6)	69,479	-	-	124,245	193,724
Loans and advances to customers	-	-	-	2,324,303	2,324,303
- International Corporate Lending portfolio	-	-	-	593,359	593,359
- Dutch Mortgage portfolio	-	-	-	1,605,865	1,605,865
- Maltese Business Lending portfolio	-	-	-	106,126	106,126
- Maltese Mortgage portfolio	-	-	-	18,953	18,953
Investments (Note 8)	379,263	-	878,502	19,503	1,277,268
- Securities portfolio	284,264	-	485,653	-	769,917
- Securitisation portfolio	94,999	-	392,849	19,503	507,351
Accrued income	-	-	-	10,873	10,873
Loans and advances to related parties (included in other assets)	-	-	-	283	283
Other receivables (included in other assets)	-	-	-	12,363	12,363
	448,742	25,916	1,181,212	2,534,258	4,190,128

**Represents assets that are not pledged for funding purposes but that the Group believes it is restricted from using to secure funding, for legal or other reasons.*
***Represents assets that are not restricted for use as collateral, but that the Group would not consider as readily available to secure funding in the normal course of business.*

2.4 Market risk

Market risk is the risk that changes in market prices, such as interest rates, foreign exchange rates and credit spreads (not relating to changes in the obligor's/issuer's credit standing) will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

2.4.1 Management of market risks

Management of market risk is the responsibility of the Group's Treasury team and is overseen by the Group's Risk team, under the oversight of the Group's ALCO and the Board Risk Committee, and as set out in the foreign exchange ("FX") risk policy and Interest Rate Risk in the Banking Book ("IRRBB") policy.

2.4.2 Foreign exchange risk

FX risk is the risk that the value of the Group's positions may fluctuate due to movements in underlying foreign currency exchange rates. The Group seeks to minimise FX risk and thus hedges all major exposures in accordance with its risk appetite. The Group is mainly exposed to currency risk on FX movements relating to the US Dollar and GB Pound, originating from the Group's corporate banking business. In the majority of cases, the Group hedges this risk by ensuring that its foreign currency denominated liabilities are matched with corresponding assets in the same currency. Any mismatches that arise are monitored closely. The Group's Treasury team is permitted to use spots, forwards and swaps in order to hedge the Group's FX risk.

The following table provides an analysis of the principal financial assets and financial liabilities of the Group into relevant currency groupings.

Notes to the financial statements

MeDirect Malta Group

As at 31 December 2022	EUR currency €000	GBP currency €000	USD currency €000	Other €000	Total €000
Financial assets					
Balances with central banks and cash	149,929	-	-	-	149,929
Derivative financial instruments	361,882	1,150	220	130	363,382
Loans and advances to financial institutions	393,709	3,367	1,518	4,393	402,987
Loans and advances to customers	2,236,454	148,966	3,873	-	2,389,293
- International Corporate Lending portfolio	359,529	148,966	3,619	-	512,114
- Dutch Mortgage portfolio	1,546,729	-	-	-	1,546,729
- Belgian Mortgage portfolio	132,000	-	-	-	132,000
- Maltese Business Lending portfolio	130,598	-	254	-	130,852
- Maltese Mortgage portfolio	67,598	-	-	-	67,598
Investments	1,262,747	5,292	-	-	1,268,039
- Securities portfolio	688,746	5,292	-	-	694,038
- Securitisation portfolio	574,001	-	-	-	574,001
Accrued income	13,111	939	38	9	14,097
Loans to related parties (included in other assets)	614	39	-	1	654
Other receivables (included in other assets)	27,499	169	12	-	27,680
	4,445,945	159,922	5,661	4,533	4,616,061
Financial liabilities					
Derivative financial instruments	5,305	-	1	-	5,306
Amounts owed to financial institutions	545,135	-	-	-	545,135
Amounts owed to customers	2,673,837	60,663	40,096	13,004	2,787,600
Debt securities in issue	969,569	-	-	-	969,570
Subordinated liabilities	50,767	4,064	-	-	54,831
Accrued interest expense (incl. in accruals and deferred income)	10,633	113	8	18	10,772
Lease liabilities (included in other liabilities)	4,741	330	-	-	5,071
Amounts owed to related parties (incl. in other liabilities)	12,729	116	-	1	12,746
	4,272,716	65,186	40,105	13,023	4,391,030
Net on-balance sheet financial position		94,736	(34,444)	(8,490)	
Notional of derivative financial instruments		(89,995)	34,064	1,439	
Residual exposure		4,741	(380)	(7,051)	

Notes to the financial statements

MeDirect Malta Group

As at 31 December 2021	EUR currency €000	GBP currency €000	USD currency €000	Other €000	Total €000
Financial assets					
Balances with central banks and cash	328,626	-	-	-	328,626
Derivative financial instruments	42,686	-	-	2	42,688
Loans and advances to financial institutions	150,087	20,200	13,104	10,333	193,724
Loans and advances to customers	2,154,037	158,517	11,749	-	2,324,303
- International Corporate Lending portfolio	426,889	158,517	7,953	-	593,359
- Dutch Mortgage portfolio	1,605,865	-	-	-	1,605,865
- Maltese Business Lending portfolio	102,330	-	3,796	-	106,126
- Maltese Mortgage portfolio	18,953	-	-	-	18,953
Investments	1,277,268	-	-	-	1,277,268
- Securities portfolio	769,917	-	-	-	769,917
- Securitisation portfolio	507,351	-	-	-	507,351
Accrued income	9,779	992	75	27	10,873
Loans to related parties (included in other assets)	244	39	-	-	283
Other receivables (included in other assets)	12,324	39	-	-	12,363
	3,975,051	179,787	24,928	10,362	4,190,128
Financial liabilities					
Derivative financial instruments	168	802	143	18	1,131
Amounts owed to financial institutions	273,349	-	-	-	273,349
Amounts owed to customers	2,826,505	83,967	29,544	20,849	2,960,865
Debt securities in issue	658,293	-	-	-	658,293
Subordinated liabilities	50,703	4,291	-	-	54,994
Accrued interest expense (incl. in accruals and deferred income)	6,578	239	14	26	6,857
Lease liabilities (included in other liabilities)	6,961	122	-	-	7,083
Amounts owed to related parties (incl. in other liabilities)	12,437	22	-	-	12,459
	3,834,994	89,443	29,701	20,893	3,975,031
Net on-balance sheet financial position		90,344	(4,773)	(10,531)	
Notional of derivative financial instruments		(91,519)	4,341	8,456	
Residual exposure		(1,175)	(432)	(2,075)	

The Group uses derivative financial instruments to hedge movements in foreign exchange rates by entering derivative contracts with notional amounts which substantially reflect the net exposure in each currency. As a result, the Group are not materially exposed to fluctuations in foreign exchange rates as evidenced in the tables above, reflecting the policy to eliminate foreign exchange risk as much as is practicable.

In view of the Group's policy for managing currency risk, the Board does not deem necessary the presentation of a sensitivity analysis disclosing how profit or loss and equity would have been affected by changes in foreign exchange rates that were reasonably possible at the end of the reporting year.

2.4.3 Interest rate risk

The Group's and MeDirect Belgium's Interest Rate Risk in the Banking Book (IRRBB) position is managed through the three lines of defence: the First Line of Defence comprising the asset and liability management process managed by the MeDirect Group/Belgium Treasury team, the Second Line of Defence being the Risk team and the Third Line of Defence being Internal Audit. It is managed according to the Group's/MeDirect Belgium's IRRBB policy with limits established by the Risk team and monitored by both the First and Second Lines of Defence.

The monitoring/reporting activity is reviewed and managed independently by Group/MeDirect Belgium ALCO for the First Line of Defence, by the Risk Committee for the Second Line of Defence, and by the Audit Committee for the Third Line of Defence.

Interest rate risk is managed by comparing the interest rate risk profile of assets with the profile of liabilities, and by hedging unmatched interest rate risk arising in the balance sheet by purchasing interest rate derivatives, primarily interest rate swaps.

Interest rate risk reporting and analysis

"As part of its monitoring duties, the Group's Risk team prepares and reports on the Group's interest rate risk position on a monthly basis. The report outputs show the effects of a number of internal and regulatory interest rate shocks on the:
- Projected net interest margin – ΔNII;
- Group's capital position – ΔEVE; and
- Time bucket sensitivity – PV01."

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

The table below discloses the mismatch of the dates on which interest rates on financial assets and liabilities either will be reset to market rates levels, or the date on which instruments mature. Actual cash flows on reset dates may differ from contractual dates owing to the possible exercise of behavioural options such as prepayments. In addition, contractual terms may not be representative of the behaviour in respect of financial assets and liabilities.

Notes to the financial statements

MeDirect Malta Group

	Carrying amount €000	Repricing in: Not more than 3 months €000	Between 3 months to 1 year €000	Between 1 and 3 years €000	Between 3 and 5 years €000	More than 5 years €000
As at 31 December 2022						
Balances with central banks	149,925	149,925	-	-	-	-
Loans and advances to financial institutions	402,987	402,987	-	-	-	-
Loans and advances to customers	2,389,293	628,640	69,239	3,407	16,074	1,671,933
- International Corporate Lending portfolio	512,114	431,283	65,950	-	14,881	-
- Dutch Mortgage portfolio	1,818,002	261	1,935	3,407	1,193	1,811,206
- Belgian Mortgage portfolio	132,000	-	-	-	-	132,000
- IFRS basis adjustment: International Mortgage portfolio	(271,273)	-	-	-	-	(271,273)
- Maltese Business Lending portfolio	130,852	129,498	1,354	-	-	-
- Maltese Mortgage portfolio	67,598	67,598	-	-	-	-
Investments	1,262,175	826,942	435,233	-	-	-
- Securities portfolio	688,746	253,513	435,233	-	-	-
- Securitisation portfolio	573,429	573,429	-	-	-	-
	4,204,380	2,008,494	504,472	3,407	16,074	1,671,933
Amounts owed to financial institutions:	545,135	395,135	150,000	-	-	-
- Due to clearing houses	150,000	-	150,000	-	-	-
- Due to other banks	395,135	395,135	-	-	-	-
Amounts owed to customers	2,787,600	2,154,459	412,570	201,137	19,398	36
Debt securities in issue	969,569	23,615	79,224	649,832	216,898	-
Subordinated liabilities	54,831	-	19,997	34,834	-	-
Amounts due to immediate parent company (included in Other Liabilities)	11,748	-	-	-	11,748	-
	4,368,883	2,573,209	661,791	885,803	248,044	36
Interest rate repricing gap		(564,715)	(157,319)	(882,396)	(231,970)	1,671,897
Impact of hedging interest rate derivatives – notional amounts	361,368	1,450,550	-	(95,500)	(280,033)	(1,075,017)
Net interest rate repricing gap		885,835	(157,319)	(977,896)	(512,003)	596,880

Notes to the financial statements

MeDirect Malta Group — **Repricing in:**

As at 31 December 2021	**Carrying amount €000**	**Not more than 3 months €000**	**Between 3 months to 1 year €000**	**Between 1 and 3 years €000**	**Between 3 and 5 years €000**	**More than 5 years €000**
Balances with central banks	328,625	328,625	-	-	-	-
Loans and advances to financial institutions	193,724	193,724	-	-	-	-
Loans and advances to customers	2,324,303	588,260	131,616	77	800	1,603,550
- International Corporate Lending portfolio	593,359	467,112	126,247	-	-	-
- Dutch Mortgage portfolio	1,643,014	955	517	79	818	1,640,645
- IFRS basis adjustment: Dutch Mortgage portfolio	(37,149)	(22)	(12)	(2)	(18)	(37,095)
- Maltese Business Lending portfolio	106,126	101,262	4,864	-	-	-
- Maltese Mortgage portfolio	18,953	18,953	-	-	-	-
Investments	1,276,123	417,185	378,795	251,205	228,938	-
- Securities portfolio	769,917	55,459	234,315	251,205	228,938	-
- Securitisation portfolio	506,206	361,726	144,480	-	-	-
	4,122,775	1,527,794	510,411	251,282	229,738	1,603,550
Amounts owed to financial institutions:	273,349	273,349	-	-	-	
- Due to clearing houses	258,121	258,121	-	-	-	-
- Due to other banks	15,228	15,228	-	-	-	-
Amounts owed to customers	2,960,865	2,130,795	366,998	361,385	91,300	10,387
Debt securities in issue	658,293	13,151	32,185	-	612,957	-
Subordinated liabilities	54,994	-	20,053	34,941	-	-
Amounts due to immediate parent company (included in Other Liabilities)	11,313	-	-	-	11,313	-
	3,958,814	2,417,295	419,236	396,326	715,570	10,387
Interest rate repricing gap		(884,450)	91,175	(145,044)	(485,832)	1,593,163
Impact of hedging interest rate derivatives – notional amounts	37,124	1,454,536	(50,200)	(254,936)	(256,183)	(893,217)
Net interest rate repricing gap		570,086	40,975	(399,980)	(742,015)	699,946

The Group's exposure to interest rate risk arises predominantly from its asset/liability structure, specifically mismatches between the repricing term of its International Corporate Lending and Mortgage lending portfolios and the term structure of customer deposits, as well as from possible impacts on the Mark-to-Market ("MtM") value of its fixed rate instruments if market interest rates increase.

The Group's assets mainly comprise the Group's International Corporate Lending portfolio, that reprices periodically (generally every three months) and has a relatively short duration, and the Dutch Mortgage portfolio, that has a longer-term duration.

The presence of interest rate floors embedded in most of the International Corporate Lending portfolio enables the Group to mitigate its repricing risk from the Group's asset/liability structure, whilst the Group generally hedges the repricing risk from its financial assets, namely the securities, and wholesale repo funding.

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

Notes to the financial statements

The Group's Securitisation Investment portfolio comprises an investment in the equity tranche of GH1-2019 amounting to €0.6 million (2021: €1.4 million). The returns relating to this financial instrument are variable, with repayments being equivalent to any residual amounts after the commitments relating to more senior tranches in GH1-2019 are repaid. In this regard, this financial instrument is not deemed to be subject to interest rate risk and has been excluded from the table above accordingly.

A positive interest rate sensitivity gap exists where more assets than liabilities reprice during a given period. Although a positive gap position tends to benefit net interest income in a rising interest rate environment, the actual effect will depend on several factors, including the extent to which repayments are made earlier or later than the contracted date and variations in interest rates within repricing periods and among currencies. Similarly, a negative interest rate sensitivity gap exists where more liabilities than assets re-price during a given period. A negative gap position tends to benefit net interest income in a declining interest rate environment, but the actual effect will depend on the same factors as for positive interest rate gaps.

The management of interest rate risk attributable to interest rate repricing gap limits is supplemented by monitoring the sensitivity of the Group's financial assets and liabilities to various interest rate scenarios under the stress testing framework whilst the extent of the difference between risk factors on the asset side and liability side is monitored through the re-fixing gap analysis.

The estimated impact on the Group's Net Interest Margin ("NIM") and on Economic Value based on scenarios and assumptions prescribed by the EBA guidelines on the management of interest rate risk arising from non trading book activities (EBA/GL/2018/02) would be as follows:

31 December 2022
- NIM would increase by €18.4 million in a parallel up scenario and decrease by €15.3 million in the parallel down scenario.
- Economic value of equity would increase by €1.9 million in a parallel up scenario and increase by €2.4 million in the parallel down scenario.

31 December 2021
- NIM would increase by €18.9 million in a parallel up scenario and decrease by €3.3 million in the parallel down scenario.
- Economic value of equity would increase by €13.8 million in a parallel up scenario and increase by €4.2 million in the parallel down scenario.

The main assumptions used in the model utilised to measure the benchmarks referred to above are:
- Interest bearing assets are assumed to mature on their expected maturity and are not replaced for the ΔEVE purposes (run off balance sheet);
- Interest bearing assets are assumed to mature on their expected maturity and are replaced on like for like basis for the ΔNII purposes (constant balance sheet);
- The Dutch NHG and Belgian Retail mortgages are assumed to follow a CPR curve over and above the contractual principal payment schedule;
- In addition to the legal floor on regulated savings accounts of MeDirect Belgium, there is an implicit zero floor option on retail customer deposits as the Group will not charge negative rates to the retail segment of its customer base;
- The Δ NII and Δ 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.

Interest rate movements affect reported equity in the following ways:
- retained earnings arising from increases or decreases in net interest income after taking into consideration the net impact of interest rate hedging instruments; and
- fair value reserves arising from increases or decreases in fair values of investments measured at fair value through other comprehensive income reported directly in equity.

2.5 Operational risk

In line with the Basel framework, operational risk is defined as the potential for loss arising from failed or inadequate internal processes, people, systems or from external events. Operational risks can arise from all business lines and from all activities which are carried out by the Group. Failure to manage operational risk may result in a direct or indirect financial loss, reputational damage, regulatory breaches or may even have a negative impact on the management of other risks such as credit, liquidity or market risk. There are various operational risk subtypes, including but not limited to fraud (internal/external), business disruption due to reduced or non-availability of systems, inadequate outsourcing arrangements, the Group's inability to attract, retain, train and develop the right people, failed or inadequate business processes, data risk and project execution risk.

Operational Risk Management ensures that the Group's risk appetite for operational risk is translated in a form that can be implemented and managed in practice. As covered in the Risk Appetite Statement, the Group has low tolerance for operational risk events that could jeopardise its financial performance, customer outcomes or reputation. The Group's objective is to manage operational risk to balance the avoidance of financial losses and damage to the Group's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity while maintaining risk taking within a tolerable limit.

The governance of Operational Risk follows the Group's Three Lines of Defence model. The First Line of Defence is accountable to manage its own risks, whilst the Operational Risk Management, which forms part of the Second Line of Defence oversees and challenges risk taking activities and ensures that operational risks are consistently identified and assessed, managed adequately, monitored and reported accordingly. The Third Line of Defence (Internal Audit) provides an independent assurance on the design and operating effectiveness of the control structure.

The Group also has an Operational Risk framework in place to make sure that it has a consistent and embedded approach for fully identifying and managing operational risks in an effective manner. The framework covers the following sections: Operational Risk Policy, Operational Risk Awareness, Operational Risk & Control Self-Assessment (RCSAs), Operational Risk Control Testing, Operational Risk Reporting and Incident Management & Business Continuity.

The Risk & Control Self-Assessment process, which at minimum, is carried out on an annual basis, is used to identify, document and assess the key risks and controls within the Group. The RCSA process provides a bottom-up approach to risk identification at granular level. The RCSA results are leveraged for creating key risk indicators and developing narratives for scenario analysis. The risk identification process is also supported through the use of audit findings and internal loss data. The Operational Risk Management uses a dedicated Operational Risk Management tool to manage the RCSA process and maintain a repository of loss data which captures and records operational loss events and "near misses" events.

Operational Risk is monitored through the development and ongoing evolution of the Key Risk Indicator (KRI) reporting process. Operational Risk Management aim to develop KRIs that allow for the monitoring of internal controls factors associated with significant risks. Operational Risk is also monitored through: Risk & Control Owners alerting Operational Risk Management of control deficiencies, Operational Risk Management identifying changes to the operational risk profiles and by Internal Audit through their assessment of Operational Risk Management and indirectly through their reviews of business areas. Control testing is also carried out using a risk-based approach to identify weaknesses in the control environment.

Operational Risk reporting provides management with a timely view of the Group's Operational Risk profile and any breaches to the Risk Appetite Statement. Material risks and breaches are escalated to the Group's governing bodies, such as Executive Committee and Board Committee, which serve as medium to ensure that corrective action plans are in place to mitigate significant risks and avoid reoccurrence of events impacting the Group's operations. Operational risks are reported through the Monthly Group Risk Management Report, Incident Reporting, Internal Control Report and the annual ICAAP.

Operational Risk Management is also responsible to ensure that the Group has contingencies in the event of business disruption. The Group has in place a Business Continuity Plan (BCP) and an IT Disaster Recovery Plan (DRP), both of which are defined in separate documents respectively. Since the DRP focuses on the availability of IT/technology services, the document is maintained and tested by the IT department. The BCP is intended to provide the Group with a plan of actions necessary to restore critical business operations and ensuring the availability of resources whenever and wherever necessary and relies on the assumption that technology is available to support the business continuity efforts. The BCP is regularly tested to ensure the appropriateness of the responses in case of a business disruption.

A financial measurement of this risk is calculated by the Group for the purpose of allocating risk capital using the Basic Indicator Approach under Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013, also known as the CRR. The risk weighted assets for operational risk under this method as at 31 December 2022 were calculated at €108.4 million (2021: €108.5 million).

ICT Security

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

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

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

Residual ICT Security risks are managed in the context of the Group's Risk Appetite Statement. ICT Security critical and non-critical risk appetite limits have been defined by the Group. Breaches at different levels will trigger a course of action – risk appetite breaches and notification thresholds are reported to the Board on a monthly basis.

The ICT security programme may be summarised into two sections: ICT Risk Identification and ICT Risk Mitigation:

- ICT Risk Identification: the group utilises multiple sources to identify ICT risks. Risk sources include ICT security risk assessments, cyber security and operational incidents, vulnerability management, IT security policy spot checks, RCSAs, external security assessments, ICT security audits, third-party risk assessments and IT Security policy exemptions;
- ICT Risk Mitigation: risks are documented in the ICT risk register and are followed up by the IT Security function. A risk treatment plan is documented for each risk. A control owner is defined and an implementation timeline for each control is documented. Implementation of controls is followed up by the IT Security function with the relevant control owner(s);
- ICT Security controls implemented by the Group through the IT Security strategy are grouped into the following categories:
  - a) Physical Security.
  - b) Logical Security.
  - c) ICT Operations Security.
  - d) Security monitoring; and
  - e) Information Security reviews, assessment and training.

2.6 Environmental, social and governance-related ("ESG") risk

The Group has started to integrate climate-related and environmental risks (the "CER") in the MeDirect framework in order to track these risks and analyse their impact.

CER is directly overseen by the ESG Committee, consisting of top managers managing main business areas including amongst others finance (Group/CFO, BE CFO, Procurement manager), risk (MT CRO, BE CRO), compliance and business functions. The Group CFO is the chairman of the committee and Belgium CRO is the co-chairman.

The Board maintains oversight of CER via regular updates (standing agenda item) that are given during the routine Board meetings by the Group Head of Sustainability. In addition, the Board approves main risk policies and ESG Strategy that incorporated CER procedures and commitments.

Moreover, the Group incorporated CER across the three lines of defence (LoD) by updating business procedures and policies, the risk management framework, compliance monitoring plans and internal audit plan. The front-line business applies all the internal regulation related to CER and incorporates CER in the various stages of the business processes including credit process. Risk functions are responsible for developing and tracking a dashboard of relevant CER within the existing risk reporting frameworks of the Group, with continuous enhancement over time. The Compliance Function prepares compliance plans which are approved by the Risk Committee that may consider CER if required. The Compliance Function operates independently from the business units, albeit advising and assisting the business units and other internal functions to ensure that operations are in line with policies, procedures and regulation. The Internal Audit Functions (IAF) proceeds with the execution of an integrated perennial audit plan across the Group and on a cycle basis, provides (global or targeted) assurance on the integration and proper implementation of CER risks across the governance, internal control, operational and business processes of the Group.

Notes to the financial statements

The Group also recruited a Head of Sustainability that is the primary coordination point driving ESG/CER agenda, engaging with the MeDirect Boards and interacting with the Group's business, support and control functions.

Climate risk was also embedded in the Group risk management framework and in ESG Strategy 2024/2025. A number of policies and procedures have been updated, in particular Credit Frameworks and the Stress Testing Framework to ensure CER is properly identified, managed, monitored, and mitigated.

In 2022 the Group conducted an initial CER materiality assessment to analyse the main CER that may impact MeDirect strategy, business model, asset portfolios, funding sources, treasury and hedging, wealth management services, as well as the business operating centres in which it operates.

The assessment included all balance sheet elements and off-balance sheet services, covering physical risks (Floods/ Fluvial, Sea Level Risk, Drought / Ext. Heat, Forest Fire / Wildfire, Biodiversity Loss, Water Stress) and transition risks (Policy / Regulations, Stranding Risk, Market Sentiment, Technology Change) including high-level impact horizons (short, medium and long). We used the European Climate Risk Typology, European Environment Agency maps and Moody's Investor Services analysis including sectoral heatmaps while analysing individual physical risks. To analyse transition risk we used Moody's Analytics researches and publicly available Grantham Research Institute on Climate Change and the Environment. The assessment was conducted on a proportional and risk-based approach, utilising currently available sources and data. The materiality assessment was conducted by Risk functions with the support of business functions responsible for respective MeDirect areas. The initial assessment was presented to the ESG Committee in 2022 and the updated assessment was validated in early 2023 by the Group Board. The Group will update the materiality assessment on an annual basis.

The materiality assessment concluded that the overall strategic Group's exposure to CER is limited given the Group's business profile and its strategy, however the Group continues to monitor and reassess the evolution of CER regularly and update its assessments accordingly.

The assessment indicated that the assets could be impacted by CER primarily through credit risk (deterioration of collateral valuation, deterioration of credit standing of the borrower), retail funding primarily through reputational risk (deposit outflows), wholesale funding primarily through counterparty/country risk and deterioration of securities collateral valuation, wealth management services through market sentiment (fund classes) and operational centres through operational risk (higher energy requirements, physical risk of destruction or failure).

During the assessment the Group identified higher long-term inherent climate physical risk related to Floods/ Fluvial and Sea Level in Dutch and Belgium mortgage portfolios and to Drought / Ext. Heat in Malta corporate portfolio (CRE) and Malta operational centre. Higher water stress was identified in Malta corporate portfolio (CRE) and Malta residential mortgage portfolio. In terms of transition risk the Group identified higher risk in residential mortgage portfolios driven by stranding assets risk and in Malta corporate portfolio (CRE) driven by policy/regulation risks. Higher market sentiment risk was identified in wealth management services. Short-term risk related to physical, or transition climate risk is low. The Group implemented some initiatives to mitigates these risks.

The Group also assessed the impact of MeDirect Group on the climate. The direct impact of MeDirect operation is not material as the Group mainly operates in digital channels and its greenhouse gas emissions and resources consumption are limited. The impact is mainly indirect through financing clients from the sectors highly contributing to the climate change or through green financing.

2.7 Capital management - regulatory capital

The Group's regulator, the ECB's Joint Supervisory Team (the "JST") sets and monitors capital requirements for the Group based on the capital requirements prescribed within CRR II and Capital Requirements Directive ("CRD V").

As a result, the Group is required to maintain a prescribed ratio of total capital to total risk-weighted assets. The Group does not engage in trading and is exempt from having a trading book. Risk-weighted assets on the banking book are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets including balances with counterparties and other illiquid assets.

The Group complies with the provisions of the CRR in respect of regulatory capital and it applies the standardised approach for credit risk. For regulatory purposes, the Group's capital base is divided in two main categories, namely Common Equity Tier 1 Capital and Tier 2 Capital.

- Common Equity Tier 1 Capital which includes ordinary share capital, share premium, shareholders' contributions, retained earnings, fair value reserve and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes including deductions relating to Reserve for Depositor Compensation Scheme ('Other reserves') and certain other regulatory items; and
- Tier 2 Capital consists of unrealised gains included within the fair value reserve and subordinated liabilities in issue, which rank after the claims of all depositors (including financial institutions) and all other creditors.

	Group	
	2022	2021
	%	%
CET 1 Ratio	**15.2**	15.7
Total Capital Ratio	**18.7**	19.2

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

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

In this respect, the Regulatory Group has complied with all externally imposed capital requirements throughout the year.

MDB Group Limited publishes full Pillar 3 disclosures as a separate document.

2.8 Fair value measurement

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Group measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if the transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. The judgement as to whether a market is active may include, but is not restricted to, the consideration of factors such as the magnitude and frequency of trading activity, the availability of prices and the size of bid/offer spreads.

If there is no quoted price in an active market, then the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price - i.e., the fair value of the consideration given or received. If the Group determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by the quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss only to the extent that it arises from a change in a factor (including time) that market participants would consider in setting a price.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Group measures assets and long positions at a bid price and liabilities and short positions at an ask price.

Notes to the financial statements

2.8.1 Fair value hierarchy

The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: inputs that are quoted market prices (unadjusted) in active markets for identical instruments.
- Level 2: inputs other than quoted market prices included within Level 1 that are observable either directly (i.e., as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data. Financial instruments which are generally included in this category include certain loans and advances to customers and over-the-counter derivatives where the fair value is based on observable inputs.
- Level 3: inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

2.8.2 Use of valuation techniques

In the event that the market for a financial instrument is not active, a valuation technique is used. Valuation techniques may incorporate assumptions about factors that other market participants would use in their valuations, including:

- the likelihood and expected timing of future cash flows from the instrument.
- selecting an appropriate discount rate for the instrument; and
- judgement to determine what model to use to calculate fair value in areas where the choice of valuation model is particularly subjective.

A range of valuation techniques is employed, dependent on the instrument type and available market data. Most valuation techniques are based upon discounted cash flow analyses, in which expected future cash flows are calculated and discounted to present value using a discounting curve. Prior to considering credit risk, the expected future cash flows may be known, as would be the case for the fixed leg of an interest rate swap, or may be uncertain and require projection, as would be the case for the floating leg of an interest rate swap. Projection utilises market forward curves, if available.
Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premiums used in estimating discount rates, bond and foreign currency exchange rates and expected price volatilities and correlations.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

The Group uses widely recognised valuation models for determining the fair value of common and simple financial instruments, such as interest rate and currency swaps, that use only observable market data and require minimal management judgement and estimation.

Fair values of investment securities in inactive markets are based on:

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

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

2.8.3 Financial instruments measured at fair value

The following table analyses financial instruments measured at fair value at the end of the reporting year, in terms of the respective levels within the fair value hierarchy into which the respective fair value measurement is categorised. The fair value amounts are based on the carrying amounts reflected in the statement of financial position.

Notes to the financial statements

MeDirect Malta Group	As at 31 December 2022				As at 31 December 2021			
	Level 1 €000	**Level 2 €000**	**Level 3 €000**	**Total €000**	Level 1 €000	Level 2 €000	Level 3 €000	Total €000
Assets								
Instruments measured at fair value through other comprehensive income								
- Securities investment portfolio								
- Debt and other fixed income securities	-	-	-	-	650,217	-	-	650,217
- Securitisation investment portfolio								
- Debt and other fixed income securities	-	-	-	-	-	-	327,110	327,110
Instruments mandatorily measured at fair value through profit or loss								
- Securitisation investment portfolio	-	-	572	572	-	-	1,145	1,145
- Derivative financial instruments	-	282,810	80,572	363,382	-	37,128	5,560	42,688
- Securities investment portfolio - Equity instruments	-	-	5,292	5,292	-	-	-	-
Total financial assets	-	282,810	86,436	369,246	650,217	37,128	333,817	1,021,160
Liabilities								
Derivative financial instruments	-	5,306	-	5,306	-	1,131	-	1,131

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

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

Level 3 assets consist of the following:

- As at 31 December 2021, the Group's investments in tranches of securitisation structures with a carrying amount of €327.1 million were mainly rated AAA, and their fair value was determined using third party valuation models to estimate the net present value of a series of expected cash flows, taking into consideration instrument-specific contractual terms (discounted cash flow approach). Amongst other things, these models took into consideration the characteristics of the underlying portfolio of assets (including quality of underlying assets), historical portfolio performance, and the liability structure of the CLO transaction. These models also made use of independently sourced market parameters including, for example, interest rate yield curves. Throughout the year these investments were reclassified to the amortised cost category.

- The Group's investment in the equity tranche of GH1-2019 with a carrying amount of €0.6 million (2021: €1.1 million), for which a fair value is determined using third party valuation models to estimate the net present value of a series of expected cash flows, taking into consideration instrument-specific contractual terms (discounted cash flow approach). Amongst other things, these models take into consideration the characteristics of the underlying portfolio of assets (including quality of underlying assets), historical portfolio performance, and the liability structure of the CLO transaction. These models also make use of independently sourced market parameters including, for example, interest rate yield curves.

- MeDirect has entered into back-to-back structured interest rate swaps that reinternalise interest rate risk of the securitised mortgage loan receivables. The valuation of these derivatives is performed based on the expected cashflows on the swap transaction measured until the First Optional Redemption Date (FORD) of these related securitisations transactions. The valuation includes both market observable inputs (interest rate curves) as well as mortgage loan prepayment estimates consistent with MeDirect IRRBB assumptions.

Notes to the financial statements

- As part of a derecognition of loans and advances to a European corporation as a result of restructuring procedures that occurred in 2021, the Group obtained equity instruments as part of this restructuring procedure which it initially held at nil value due to the unlikely scenario of recovering any value on the equity at that time. During 2022, the Group was notified of an agreement to sell the corporation against which the Group would be receiving proceeds for the equity positions it held. Following the closing of this transaction the Group received €5.3 million.

- Tax warrants and contingent value notes resulting from a loan restructuring arrangement, classified as derivative financial instruments amounting to €0.5 million (2021: €0.5 million).

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

MeDirect Malta Group	**Securitisation investment portfolio Measured at fair value other comprehensive income**		**Securitisation investment portfolio Measured at fair value through profit or loss**		**Securities investment portfolio Measured at fair value through profit or loss**		**Derivative financial instruments Measured at fair value through profit or loss**	
	2022	2021	**2022**	2021	**2022**	2021	**2022**	2021
	€000	€000	**€000**	€000	**€000**	€000	**€000**	€000
Year ended 31 December								
At beginning of year	**327,110**	-	**1,145**	1,143	**-**	-	**5,560**	8,373
Additions	**-**	327,322	**-**	-	**-**	-	**-**	-
Amortisation of premium/discount	**(1)**	1	**-**	-	**-**	-	**-**	-
Changes in fair value	**212**	(213)	**(573)**	2	**5,292**	-	**75,012**	(2,813)
Transfer to amortised cost category (Note 8)	**(327,321)**	-	**-**	-	**-**	-	**-**	-
At end of year	**-**	327,110	**572**	1,145	**5,292**	-	**80,572**	5,560

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

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

2.8.3.1 Transfers between levels

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

There were no transfers between levels of the fair value hierarchy during the financial years ended 31 December 2022 and 2021.

Notes to the financial statements

2.8.4 Financial instruments not measured at fair value

The following table sets out the fair values of financial instruments not measured at fair value and analyses them in terms of the respective level within the fair value hierarchy into which the respective fair value measurement is categorised. This table includes only financial instruments in respect of which fair value is estimated to be materially different than the carrying amounts.

MeDirect Malta Group — **As at 31 December 2022**

	Level 1 €000	Level 2 €000	Level 3 €000	Total fair values €000	Total carrying amount €000
Assets					
Loans and advances to customers	-	51,724	1,736,937	1,788,661	2,132,516
- International Corporate Lending portfolio	-	51,724	118,152	169,876	182,384
- Dutch Mortgage portfolio	-	-	1,486,918	1,486,918	1,818,002
- Belgian Mortgage portfolio	-	-	131,867	131,867	132,130
Investments	639,503	-	550,433	1,172,651	1,250,141
- Securities portfolio	639,503	-	-	639,503	676,711
- Securitisation portfolio	-	-	550,433	550,433	573,430
Total financial assets	639,503	51,724	2,287,370	2,978,597	3,382,657
Liabilities					
Debt securities in issue	-	-	971,209	971,209	969,569
Subordinated liabilities	53,827	-	-	53,827	54,831
Total financial liabilities	53,827	-	971,209	1,025,036	1,024,400

MeDirect Malta Group — **As at 31 December 2021**

	Level 1 €000	Level 2 €000	Level 3 €000	Total fair values €000	Total carrying amount €000
Assets					
Loans and advances to customers	-	99,247	1,840,757	1,940,004	1,915,785
- International Corporate Lending portfolio	-	99,247	163,321	262,568	272,771
- Dutch Mortgage portfolio	-	-	1,677,436	1,677,436	1,643,014
Investments	106,937	-	179,309	286,246	286,469
- Securities portfolio	106,937	-	-	106,937	107,373
- Securitisation portfolio	-	-	179,309	179,309	179,096
Total financial assets	106,937	99,247	2,020,066	2,226,250	2,202,254
Liabilities					
Debt securities in issue	-	-	663,606	663,606	658,293
Subordinated liabilities	56,668	-	-	56,668	54,994
Total financial liabilities	56,668	-	663,606	720,274	713,287

The International mortgage portfolios disclosed in the preceding tables are presented exclusive of the IFRS basis adjustment.

Notes to the financial statements

In addition to the above, as disclosed in note 20 to the financial statements in February 2021, MDB Group Limited issued €11 million fixed rate reset callable subordinated notes due on 10 February 2031. The Notes bear a fixed rate of 9.75% per annum and thereafter at a fixed rate of interest which will reset on 10 February 2026 and were admitted to the Official List of Euronext Dublin and to trading on the Global Exchange Market of Euronext Dublin.

The proceeds from the issuance of these notes, which qualify as Tier 2 capital, have been lent to MeDirect Malta as a subordinated loan for general corporate purposes, including to strengthen and optimise its capital and to support the execution of its business strategy. As at 31 December 2022, the carrying amount of this loan, amounted to €10.3 million (2021: €10.1 million) and its fair value as at the same date was €10.0 million (2021: €10.9 million). The fair value was determined by projecting the cashflows to the first call date and discounting with January-end ESTR curves to obtain the spread over the said curve. In the absence of trades since issue of this these loans in February 2021, the fair value calculation considers the impact of the rise in interest rates throughout this period which is the most likely meaningful contribution to the change in fair value. The spread over the ESTR curves during this period was utilised to measure the present values of future cashflows.

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

The Level 2 and Level 3 fair value disclosures of the International Corporate Lending portfolio mainly comprise price quotations sourced from an online platform in respect of internationally traded loans and advances, consisting of the Group's international loan book with foreign corporates. Loans and advances to customers forming part of the International Corporate Lending portfolio of the Group amounting to €329.7 million (2021: €320.6 million), net of expected credit losses, and a corporate debt security within the Group's Securities Investment portfolio, with a carrying amount of €12.1 million (2021: €12.4 million), have not been reflected within the preceding table given that there were no observable market prices or any public information available but the contractual terms of these instruments, that mainly re-price within three months, and the nature of the borrowers, are similar to those of the instruments in the preceding table and thus their fair valuation characteristics would not differ significantly from those of the instruments included in the preceding table.

The Level 3 assets also include the following:

- The Group's investments in tranches of securitisation structures amounting to €573.4 million (2021: €179.1 million), which are mainly rated AAA, and for which a fair value is determined using third party valuation models to estimate the net present value of a series of expected cash flows, taking into consideration instrument-specific contractual terms (discounted cash flow approach). Amongst other things, these models take into consideration the characteristics of the underlying portfolio of assets (including quality of underlying assets), historical portfolio performance, and the liability structure of the CLO transaction. These models also make use of independently sourced market parameters including, for example, interest rate yield curves.

- Dutch mortgages amounting to €1546.7 million (2021: €1606 million) and Belgium mortgages amounting to €132.0 million included in Loans and advances to customers. In order to derive their fair value as at 31 December 2022 and 2021, the Group bootstraps the average of the top three interest rate quotes offered by Dutch government-backed mortgage loan lenders in the Netherlands and Belgian mortgage loan lenders in Belgium respectively for every mortgage fixed rate tenor to create a zero coupon discount curve and applies this curve to discount the projected future cashflows. In addition, to estimate the future cashflows, the Group considers both instrument-specific contractual terms and estimated conditional prepayment rates.

As at 31 December 2022, the carrying amount for loans and advances to customers classified under the Maltese Business Lending portfolio amounting to €130.9 million (2021: €106.4 million) and Maltese mortgages amounting to €67.6 million (2021: €18.9 million) approximates their fair value because these loans are repriceable at the Group's discretion.

The Group's financial instruments not measured at fair value also comprise balances with central banks, loans and advances to financial institutions, and amounts owed to financial institutions and customers. The fair values of these financial assets and liabilities are not disclosed given that the carrying amount is a reasonable approximation of fair value because these are either re-priced to current market rates frequently or are short-term in nature.

As at 31 December 2022, all the Group's exposures classified under loans and advances to financial institutions amounting to €403.0 million (2021: €193.7 million), and balances with central banks amounting to €149.9 million (2021: €328.6 million), reprice or mature in less than one year. Hence their fair value is not deemed to differ materially from their carrying amount at the reporting date.

Fair values referred to above are estimated using discounted cash flows, applying market rates. These estimates are considered Level 3 fair value estimates.

Notes to the financial statements

The majority of the 'Amounts owed to financial institutions' of the Group as at 31 December 2022 amounting to €545.1 million (2021: €273.3 million), and 'Amounts owed to customers' of the Group amounting to €2.6 billion (2021: €2.7 billion), sourced from the Maltese and Belgian markets, re-price or mature in less than one year. Hence their fair value is not deemed to differ materially from their carrying amount at the reporting date. Fair values of these liabilities are estimated using discounted cash flows, applying current rates offered for deposits of similar remaining maturities. These are considered Level 3 fair value estimates. The fair value of a demand deposit is not less than the amount payable on demand, discounted from the first date on which the amount payable is required to be paid.

2.8.5 Non-current assets held for sale

Non-current assets classified as held for sale with a carrying amount of €1.8 million (2021: €1.8 million) comprise commercial properties that had been acquired in satisfaction of debt. The fair value of such properties is estimated by the directors to approximate its carrying amount.

3. Accounting estimates and judgements

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

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

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

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

Information about assumptions, estimations and uncertainties that have a significant risk of resulting in a material adjustment in the year ending 31 December 2023 is set out below in relation to estimated cash flows for the purposes of applying the effective interest method and the impairment of financial instruments.

3.2 Expected credit losses on loans and advances to customers

Financial assets measured at amortised cost are evaluated for impairment on the basis described in Accounting Policy Note 1.5. Expected credit losses ("ECL") on loans and advances represent management's best estimate of expected credit losses on the loan portfolios subject to IFRS 9 impairment requirements at the end of the reporting period. In this respect, management is required to exercise judgement in defining what is considered to be a significant increase in credit risk or an unlikeliness-to-pay event, in determining the expected lifetime and point of initial recognition of financial instruments, and in making assumptions and estimates to incorporate relevant information about past events, current conditions and forecasts of economic conditions when calculating expected credit losses.

The measurement of credit loss allowances in respect of loans and advances to customers in line with IFRS 9 principles requires complex statistical analyses and modelling assumptions, with ECL models built and calibrated principally by reference to historical information in respect of default levels and loss severities. However, due to the inherent level of estimation uncertainty in modelling such aspects of the ECL calculation, a significant element of expert judgement is required to ensure that model parameters produce an ECL output which is reasonable and appropriate in light of existing conditions.

Notes to the financial statements

For loans within the Group's International Corporate Lending and Maltese Business Lending portfolios, judgement is firstly required in determining whether there is objective evidence that an exposure is credit-impaired. In performing this assessment, management applies a significant level of judgement in evaluating all relevant information on indicators of unlikeliness-to-pay, including the consideration of factors that immediately indicate deterioration in the financial condition of borrowers, but also in respect of factors that impact the outlook of borrowers affecting their ability to pay, as described in Note 1.5. A higher level of judgement is required for loans to borrowers showing continued signs of financial difficulty similar to those experienced during the preceding financial year, and for borrowers that are performing better compared to the prior year to understand whether the improvements are sustainable going forward. These judgements are reflected within forecasted cash flow forecasts under different scenarios for Stage 2 borrowers particularly when assessing their unlikeliness to pay.

The measurement of credit loss allowances in respect of defaulted exposures is performed through an internally developed model based upon management's best estimate of the present value of the cash flows that are expected to be received under multiple forward looking scenarios. As described in note 2.2.1 the Group utilises a DCF approach. In estimating cash flows for defaulted exposures within the International Corporate Lending portfolio, management makes judgements about a debtor's financial situation and future repayment prospects, taking into consideration management plans for growth within the current environment. In this regard, judgement is applied in estimating the expected future cash flows from each borrower under the different scenarios, assigning probabilities to those scenarios, and determining appropriate discount rates reflecting borrower-specific characteristics. The determination of operating cash flows under multiple scenarios requires a significant level of judgement in order to adequately capture the current economic conditions.

The estimates of recoverable cash flows for each defaulted borrower are independently reviewed and challenged by the Group's credit risk function, and approved by the Group's Management Credit Committee.

During 2022 and 2021, the Group extended loan forbearance measures to borrowers experiencing financial difficulties by agreeing to modify the contractual payment terms of loans in order to improve collection opportunities or to avoid default. Where forbearance activities are present, higher levels of judgement and estimation uncertainty are involved in determining their effects on credit loss allowances. In the aftermath of the outbreak of the COVID-19 pandemic, a number of borrowers classified within the International Corporate Lending portfolio experienced financial difficulties, leading to debt restructuring. In this respect, significant judgement was required in determining whether substantial modifications were made to contractual terms, thereby requiring derecognition of the extinguished financial instrument(s) and the recognition of the new financial instrument(s). In addition, whether such restructuring lead to the recognition of new financial instruments or the continuing recognition of the pre-restructured debt, the determination of the relative staging of the post-restructured debt and the measurement of the associated credit loss allowances are also deemed to be highly judgemental.

For exposures classified as Stage 1 and Stage 2 within the International Corporate and Maltese Business Lending portfolios, and all exposures within the Dutch, Belgian and Maltese Mortgage portfolios, the Group measures credit loss allowances on the basis of complex models with a number of underlying assumptions. Particularly, in respect of the International Corporate portfolio, the level of estimation uncertainty is exacerbated in respect of:

(i) modelling PiT PDs and LGDs;

(ii) forecasting macroeconomic scenarios for the purposes of estimating probability-weighted credit loss allowances;

(iii) the determination of expected maturities of facilities, particularly in the case of International Corporates classified as Stage 2; and

(iv) assessing if there has been a significant increase in credit risk, which comprise a combination of qualitative and quantitative criteria, as described in Note 1.5;

The PD, LGD and EAD models used for the measurement of credit loss allowances for the International Corporate Lending, Maltese Business Lending and Dutch Mortgage portolio are developed by an external vendor, enabling the estimation of these three key risk parameters at a facility level using statistical models, mainly by benchmarking exposure-specific characteristics against an underlying dataset. Specifically, PDs and LGDs are developed on a name-by-name basis by reference to the default and loss history of comparable borrowers with similar characteristics in terms of size, industry and country of operations.

Notes to the financial statements

In this regard, the methodology together with the assumptions and parameterisation used in the calibration of the model are reviewed on a regular basis by management in order to ensure that the model output remains appropriate in view of the Group's observed default and credit loss history. A significant level of judgement is required in order to assess the continuing appropriateness and reasonableness of the PiT PDs and LGDs being determined by the statistical models. In this respect, it is noteworthy to mention that the Group's IFRS 9 model for determining PiT PDs is particularly sensitive to equity market data. As a result, given that equity prices are driven by factors unrelated to creditworthiness, a significant level of expert judgement is required to determine the reasonableness of ECL model outputs. As described in more detail in Note 2.2.7 of the financial statements, as at 31 December 2022 the Group did not resort to the application of overlays.

Similarly, significant judgement was also required in the modelling and selection of macroeconomic forecasts as well as in calibration of the severities and respective probability weights of macroeconomic scenarios used in the determination of ECLs. Judgement in this respect has been amplified by the heightened level of uncertainty triggered by the unprecedented economic and socio-political conditions being currently experienced across countries and industries. In this respect, a number of modelling assumptions are required, based on expert judgement, in order to form a view on the expected time horizon for the global economy to return to pre-COVID-19 levels and the impact of the conflict between Russia and Ukraine on macroeconomic variables in specific countries and industries.

Hence, as at 31 December 2022, the development of multiple forward-looking macroeconomic scenarios taking into consideration all these variables represents a key element of estimation uncertainty in the measurement of credit loss allowances. In addition, as described in Note 2.2.7 of the financial statements, the Group ensures that the modelled macroeconomic forecasts provided by the external vendor that supplies the Group with the applicable modelled scenarios for the purposes of ECL modelling are aligned with the ECB staff macroeconomic projections published in December 2022.

In view of the high subjectivity involved in forecasting scenarios and the sensitivity of the ECL to the key changes in the number, selection and probability weightings applicable to the different scenarios, the Group has recalculated the ECL under the different scenarios both by applying a 100% weight to each scenario, as well as by re-calibrating the probability weights to scenario severities determined by the external vendor as in the preceding year, i.e. prior to any post-model adjustments. The effect of this uncertainty on the ECL outcome is disclosed in the sensitivity analysis of the measured credit loss allowances as at 31 December 2022 and 2021 presented in Note 2.2.7 of the financial statements.

The determination of expected maturities, which is particularly relevant for Stage 2 exposures within the International Corporate Lending portfolio, is based on behavioural maturity, reflecting management expectations on the exercise of prepayment options, based on borrowers' ability to refinance their debt in the open market. The level of subjectivity in determining expected maturities increases significantly when increased credit risk is experienced by such borrowers as it diminishes their refinancing abilities over the shorter term. In this context, management continues to monitor the expected maturities of borrowers in Stage 2 by reference to borrower specific information as well as by benchmarking the expected timing of future recoveries against actual outcomes to ensure that they remain appropriate.

The identification of SICR events, particularly in respect of the International Corporate Lending portfolio, requires significant judgement in order to assess the severity of the impact of the pandemic and the military conflict between Russia and Ukraine on the financial performance and financial condition of such borrowers. In this respect, during 2022 and 2021, increased reliance has continued to be made by the Group on its qualitative staging criteria, particularly through the introduction of caps on implied ratings and notch downgrades to ensure that borrower specific risks as at the end of the financial reporting period are captured in as timely a manner as possible.

3.3 Valuation of derivatives and hedge accounting

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

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

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

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

4. Balances with central banks and cash

	Group	
	2022 €000	2021 €000
At amortised cost:		
Balances with central banks	**149,925**	328,625
Cash	**4**	1
	149,929	328,626

As at 31 December 2022, balances held with central banks include reserve deposits of the Group amounting to €26.5 million (2021: €25.9 million) relating to the Minimum Reserve Requirement in terms of Regulation (EC) No 1745/2003 of the ECB bearing interest at 0% per annum. Other balances with central banks held with the National Bank of Belgium amounting to €104.3 million (2021: €187.0 million) are subject to a positive interest rate of 2% (2021: negative interest rate of 0.5%) per annum. The remaining balances that are held with Central Bank of Malta are subject to a positive interest rate of 2% per annum (2021: 0% per annum).

Balances with central banks in the preceding table are shown net of credit loss allowances amounting to €2 thousand as at 31 December 2022 (2021: €2 thousand).

Notes to the financial statements

5. Derivative financial instruments

The Group established derivative lines with counterparties to purchase foreign exchange swaps, interest rate swaps and other appropriate instruments approved for hedging risks.

The Group uses over-the-counter foreign exchange swaps to hedge its exposure to changes in foreign exchange rates. All foreign exchange swaps mature within 2 months (2021: 2 months) from the reporting date.

The Group uses over-the-counter interest rate swaps to hedge its exposure to changes in the fair values of specific fixed rate securities attributable to changes in market interest rates (micro fair value hedging). Interest rate swaps are matched to fixed rate securities in designated fair value hedging transactions. The net gains on the hedged items arising during the year attributable to the hedged risk were €1.5 million (2021: net losses of €1.2 million). The net gains on the related hedging instruments during the year ended 31 December 2022 were €6.1 million (2021: net gains of €1.2 million).

The Group also uses over-the-counter interest rate swaps to hedge its exposure to interest rate risk emanating from a portfolio of fixed-rate mortgages (see Note below – macro fair value hedging under the EU carve-out version of IAS 39). The net gains on the related hedging instruments during the year ended 31 December 2022 were €238.2 million (2021: net gains of €48.3 million). The net losses on the hedged items arising during the year attributable to the hedged risk were €235.5 million (2021: net losses of €47.7 million).

Foreign exchange and interest rate swaps are commitments to exchange one set of cash flows for another, resulting in an economic exchange of currencies or interest rates (for example, fixed rate for floating rate).

	Group	
	2022	2021
	€000	€000
Derivative financial assets - fair value	**363,382**	42,688
Derivative financial liabilities - fair value	**(5,306)**	(1,131)

The Group applies fair value hedge accounting on micro level in which one hedged item is hedged with one or multiple hedging instruments as well as on macro level whereby a portfolio of items is hedged with multiple hedging instruments. For macro hedges of interest rate risk the Group applies the EU 'carve-out' version of IAS 39. The EU 'carve-out' rules for macro hedging enable a group of derivatives (or proportions) to be viewed in combination and jointly designated as the hedging instrument and remove some of the limitations in fair value hedge accounting relating to hedging net positions of loans and core deposits and under-hedging strategies. Thus, interest rate exposures on retail funding (savings and current accounts) and Dutch mortgages are initially offset. The remaining exposure is hedged in a portfolio hedge, using the EU 'carve-out' version of IAS 39, in which a portion of the retail mortgage lending portfolio is designated as a hedged item for hedge accounting purposes. The Group applies the following types of hedge accounting:

Fair value hedges

Hedging the interest rate risk in respect of loans and advances to customers (macro hedge)

The hedged portfolio comprises fixed-rate mortgages of MeDirect Belgium (refer to Note 7). These are mortgages that have a fixed-rate interest period of more than 240 months. The hedging instruments are interest rate swaps entered into as part of interest rate risk management in the Asset and Liability Management ('ALM') process. The risk being hedged is the risk of change in fair value of the portfolio attributable to movements in market interest rates. Effectiveness assessments are performed on a retrospective and a prospective basis, using the dollar offset method.

Hedging the interest rate risk on investments (micro hedge)

The interest rate risk on specific fixed-income investments (refer to Note 8), on an individual asset basis, is hedged by swapping the coupon to a floating interest rate using interest rate swaps. The country or credit spread is not hedged. The hedges provide protection for changes in fair value of the relevant fixed-income investments attributable to movements in market interest rates. Effectiveness assessments are performed on a retrospective and a prospective basis, using the dollar offset method.

Notes to the financial statements

Hedge ineffectiveness can arise from:

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

The fair values of the held for trading derivatives and derivatives designated as hedging instruments in fair value hedges together with the related notional amounts, distinguishing between micro hedges and macro hedges for the purposes of hedge accounting, are as follows:

	Group			
	Notional 2022 €000	**Fair value 2022 €000**	Notional 2021 €000	Fair value 2021 €000
Derivatives held for trading – Assets				
Instrument type:				
- Foreign exchange swaps	**85,809**	**1,503**	3,997	2
- Other derivative financial instruments		**511**		511
		2,014		513
Derivatives held for trading – Liabilities				
Instrument type:				
- Foreign exchange swaps	**4,565**	**-**	105,054	(963)
- Interest rate swaps	**-**	**-**	200,000	(57)
		-		(1,020)
Net derivatives held for trading		**2,014**		(507)
Derivatives designated as hedging instruments in fair value hedges – Assets				
Instrument type:				
- Interest rate swaps maturing in				
More than one year and less than five years				
- Micro hedges	**120,300**	**6,788**	71,300	728
- Macro hedges	**304,233**	**108,607**	372,859	7,974
More than five years				
- Macro hedges	**1,075,017**	**245,973**	844,317	33,473
		361,368		42,175
Derivatives designated as hedging instruments in fair value hedges – Liabilities				
Instrument type:				
- Interest rate swaps maturing in				
More than one year and less than five years				
- Micro hedges	**-**	**-**	49,000	(11)
- Macro hedges	**200,000**	**(5,306)**	79,360	(63)
More than five years				
- Micro hedges	**-**	**-**	-	-
- Macro hedges	**-**	**-**	8,900	(37)
		(5,306)		(111)
Net derivatives designated as hedging instruments in fair value hedges		**356,062**		42,064

MeDirect has entered into back-to-back structured interest rate swaps that reinternalise interest rate risk of the securitised mortgage loan receivables. The derivative asset side included above within the Group's derivative assets designated as hedging instruments in fair value hedges amounts to €80.6 million (2021: €5.1 million). As described in Note 2.2.9, the respective derivative financial liabilities are offset against loans and advances to financial institutions as a netting agreement is in place with the counterparty.

The carrying amounts and the accumulated basis adjustment for fixed-rate mortgages and fixed-income investments are respectively included in the statement of financial position within Loans and advances to customers and within Investments – Securities portfolio, and accordingly disclosed in note 7 and note 8.

The accumulated basis adjustment within loans and advances to customers amounting to €271.3 milllion (2021: €37.1 million) also includes the accumulated unamortised fair value hedge adjustments of €3.7 million (2021: nil) related to hedges that have been discontinued and are now amortised.

6. Loans and advances to financial institutions

	Group		Company	
	2022	2021	**2022**	2021
	€000	€000	**€000**	€000
At amortised cost:				
Repayable on call and at short notice	**227,865**	136,494	**158**	102
Term loans and advances	**175,280**	57,332	**-**	-
	403,145	193,826	**158**	102

As at 31 December 2022, €47.3 million (2021: €8.2 million) of the Group's loans and advances to financial institutions were pledged as collateral, most of which were in relation to the funding of the purchase of Dutch mortgages amounting to €9.9 million (2021: €6.1 million) and €36.5 million in relation to the funding of the purchase of Belgium mortgages.

Besides the above, the Group has amounts of €161.6 million (2021: €52.6 million) that are held for the purposes of margin requirements on hedging instruments attributable to the Dutch Mortgage lending business, and are hence considered encumbered.

As at 31 December 2022, other loans and advances to financial institutions amounting to €77.3 million (2021: €5.5 million) were encumbered, most of which were pledged in favour of Eurex Clearing AG in relation to clearing of derivative financial instruments. In addition, these encumbered assets also include €8.4 million (2021: €8.4 million) in the form of cash that has been contributed by the Group to a derivatives clearing fund held by Eurex Clearing AG, of which the Group is a member. The clearing fund protects members against losses until they leave the clearing fund.

Loans and advances to financial institutions as at 31 December 2022 and 2021 were neither past due nor credit-impaired and no forbearance measures were applied by the Group in this respect. In addition, loans and advances to financial institutions in the preceding table are shown net of credit loss allowances amounting to €1 thousand as at 31 December 2022 and 2021.

7. Loans and advances to customers

	Group	
	2022 €000	2021 €000
International Corporate Lending portfolio		
- Term loans and advances: corporate	**526,813**	614,814
Dutch Mortgage portfolio		
- Term loans and advances: retail	**1,818,186**	1,643,163
Belgian Mortgage portfolio		
- Term loans and advances: retail	**132,130**	-
IFRS basis adjustment - International mortgage portfolio	**(271,273)**	(37,149)
Maltese Business Lending portfolio		
- Repayable on call and short notice: corporate	**4,731**	4,090
- Term loans and advances: corporate	**126,334**	102,270
Maltese Mortgage portfolio		
- Term loans and advances: retail	**67,793**	19,030
Gross loans and advances to customers	**2,404,714**	2,346,218
Less: Credit loss allowances	**(15,421)**	(21,915)
	2,389,293	2,324,303

Group	Allowance booked under									
	Stage 1		Stage 2		Stage 3		POCI		Total	
	2022 €000	2021 €000	**2022 €000**	2021 €000	**2022 €000**	2021 €000	**2022 €000**	2021 €000	**2022 €000**	2021 €000
Credit loss allowances:										
- International corporate lending	**(5,165)**	(2,130)	**(2,942)**	(3,855)	**(6,368)**	(15,470)	**(224)**	-	**(14,699)**	(21,455)
- Dutch mortgage portfolio	**(106)**	(71)	**(71)**	(62)	**(7)**	(16)	**-**	-	**(184)**	(149)
- Belgian mortgage portfolio	**(114)**	-	**(16)**	-	**-**	-	**-**	-	**(130)**	-
- Maltese business lending portfolio	**(208)**	(106)	**(4)**	(15)	**(1)**	(113)	**-**	-	**(213)**	(234)
- Malta mortgage portfolio	**(195)**	(77)	**-**	-	**-**	**-**	**-**	-	**(195)**	(77)
	(5,788)	(2,384)	**(3,033)**	(3,932)	**(6,376)**	(15,599)	**(224)**	-	**(15,421)**	(21,915)

The negative fair value/basis adjustment amounting to €271.7 million (2021: negative fair value/basis adjustment amounting to €37.1 million) is attributable to interest rate swaps entered into as part of the interest rate risk management in the ALM process to hedge the risk of change in fair value of the portfolio attributable to movements in market interest rates (refer to Note 5). The movement led to losses on hedged items attributable to the hedged risk amounting to €235.5 million (2021: losses of €47.7 million) as disclosed in note 24 to these financial statements.

As disclosed in further detail in Note 19, as at 31 December 2022 Dutch retail mortgages amounting to €1,219.7 million (2021: €734.6 million) have been securitised through three (2021: two) Residential Mortgage-Backed Security ("RMBS") transactions. As risks and rewards were deemed to have been retained by MeDirect Belgium, as at 31 December 2022 and 2021, these were recognised on the Group's statement of financial position.

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

Loans and advances relating to exposures within the International Corporate Lending portfolio amounting to €12.7 million have been written off during the financial year (2021: €38.1 million). Consequently, during the financial year ended 31 December 2022 credit loss allowances amounting to €12.7 million (2021: €11.2 million) relating to such write-offs have been released to profit or loss.

Throughout the financial year ended 31 December 2021, the Group derecognised loans and advances to one European corporation with a gross carrying amount of €11.3 million as a result of restructuring procedures. As at the date of restructuring, credit loss allowances recognised in respect of these financial instruments amounted to €3.4 million. These financial instruments were replaced by new loans and advances to customers with a gross carrying amount of €7.9 million that were classified as hold to collect financial assets measured at amortised cost on initial recognition. The holding of the new loans and advances to customers represent the continuing interaction with these customers. No such restructuring procedures took place in 2022.

8. Securities and Securitisation Investment portfolios

	Group	
	2022 €000	2021 €000
Investments measured at amortised cost including basis adjustment attributable to the hedged risk		
- Debt and other fixed income securities	**688,942**	119,831
- Less: Credit loss allowances	**(196)**	(131)
Investments measured at fair value through other comprehensive income		
- Debt and other fixed income securities	**-**	650,217
Investments measured at fair value through profit and loss		
- Equity instruments	**5,292**	-
	694,038	769,917
Credit loss allowances:		
- On investments measured at amortised cost	**(196)**	(131)
- On debt and other fixed income securities measured at fair value through other comprehensive income	**-**	(27)
	(196)	(158)

Group	**Measured at amortised cost**		**Measured at fair value through other comprehensive income**		**Measured at fair value through profit and loss**	
	2022 €000	2021 €000	**2022 €000**	2021 €000	**2022 €000**	2021 €000
Debt securities and other fixed income securities						
Issued by public bodies						
- foreign national and regional governments	**135,590**	25,194	**-**	150,439	**-**	-
- supranational	**154,067**	60,974	**-**	99,799	**-**	-
Issued by other bodies						
- foreign banks	**302,253**	11,185	**-**	329,641	**-**	-
- corporations	**96,836**	22,347	**-**	70,338	**-**	-
	688,746	119,700	**-**	650,217	**-**	-
Equity instruments						
Issued by public issuers						
- corporations					**5,292**	-
					5,292	-
Listing status						
- listed on foreign recognised exchanges	**676,711**	107,373	**-**	650,217	**-**	-
- not listed	**12,035**	12,327	**-**	-	**5,292**	-
	688,746	119,700	**-**	650,217	**5,292**	-

Notes to the financial statements

Group	Measured at amortised cost		Measured at fair value through other comprehensive income		Measured at fair value through profit and loss	
	2022 €000	2021 €000	**2022 €000**	2021 €000	**2022 €000**	2021 €000
Year ended 31 December						
At beginning of year	**119,700**	198,049	**650,217**	659,670	**-**	-
Additions	**204,819**	-	**-**	121,247	**-**	-
Redemptions	**(35,000)**	(77,295)	**(240,653)**	(122,297)	**-**	-
(Losses)/gains on hedged items attributable to the hedged risk	**(5,897)**	(110)	**362**	(1,046)	**-**	-
Amortisation of premium/discount	**2,642**	(1,051)	**(8,618)**	(5,738)	**-**	-
Changes in fair value	**-**	-	**1,239**	(1,619)	**5,292**	-
Movement in credit loss allowances	**(65)**	107	**-**	-	**-**	-
Reclassification to amortised cost category	**402,547**	-	**(402,547)**	-	**-**	-
At end of year	**688,746**	119,700	**-**	650,217	**5,292**	-

Investment securities with a nominal value of €588.8 million are pledged as collateral with Eurex against the provision of borrowing facilities (2021: €694.8 million). These include investment securities that are held on balance sheet with a carrying amount of €557.5 million (2021: €649.7 million). In addition, investment securities with a nominal value of €34.7 million (2021: €56.8 million) are subject to a bilateral repo with a global bank.

The cash value of unutilised borrowing facilities (headroom) of the Group as at 31 December 2022 which are secured by the investment securities referred to above amounted to €387.1 million (2021: €498.6 million).

As at 31 December 2022, an amount of €3.9 million (2021: €3.9 million) in the form of High Quality Liquid Assets have been contributed by MeDirect Malta to a derivatives clearing fund held by Eurex Clearing AG, of which MeDirect Malta is a member. The clearing fund protects members against losses until they leave the clearing fund.

A further €2.0 million in the form of High-Quality Liquid Assets as at 31 December 2022 (2021: €2.0 million) were also contributed to Eurex Clearing AG to cover for daily margining.

Furthermore, as at 31 December 2022, MeDirect Malta also held €5.5 million (2021: €5.3 million) in the form of High Quality Liquid Assets with Saxo Bank as collateral for trading purposes.

Investment securities with a nominal value of €110.5 million (2021: €95.6 million) and a carrying amount of €112.0 million (2021: €98.6 million) are also pledged as part of the cooperation with the Blauwtrust Groep to access their multi-investor platform to purchase newly originated Dutch mortgages.

As at 31 December 2022, investment securities held by the Group with a nominal value of €2.3 million (2021: €4.3 million) and a fair value of €2.1 million (2021: €4.3 million) were pledged as a “payment commitment” in favour of the Maltese Depositor Compensation Scheme (DCS).

The interest rate risk on specific fixed-income investments (refer to Note 5), on an individual asset basis, is hedged by swapping the coupon to a floating interest rate using interest rate swaps. The country or credit spread is not hedged. The hedges provide protection for changes in fair value of the relevant fixed-income investments attributable to movements in market interest rates. Effectiveness assessments are performed on a retrospective and a prospective basis, using the dollar offset method. MeDirect Malta’s interest rate risk on specific fixed-income investments with a carrying amount of €108.0 million (2021 €103.7 million) is hedged by swapping the coupon to a floating interest rate using interest rate swaps. This includes a negative fair value/basis adjustment amounting to €5 million (2021: positive fair value/basis adjustment amounting to €0.3 million).

As at 31 December 2022 and 2021, the Group had no commitment to purchase further investment securities.

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

Notes to the financial statements

Securitisation Investment portfolio

	Group	
	2022 **€000**	2021 €000
Investments measured at amortised cost		
- Debt and other fixed income securities	**573,608**	179,236
- Less: Credit loss allowances	**(179)**	(140)
Investments measured at fair value through other comprehensive income		
- Debt and other fixed income securities	**-**	327,110
Investments mandatorily measured at fair value through profit or loss		
- Debt and other fixed income securities	**572**	1,145
	574,001	507,351

Group	Measured at amortised cost		Measured at fair value through other comprehensive income		Measured at fair value through profit and loss	
	2022 **€000**	2021 €000	**2022** **€000**	2021 €000	**2022** **€000**	2021 €000
Year ended 31 December						
At beginning of year	**179,096**	292,063	**327,110**	-	**1,145**	1,143
Additions	**67,000**	65,000	**-**	327,322	**-**	-
Redemptions	**-**	(178,000)	**-**	-	**-**	-
Amortisation of premium/discount	**51**	22	**(1)**	2	**-**	-
Changes in fair value	**-**	-	**212**	(214)	**(573)**	2
Movement in credit loss allowances	**(39)**	11	**-**	-	**-**	-
Reclassification to amortised cost category	**327,321**	-	**(327,321)**	-	**-**	-
At end of year	**573,429**	179,096	**-**	327,110	**572**	1,145

As at 31 December 2022 the Group had pledged €176.8 million of the securitisation investment portfolio in favour of third parties against the provision of borrowing facilities (2021: €94.9 million).

In July 2019, MeDirect Malta acquired a 5% vertical slice in each of the GH1-2019 structured note tranches for risk retention purposes, for the amount of €20.2 million. As at 31 December 2022, with the exception of the equity tranche amounting to €0.6 million (2021: €1.1 million) and mandatorily measured at FVTPL, MeDirect Malta's investment in the remaining tranches amounting to €18.5 million (2021: €18.5 million) is measured at amortised cost.

During the financial year ended 31 December 2022, the Group also acquired portions in CLO transactions amounting to €67.0 million (2021: €392.3 million) corresponding to tranches with the highest credit rating in such CLO structures which are managed by third party entities. These acquired portions in CLO transactions are listed on recognised exchanges but not centrally traded. The underlying assets for these CLO transactions are leveraged loans, predominantly senior secured leveraged loans, and high yield corporate bonds. As at 31 December 2022, positions with a nominal value of €555.1 million in total (2021: €160.8 million) are held in a 'hold to collect' business model and measured at amortised cost. As at 31 December 2021, positions with a nominal amount of €327.3 million were held in a 'hold to collect and sell' business model and measured at fair value through other comprehensive income.

Reclassification of investments

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

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

Notes to the financial statements

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

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

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

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

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

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

As part of its monthly risk management report, the Risk function provides an overview of all its investments portfolio (both Securities Investments portfolio and Securitisation Investments portfolio) where the credit quality of all investments is monitored and the deterioration of the asset base, if any, is reported.

Notes to the financial statements

9. Investment in subsidiaries

Name of subsidiary	Country of incorporation/ formation	Nature of business	Equity interest 2022 %	2021 %
MeDirect Bank (Malta) plc	Malta	Banking	**100**	100

	Company 2022 €000	2021 €000
Year ended 31 December		
At beginning of year – As previously stated	**264,110**	264,110
Change in accounting policy – Accounting of investment in subsidiary using the equity method	**(31,186)**	(11,843)
At beginning of year – As restated	**232,924**	252,267
Share of results and reserves	**9,633**	(19,343)
At end of year	**242,557**	232,924

	Company 2022 €000	2021 €000
At 31 December		
Cost	**130,914**	130,914
Shareholders' contribution	**133,196**	133,196
Share of results and reserves	**(21,553)**	(31,186)
Net book amount	**242,557**	232,924

MeDirect Malta owns the following subsidiaries:

Name of subsidiary	Country of incorporation/ formation	Nature of business	Equity interest 2022 %	2021 %
MeDirect Bank SA	Belgium	Banking	**100**	100
Medifin Leasing Limited	Malta	Leases of software and equipment	**100**	100
Medifin Estates (partnership)	Malta	Operating lease of branches	**100**	100

MeDirect Belgium was incorporated on 16 June 2014 and was authorised as a Belgian credit institution on 1 June 2015. MeDirect Belgium's principal activities comprise those of offering competitive and cost-effective savings and wealth management products to the Belgian retail market, the provision of senior secured loans to foreign companies and the financing of Dutch and Belgian mortgages, including RMBS transactions. MeDirect Belgium's subsidiary MeHomeLoans B.V., a company registered in the Netherlands, which is in the process of liquidation.

Medifin Estates is a partnership set up on 5 June 2012. This partnership enters into certain operating leases for property to be used as offices and branches which are then leased to MeDirect Malta.

Medifin Leasing Limited was incorporated on 20 July 2011 and was acquired by MeDirect Malta on 4 January 2021 from Medifin Investments Limited. Medifin Leasing's principal activities comprise those of leasing out property, equipment and intangible assets (predominantly software) and providing related support services to MeDirect Malta and MeDirect Belgium.

On 4 January 2021, MeDirect Malta acquired all the share capital of Medifin Leasing from the ultimate parent company Medifin Investments Limited, representing 99.9% of the voting rights in Medifin Leasing. Medifin Leasing's principal activities comprise those of leasing out property, equipment and intangible assets (predominantly software) and providing related support services to MeDirect Malta and MeDirect Belgium.

Notes to the financial statements

MeDirect Malta paid a cash consideration of €0.5 million for this acquisition, which, as denoted in the following table, approximates the recognised fair values of the acquired assets and liabilities assumed as at the date of acquisition.

	€000
Property and equipment	**1,406**
Intangible assets	**6,574**
Trade and other receivables	**2,873**
Cash and cash equivalents	**9**
Deferred tax liability	**(299)**
Borrowings	**(9,835)**
Trade and other payables	**(198)**
Fair value of identifiable net assets acquired	**530**

The fair value of the acquired assets and liabilities assumed as at the date of acquisition have been determined to approximate the carrying amounts as recognised by Medifin Leasing.

In this respect, the Group elected to apply the predecessor method of accounting prospectively, i.e. with effect from the date of gaining control, without restating comparatives, and as a result, Medifin Leasing's balances were incorporated within the Group's consolidated financial statements at acquisition date. Accordingly, the assets and liabilities of Medifin Leasing were stated at carrying values, with no recognition of goodwill. The difference between the consideration and the aggregate carrying value of the assets and liabilities of Medifin Leasing at the date of the transaction, has been reflected in equity within retained earnings.

Similarly, as disclosed in the table below, the difference between the carrying value of the assets and liabilities of Medifin Leasing and of the net carrying value of the Right-of-Use (ROU) assets and corresponding lease liabilities previously recognised within the Group's consolidated financial statements from its lease arrangements with Medifin Leasing, amounting to €3.3 million, has also been reflected as the adjustment to equity within retained earnings.

	€000
Fair value of identifiable net assets acquired (refer to previous table)	**530**
Net carrying value of the right-of-use assets and corresponding liabilities:	
- Derecognition of right-of-use assets included in Property, plant and equipment (Note 10)	**(2,129)**
- Derecognition of right-of-use assets included in Intangible assets (Note 11)	**(7,835)**
- Derecognition of lease liabilities previously recognised (Note 23)	**6,955**
- Other	**244**
	(2,765)
Adjustment to equity	**3,295**

Notes to the financial statements

10. Property and equipment

Group	Improvements to premises €000	Computer equipment €000	Other equipment €000	Fixtures and fittings €000	Motor vehicles €000	Right-of-use assets €000	Total €000
As at 1 January 2021							
Cost	562	1,645	120	846	-	12,864	16,037
Accumulated depreciation	(170)	(736)	(55)	(316)	-	(3,049)	(4,326)
Net book amount	392	909	65	530	-	9,815	11,711
Year ended 31 December 2021							
At beginning of year	392	909	65	530	-	9,815	11,711
Impact of acquisition of subsidiary (Note 9)	27	1,333	-	46	-	(2,129)	(723)
Additions	-	699	12	12	80	-	803
Disposals	-	(203)	-	-	-	-	(203)
Depreciation for the year	(70)	(1,112)	(27)	(98)	(5)	(1,266)	(2,578)
Depreciation released on disposals	-	176	-	-	-	-	176
At end of year	349	1,802	50	490	75	6,420	9,186
As at 31 December 2021							
Cost	589	3,474	132	904	80	10,735	15,914
Accumulated depreciation	(240)	(1,672)	(82)	(414)	(5)	(4,315)	(6,728)
Net book amount	349	1,802	50	490	75	6,420	9,186
Year ended 31 December 2022							
At beginning of year	**349**	**1,802**	**50**	**490**	**75**	**6,420**	**9,186**
Additions	**21**	**962**	**35**	**437**	**-**	**355**	**1,810**
Modification of lease	**-**	**-**	**-**	**-**	**-**	**(1,075)**	**(1,075)**
Disposals	**(152)**	**(96)**	**(5)**	**(123)**	**-**	**-**	**(376)**
Depreciation for the year	**(69)**	**(849)**	**(29)**	**(122)**	**(15)**	**(1,058)**	**(2,142)**
Depreciation released on disposals	**76**	**31**	**3**	**61**	**-**	**-**	**171**
At end of year	**225**	**1,850**	**54**	**743**	**60**	**4,642**	**7,574**
As at 31 December 2022							
Cost	**458**	**4,340**	**162**	**1,218**	**80**	**10,015**	**16,273**
Accumulated depreciation	**(233)**	**(2,490)**	**(108)**	**(475)**	**(20)**	**(5,373)**	**(8,699)**
Net book amount	**225**	**1,850**	**54**	**743**	**60**	**4,642**	**7,574**

As at 31 December 2022, the Group operated from five immovable properties (2021: four) which are held under lease agreements.

The right-of-use assets disclosed in the preceding table reflect the following assets relating to leases:

	Group	
	2022 €000	2021 €000
Premises	**4,642**	6,420

Notes to the financial statements

As referred to in Note 9, on 4 January 2021, MeDirect Malta acquired all the share capital of Medifin Leasing, which was set up with the object of acquiring immovable or movable property, rights and licences, in particular software solutions and hardware, and to lease these assets to MeDirect Malta and MeDirect Belgium. As a result of the acquisition, the assets of Medifin Leasing were reflected within the consolidated financial statements of the Group at their carrying values. Simultaneously, the Right-of-Use (ROU) assets and corresponding lease liabilities previously recognised within the Group's consolidated financial statements, arising from its lease arrangements with Medifin Leasing in respect of the same assets, have been derecognised.

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

		Group		
	Premises €000	**Computer equipment €000**	**Other equipment €000**	**Total €000**
As at 1 January 2021				
Cost	9,869	2,714	281	12,864
Accumulated depreciation	(2,183)	(796)	(70)	(3,049)
Net book amount	7,686	1,918	211	9,815
Year ended 31 December 2021				
At beginning of year	7,686	1,918	211	9,815
Impact of acquisition of subsidiary (Note 9)	-	(1,918)	(211)	(2,129)
Depreciation for the year	(1,266)	-	-	(1,266)
At end of the year	6,420	-	-	6,420
As at 31 December 2021				
Cost	9,869	796	70	10,735
Accumulated depreciation	(3,449)	(796)	(70)	(4,315)
Net book amount	6,420	-	-	6,420
Year ended 31 December 2022				
At beginning of year	**6,420**	**-**	**-**	**6,420**
Additions	**355**	**-**	**-**	**355**
Modification of lease	**(1,075)**	**-**	**-**	**(1,075)**
Depreciation for the year	**(1,058)**	**-**	**-**	**(1,058)**
At end of the year	**4,642**	**-**	**-**	**4,642**
As at 31 December 2022				
Cost	**9,149**	**796**	**70**	**10,015**
Accumulated depreciation	**(4,507)**	**(796)**	**(70)**	**(5,373)**
Net book amount	**4,642**	**-**	**-**	**4,642**

The relevant lease liabilities are disclosed and analysed in Note 23 to these financial statements.

There were no capitalised borrowing costs related to the acquisition of property and equipment during the year (2021: nil).

Notes to the financial statements

11. Intangible assets

	Goodwill €000	Computer software €000	Group Right-of-use assets €000	Customer list €000	Total €000
As at 1 January 2021					
Cost	461	10,562	11,943	474	23,440
Accumulated amortisation	-	(3,016)	(4,108)	(474)	(7,598)
Net book amount	461	7,546	7,835	-	15,842
Year ended 31 December 2021					
At beginning of year	461	7,546	7,835	-	15,842
Impact of acquisition of subsidiary	-	6,574	(7,835)	-	(1,261)
Additions	-	3,650	-	-	3,650
Disposals	-	(1,281)	-	-	(1,281)
Amortisation and impairment charges for the year	-	(4,298)	-	-	(4,298)
Amortisation released on disposals	-	840	-	-	840
At end of year	461	13,031	-	-	13,492
As at 31 December 2021					
Cost	461	19,505	-	474	20,440
Accumulated amortisation	-	(6,474)	-	(474)	(6,948)
Net book amount	461	13,031	-	-	13,492
Year ended 31 December 2022					
At beginning of year	**461**	**13,031**	**-**	**-**	**13,492**
Additions	**-**	**4,304**	**-**	**-**	**4,304**
Write-off	**-**	**(52)**	**-**	**-**	**(52)**
Amortisation and impairment charges for the year	**-**	**(4,014)**	**-**	**-**	**(4,014)**
Amortisation released on write-off	**-**	**37**	**-**	**-**	**37**
At end of year	**461**	**13,306**	**-**	**-**	**13,767**
As at 31 December 2022					
Cost	**461**	**23,757**	**-**	**474**	**24,692**
Accumulated amortisation	**-**	**(10,451)**	**-**	**(474)**	**(10,925)**
Net book amount	**461**	**13,306**	**-**	**-**	**13,767**

The right-of-use assets reflected in the preceding table related to leased computer software. The relevant lease liabilities are disclosed and analysed in Note 23 to these financial statements.

As referred to in Note 9, on 4 January 2021, MeDirect Malta acquired all the share capital of Medifin Leasing, which was set up with the object of acquiring immovable or movable property, rights and licences, in particular software solutions and hardware, and to lease these assets to MeDirect Malta and MeDirect Belgium. As a result of the acquisition, the assets of Medifin Leasing were reflected within the consolidated financial statements of the Group at their carrying values. Simultaneously, the Right-of-Use (ROU) assets and corresponding lease liabilities previously recognised within the Group's consolidated financial statements, arising from its lease arrangements with Medifin Leasing in respect of the same assets, have been derecognised.

As at 31 December 2022, internally generated software included within Computer software in the table above amounted to €5.6 million (2021: €5.0 million). Capitalised staff costs in respect of the financial year ended 31 December 2022, included within "Additions" to Computer software in the table above amounted to €2.1 million (2021: €1.8 million). Meanwhile, amortisation recognised during the year in respect of internally generated software amounts to €1.6 million (2021: €1.1 million).

Amortisation of amounts capitalised by the Group of €1.8 million (2021: €2.3 million) had not yet commenced by the end of the reporting year.

Notes to the financial statements

The carrying amount of the assets written off during the current financial year, and the impairment charges recognised during the year in respect of such assets, reflected in the tables above, are deemed insignificant and accordingly no further disclosures were presented in this respect.

There were no capitalised borrowing costs related to the acquisition of software during the year (2021: nil).

Impairment assessment on goodwill arising on the acquisition of Wealth Management business in prior years

The recoverable amount attributable to the wealth management business acquired in prior years was based on its value in use and was determined by discounting the future cash flows to be generated from its continuing operations taking into account synergies as well as the enhanced client platform. The recoverable amount was determined to be higher than the carrying amount (consisting of the net assets and goodwill). As a result, no impairment was deemed necessary. Further disclosures in this respect, including information on assumptions used in the collection of recoverable amounts, were not deemed necessary taking cognisance of the carrying amount of goodwill.

12. Non-current assets held for sale

As at 31 December 2022, the property that had been acquired in satisfaction of debt had a carrying amount of €1.8 million (2021: €1.8 million).

	MDB Group	
	2022	2021
	€000	€000
Year ended 31 December		
At beginning and end of year	**1,785**	1,785

Repossessed properties are made available for sale in an orderly fashion, with the proceeds used to reduce or repay the outstanding indebtedness. The Group does not generally occupy repossessed properties for its business use. Repossessed properties consist mainly of immovable property that had been pledged as collateral by customers.

Notes to the financial statements

13. Deferred tax assets and liabilities

	Group	
	2022	2021
	€000	€000
Deferred tax assets	**17,524**	18,377
Deferred tax liabilities	**(358)**	(803)

Deferred tax assets and liabilities are attributable to the following:

	Group	
	2022	2021
	€000	€000
Property and equipment	**(1,163)**	(721)
Investments measured at fair value through other comprehensive income	**-**	393
Investments measured at fair value through profit or loss	**(1,770)**	-
Derivative financial instruments	**(95)**	(95)
Unutilised wear and tear allowances	**131**	60
Unutilised tax losses	**16,248**	8,172
Unutilised notional interest deduction	**73**	62
Credit loss allowances	**6,251**	9,703
Taxation in overseas jurisdictions	**(2,509)**	-
	17,166	17,574

Deferred tax assets and liabilities amounting to €5.2 million (2021: nil) were offset as there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

Deferred taxes are calculated on all temporary differences under the liability method and are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled based on tax rates (and tax laws) that have been substantively enacted by the end of the reporting period. The principal tax rates used are 35% (2021: 35%) in relation to the Maltese jurisdiction and 25% (2021: 25%) in respect of the Belgian fiscal authority.

Under notional interest deduction rules for Maltese corporate income tax purposes, Maltese entities may claim a deduction of notional interest computed by reference to risk capital and a benchmark interest rate.

Excess notional interest deduction in Malta which cannot be utilised against chargeable income for the respective financial year can be carried forward and added to the notional interest deduction for the following financial year. Unutilised notional interest deduction does not have an expiry date. A deferred tax asset is recognised in respect of unutilised notional interest deduction only to the extent that it is probable that sufficient future taxable profits will be available against which the unutilised deduction can be used.

Movements in deferred tax during the year:

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

Notes to the financial statements

	At beginning of year €000	Acquired from Subsidiary €000	Recognised in profit or loss €000	Recognised in other comprehensive income €000	At end of year €000
Year ended 31 December 2021					
Property and equipment	(165)	(348)	(208)	-	(721)
Investments measured at fair value through other comprehensive income	(716)	-	-	1,109	393
Derivative financial instruments	28	-	(123)	-	(95)
Unutilised wear and tear allowances	-	-	60	-	60
Unutilised tax losses	5,317	-	2,855	-	8,172
Unutilised notional interest deduction	-	48	14	-	62
Credit loss allowances	13,205	-	(3,502)	-	9,703
	17,669	(300)	(904)	1,109	17,574

As at 31 December 2022, deferred tax assets attributable to MeDirect Malta are equivalent to €9.9 million (2021: €10.0 million), while deferred tax assets attributable to MeDirect Belgium are equivalent to €7.2 million (2021: €7.9 million). These are expected to be recovered over a period of seven years.

In applying judgement in recognising deferred tax assets, the Group's management has assessed all available information, in particular future business growth and profit projections. In this respect, the most recent financial forecasts approved by management cover a five-year period and the forecasts have been extrapolated beyond five years by assuming that performance remains constant after the fifth year. The most important management judgements underlying the projected financial results in the most recent financial forecasts approved by management related to (i) growth in the mortgages business and (ii) the evolution in net interest margin.

The Group has recognised the deferred tax assets referred to above on the basis that management considers there to be convincing evidence that indicates that sufficient taxable profit will be available against which tax losses carried forward can be used. Management's assessment of the likely availability of future taxable profits against which to recover the deferred tax assets takes into consideration that Management has a robust forecasting process and that the projections are consistent with the directors' assumptions about the Group's future.

Accordingly, while the directors are cognisant that the level of taxable profits is more difficult to predict for those years that are further into the future, they have assessed and concluded that the amount of forecast taxable profits for the forthcoming seven years is more likely to occur than not.

In view of the judgement involved in assessing the probability and sufficiency of future taxable profits and the sensitivity of the carrying amount of the deferred tax assets recognised by the Group in respect of the growth rate assumptions in respect of the mortgage lending as well as the evolution of the net interest margin, the Group has estimated the impact that changes to such assumptions would have on the carrying amount of the deferred tax assets recognised as at 31 December 2022.

The following table shows the effect on the Group's deferred tax assets of reasonably possible changes in the most important assumptions supporting the recognition of both the Malta-based and Belgium-based deferred tax assets:

Notes to the financial statements

Sensitivity analysis of key assumptions	**Movement**	**Deferred tax asset impact €million**
Malta-related assumptions:		
- Interest rates evolution	+10bps	**1.5**
	-10bps	**(1.6)**
Belgium-related assumptions:		
- Growth in mortgage lending business volumes in Belgium	+5%	**0.5**
	-5%	**-0.5**
- Interest rates evolution	+10bps	**1**
	-10bps	**(1.5)**

Although the Group has taken a prudent approach of not recognising certain deferred tax assets on unutilised tax losses and unutilised notional interest deduction, such unutilised tax losses and unutilised notional interest deduction have no expiry date both in Malta and Belgium and can be carried forward indefinitely even beyond the assessment period used in determining the deferred tax assets.

The following table provides an analysis of the deferred tax assets that were not recognised by the Group and the Company as deferred income tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

	Group		**Company**	
	2022 €000	2021 €000	**2022 €000**	2021 €000
Property and equipment	**2,937**	1,816	**-**	-
Unutilised tax losses	**16,510**	20,759	**-**	-
Unutilised notional interest deduction	**34,402**	27,158	**5,829**	5,825
Net deferred tax assets	**53,849**	49,733	**5,829**	5,825

Notes to the financial statements

14. Prepayments and accrued income

	Group	
	2022	2021
	€000	€000
Prepayments	**4,376**	3,441
Accrued income	**14,097**	10,873
	18,473	14,314

Accrued income is shown net of credit loss allowances amounting to €0.3 million as at 31 December 2022 (2021: €0.1 million).

15. Other assets

	Group		Company	
	2022	2021	**2022**	2021
	€000	€000	**€000**	€000
Amounts receivable from:				
- subsidiary companies	**-**	-	**11,737**	11,299
Dividend related refund	**2,164**	2,072	**1,578**	1,578
Deferred customer contract costs	**644**	881	**-**	-
Other receivables	**27,680**	12,363	**-**	-
Other assets	**13**	13	**13**	13
	30,501	15,329	**13,328**	12,890

As at 31 December 2022, the amounts receivable from subsidiary companies comprise a callable loan granted by MDB Group Limited to MeDirect Malta amounting to €11.4 million (2021: €11.1 million) which is due on 10 February 2031, the terms of which mirror those of the subordinated notes issued by MDB Group Limited on the Global Exchange Market of Euronext Dublin. As a result, the loan bears a fixed interest rate of 9.75% per annum until 10 February 2026 and thereafter will bear interest at a fixed rate which will be set by an Agent Bank on 10 February 2026.

Other amounts receivable from subsidiary companies as at 31 December 2022 and 2021 are unsecured, interest free and repayable on demand.

As at 31 December 2022, the Group's 'other receivables' comprises balances amounting to €16.2 million (2021: €1.9 million) held with a third-party mortgage originator in the Netherlands until the relevant NHG eligibility criteria for specific loan applications relating to the Dutch Mortgage portfolio are fulfilled in the future.

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

None of these assets are deemed credit-impaired at 31 December 2022 and 2021 and expected credit losses in relation to such balances were deemed insignificant.

Notes to the financial statements

16. Capital and reserves

Share capital

	Group and Company 2022 €	2021 €
Authorised:		
Ordinary 'A' shares of €1 each	**99,999,999**	99,999,999
Ordinary 'B' shares of €1 each	**1**	1
	100,000,000	100,000,000
Issued and fully paid up:		
Ordinary 'A' shares of €1 each	**56,406,546**	56,406,546
Ordinary 'B' shares of €1 each	**1**	1
	56,406,547	56,406,547

As at 31 December 2022 and 2021, issued share capital is stated net of share issue expenses amounting to €0.7 million.

Rights and entitlements attached to ordinary shares

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

Share premium

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

Group and Company Issue date	Number of shares €	Premium per share	Share premium 2022 €000	Share premium 2021 €000
05 August 2009	39,520,969	0.3407	**13,464**	13,464
31 March 2010	1,214,991*	0.2400	**292**	292
			13,756	13,756

**Converted to one share on 27 June 2014*

Shareholders' contributions

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

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

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

Reserve for general banking risks

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

Notes to the financial statements

Other reserves

Fair value reserve

The fair value reserve of the Group is attributable to the cumulative net change in the fair value of investments measured at fair value through other comprehensive income, until the investment is derecognised, net of deferred taxation.

	Group	
	2022	2021
	€000	€000
Year ended 31 December		
At the beginning of year	**(1,009)**	1,038
Fair value adjustments	**(31,421)**	(1,833)
Reclassification of investments (see note below and note 8)	**32,823**	-
Deferred tax on above items	**(393)**	1,109
Transfer of gain on disposal of equity investments at fair value through other comprehensive income to retained earnings	**-**	(1,323)
At the end of year	**-**	(1,009)

In June 2022, the Group changed the business model for managing those investments within the Securities and Securitisation Investments portfolios that were originally deemed to be "Hold to collect and sell" and therefore were measured at fair value through other comprehensive income. These investments are now categorised as "Hold to collect" and as a result on 1 July 2022 these investments were reclassified out of the fair value through other comprehensive income measurement category and into the amortised cost measurement category. Thus the cumulative net change in the fair value of these investments that was accounted for in this fair value reserve was derecognised. Refer to note 8 to these financial statements.

Other reserve

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

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

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

Dividends

The directors of the Company do not propose any final dividends for distribution.

17. Amounts owed to financial institutions

	Group	
	2022	2021
	€000	€000
Term deposits	**545,109**	258,121
Other	**26**	15,228
	545,135	273,349

As at 31 December 2022, amounts owed to financial institutions amounting to €545 million (2021: €258 million), consisting of repos and classified as term deposits, are secured by a pledge over MeDirect Malta's investments (refer to Note 8). The other amounts owed to financial institutions in 2021 mainly consist of amounts payable to credit institutions in respect of unsettled amounts on loans purchased and accounted for on trade date but which are still unsettled as at the end of the reporting year.

18. Amounts owed to customers

	Group	
	2022	2021
	€000	€000
Repayable on call and at short notice	**1,896,470**	1,910,629
Term deposits	**891,130**	1,050,236
	2,787,600	2,960,865

Notes to the financial statements

19. Debt securities in issue

	Group	
	2022	2021
	€000	€000
Year ended 31 December		
At beginning of year	**658,293**	553,849
Original face value of notes issued	**368,500**	493,100
Premium on notes issued	**-**	5,855
Issue costs incurred	**(2,063)**	(1,428)
Amortisation of premium recognised in profit or loss	**(1,303)**	(1,242)
Amortisation of issue costs recognised in profit or loss	**1,303**	1,241
Redemptions	**(55,161)**	(393,082)
At end of year	**969,569**	658,293
As at 31 December		
Original face value of notes issued	**969,454**	656,115
Unamortised note premium	**3,311**	4,613
Unamortised note issue costs	**(3,196)**	(2,435)
Net carrying amount	**969,569**	658,293
As at 31 December		
Bastion 2020-1 NHG B.V.	**295,053**	321,680
Bastion 2021-1 NHG B.V.	**307,416**	336,613
Bastion 2022-1 NHG B.V.	**367,100**	-
Net carrying amount	**969,569**	658,293

By virtue of a base prospectus dated May 2020, MeDirect Belgium successfully securitised part of its Dutch retail mortgage portfolio raising €350 million through a RMBS transaction, listed on Luxembourg Stock Exchange. As part of the transaction the mortgage portfolio was sold to Bastion 2020-1, a special purpose securitisation vehicle established in the Netherlands, which is controlled by MeDirect Belgium.

This RMBS is subject to interest of 0.60% per annum above 3-month Euribor (including floor at 0%) up to the first optional redemption date, and interest of 1.00% per annum above 3-month Euribor (including floor at 0%) from the first optional redemption date being April 2025, payable quarterly. All bonds are redeemable at par and shall become due for final redemption in April 2057, however, MeDirect Belgium reserves the right to redeem the bond in particular circumstances specified in the base prospectus.

An institutional investor acquired the Class A notes of the RMBS equivalent to €350 million, having a senior ranking vis-à-vis all the junior tranches retained by MeDirect Belgium. MeDirect retains substantially all risks and rewards of the underlying securitised Dutch government-backed mortgage portfolio and accordingly controls Bastion 2020-1. As a result, the mortgage portfolio, the senior notes of Bastion 2020-1 held by the institutional investor and related income and expenditure are reflected in the Group's financial statements.

On each of the Notes Payment Dates of Bastion 2020-1, falling on 24 January 2022, 25 April 2022, 25 July 2022 and 24 October 2022, amounts of €7.3 million, €6.1 million, €7.8 million and €5.8 million of Class A notes, pertaining to the senior tranche were redeemed, whereas on each of the Notes Payment Dates on 25 January 2021, 23 April 2021, 23 July 2021 and 25 October 2021, amounts of €5.7 million, €4.5 million., €5.7 million and €6.2 of the said Class A notes were redeemed.

In September 2020, MeDirect Belgium established a €350 million revolving credit warehouse funding facility provided by a major Dutch bank through Cavalier 2020 B.V., a special purpose vehicle established in the Netherlands, which was controlled by MeDirect Belgium. The warehouse facility provided bridge financing that enabled MeDirect Belgium to build up a Dutch Mortgage portfolio large enough to be securitised through a RMBS transaction. As at the end of 2020, Class A notes pertaining to the senior tranche of Cavalier 2020 B.V. of €211 million were held by the major Dutch bank, with the junior notes being retained by MeDirect Belgium. In substance, these instruments have been considered as notes on debt securities in issue. The financing facility was used to build up a Dutch Mortgage portfolio of €154 million, which was subsequently securitised. MeDirect Belgium repaid Class A notes of €104 million in January 2021, issued €143.1 million of Class A notes in April 2021, followed by a repayment of €145.0 million in May 2021 and full and final repayment of €105.0 million in June 2021, when use of Cavalier was suspended and was no longer being utilised. Cavalier 2020 was eventually dissolved on 23 December 2021.

Notes to the financial statements

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

An institutional investor acquired the Class A notes of the RMBS equivalent to €350 million, having a senior ranking vis-à-vis all the junior tranches retained by MeDirect Belgium. MeDirect retains substantially all risks and rewards of the underlying securitised Dutch government-backed mortgage portfolio and accordingly controls Bastion 2021-1. As a result, the mortgage portfolio, the senior notes of Bastion 2021-1 held by the institutional investor and related income and expenditure are reflected in the Group's financial statements.

This RMBS is subject to interest of 0.70% per annum above 3-month Euribor (including floor at 0%) up to the first optional redemption date, and interest of 1.05% per annum above 3-month Euribor (including floor at 0%) from the first optional redemption date being August 2026, payable quarterly. All bonds are redeemable at par and shall become due for final redemption in August 2058, however, MeDirect Belgium reserves the right to redeem the bond in particular circumstances specified in the base prospectus.

On each of the Notes Payment Dates of Bastion 2021-1, falling on 24th January 2022, 25th April 2022, 25th July 2022 and 24th October 2022, amounts of €7.9 million, €9.2 million, €5.8 million and €7.3 million of Class A notes, pertaining to the senior tranche were redeemed whereas on each of the Notes Payment Dates on 20 May 2021, 20 August 2021 and 22 November 2021, amounts of €4.8 million, €5.7 million and €6.4 million of the said Class A notes were redeemed.

By virtue of a base prospectus dated 25 November 2022, MeDirect Belgium successfully securitised part of its Dutch retail mortgage portfolio raising €368.5 million through placement with external investors of A1 notes of the RMBS transaction, listed on Luxembourg Stock Exchange. As part of the transaction the mortgage portfolio was sold to Bastion 2022-1, a special purpose securitisation vehicle established in the Netherlands, which is controlled by MeDirect Belgium.

This RMBS is subject to interest of 0.60% per annum above 3-month Euribor (including floor at 0%) up to the first optional redemption date, and interest of 1.20% per annum above 3-month Euribor (including floor at 0%) from the first optional redemption date being March 2028, payable quarterly. All bonds are redeemable at par and shall become due for final redemption in May 2060, however, MeDirect Belgium reserves the right to redeem the bond in particular circumstances specified in the base prospectus.

An institutional investor acquired Class A notes of this RMBS equivalent to €369 million, having a senior ranking vis-à-vis all the junior tranches retained by MeDirect Belgium. MeDirect retains substantially all risks and rewards of the underlying securitised Dutch government-backed mortgage portfolio and accordingly controls Bastion 2022-1. As a result, the mortgage portfolio, the senior notes of Bastion 2022-1 held by the institutional investor and related income and expenditure are reflected in the Group's financial statements.

20. Subordinated liabilities

	Group		Company	
	2022	2021	**2022**	2021
	€000	€000	**€000**	€000
Year ended 31 December				
At beginning of year	**65,130**	54,650	**10,136**	-
Original face value of debt securities issued	**-**	11,000	**-**	11,000
Foreign exchange differences	**(226)**	283	**-**	-
Transaction costs incurred	**-**	(995)	**-**	(995)
Transaction costs amortised to profit or loss	**237**	192	**174**	131
At end of year	**65,141**	65,130	**10,310**	10,136
Analysed as follows:				
5% Subordinated Unsecured Bonds 2022 – 2027	**19,997**	20,053	**-**	-
4% Subordinated Unsecured Bonds 2024 – 2029	**34,834**	34,941	**-**	-
9.75% Subordinated Notes 2031	**10,310**	10,136	**10,310**	10,136
	65,141	65,130	**10,310**	10,136

On 16 October 2017, MeDirect Malta announced the issue of euro equivalent of €20 million 5% Subordinated Unsecured Bonds 2027 maturing on 13 October 2027 with a 13 October 2023 early redemption option held by MeDirect Malta. The bonds were issued on the Malta Stock Exchange in euro and pound sterling. The interest payable is fixed at 5% (effective interest rate of 5.19%) and the bonds are redeemable at their nominal value. The amounts subscribed consisted of £1.2 million (euro equivalent to €1.3 million) bonds in pound sterling and €18.7 million bonds in euro.

On 8 October 2019 MeDirect Malta announced the issue and listing of €35 million 4% Subordinated Unsecured Bonds denominated in euro and pound sterling maturing on 5 November 2029 with an annual early redemption option starting 5 November 2024 held by MeDirect Malta. The bonds were issued on the Malta Stock Exchange in euro and pound sterling. The interest payable is fixed at 4% (effective interest rate of 4.2%) and the bonds are redeemable at their nominal value. The amounts subscribed consisted of £2.4 million (euro equivalent to €2.8 million) bonds in pound sterling and €32.2 million bonds in euro.

In February 2021 MDB Group Limited issued €11 million fixed rate reset callable subordinated notes due on 10 February 2031. The notes bear a fixed rate of 9.75% per annum and thereafter a fixed rate of interest which will reset on 10 February 2026. These notes were admitted to the Official List of Euronext Dublin and to trading on the Global Exchange Market of Euronext Dublin. The reset rate of interest will be determined by the Agent Bank on the reset determination date as the sum of the reset reference rate and the margin. The proceeds from the issuance of these notes, which qualify as Tier 2 capital, have been lent to MeDirect Malta as a subordinated loan for general corporate purposes, including to strengthen and optimise its capital and to support the execution of its business strategy.

The above liabilities will, in the event of the winding up of MeDirect Malta or MDB Group Limited, be subordinated to the claims of depositors and all other creditors of MeDirect Malta or MDB Group respectively. MeDirect Malta and MDB Group Limited have not had any defaults of interest or other breaches with respect to their subordinated debt securities during the years ended 31 December 2022 and 2021. As at 31 December 2022, the euro equivalent contractual amount due at maturity with regards to MeDirect Malta and MDB Group Limited was €54.9 million (2021: €55.1 million) and €10.1 million (2021: €10.1 million) respectively. As at 31 December 2022, the carrying amount of the subordinated debt securities in issue with respect to MeDirect Malta was €0.1 million lower than the contractual amount (2021: €0.2 million) and €0.7 million (2021: €0.9 million) lower than the contractual amount with respect to MDB Group Limited.

21. Provisions for liabilities and other charges

	Group 2022 €000	2021 €000
Credit loss allowances in respect of loan commitments and financial guarantee contracts	**1,263**	1,158
Restructuring costs	**-**	65
	1,263	1,223

	Group 2022 €000	2021 €000
Credit loss allowances in respect of loan commitments and financial guarantee contracts		
Year ended 31 December		
At beginning of year	**1,158**	3,783
Change in expected credit losses	**105**	(2,625)
At end of year	**1,263**	1,158
Restructuring costs		
Year ended 31 December		
At beginning of year	**65**	133
Amounts utilised	**(65)**	(68)
At end of year	**-**	65

22. Accruals and deferred income

	Group		Company	
	2022 €000	2021 €000	**2022 €000**	2021 €000
Accrued interest expense	**11,722**	7,825	**950**	968
Other accrued expenses	**10,146**	10,681	**12**	9
Deferred income	**3,397**	6,194	**-**	-
	25,265	24,700	**962**	977

Notes to the financial statements

23. Other liabilities

	Group		Company	
	2022	2021	**2022**	2021
	€000	€000	**€000**	€000
Amounts due to ultimate parent company	**875**	912	**-**	-
Amounts due to immediate parent company	**127**	234	**-**	-
Amounts due to other group companies	**-**	-	**642**	272
Indirect taxes payable	**916**	1,226	**-**	-
Lease liabilities	**5,071**	7,083	**-**	-
Other liabilities	**12,165**	10,052	**4**	1
	19,154	19,507	**646**	273

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

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

Group	Non-current		Current		Total	
	2022	2021	**2022**	2021	**2022**	2021
	€000	€000	**€000**	€000	**€000**	€000
Premises	**4,126**	5,515	**945**	1,568	**5,071**	7,083

The extension options in leases relating to premises, with the last extension covering till April 2032, have been included in the lease liability as the lease term reflects the exercise of such options.

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

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

The total cash outflows for leases in 2022 was €1.5 million (2021: €1.2 million). The contractual undiscounted cash flows attributable to lease liabilities as at 31 December 2022 and 2021 are analysed in Note 2.3.4.

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

	Group	
	2022	2021
	€000	€000
Year ended 31 December		
At beginning of year	**7,083**	14,884
Additions	**355**	-
Modification of lease	**(1,075)**	-
Payments	**(1,503)**	(1,167)
Interest charge	**211**	321
Effect of acquisition of subsidiary (Note 9)	**-**	(6,955)
At end of year	**5,071**	7,083

The income statement reflects the following amounts relating to leases:

	Group	
	2022	2021
	€000	€000
Interest expense (Note 24)	**211**	321

Notes to the financial statements

24. Net Interest Income

	Group		Company	
	2022	2021	**2022**	2021
	€000	€000	**€000**	€000
Interest income				
Loans and advances to financial institutions	**908**	-	**-**	-
Loans and advances to customers				
- interest on loans and advances to customers	**75,015**	75,718	**-**	-
- net losses representing ineffective portion of fair value hedges	**2,700**	673	**-**	-
Loans and advances to subsidiary company	**-**	-	**1,227**	1,099
Investment securities				
- interest on investment securities	**7,934**	4,545	**-**	-
- amortisation of net premiums on investment securities	**(5,926)**	(6,765)	**-**	-
- net losses representing ineffective portion of fair value hedges	**56**	(15)	**-**	-
Total interest income	**80,687**	74,156	**1,227**	1,099
Interest expense				
Loans and advances to financial institutions	**-**	2,313	**-**	-
Amounts owed to financial institutions	**6,597**	1,312	**-**	-
Amounts owed to customers	**12,447**	19,600	**-**	-
Lease liabilities	**211**	321	**-**	-
Subordinated liabilities	**3,694**	3,562	**1,227**	1,099
Total interest expense	**22,949**	27,108	**1,227**	1,099
Net interest income	**57,738**	47,048	**-**	-

The Group's negative interest income attributable to loans and advances to financial institutions is presented within interest expense rather than netted off within interest income.

An amount of €4.2 million (2021: €5.1 million) relating to credit-impaired financial assets is included within interest income from loans and advances to customers for the year ended 31 December 2022.

In the financial year ended 31 December 2022, fair value gains of €5.6 million (2021: gains of €1.1 million) arising on derivatives designated in micro fair value hedge relationships and €5.5 million (2021: €1.2 million) representing net decreases (2021: net decreases) in the fair value of the hedged items attributable to the hedged risk are included within the Group's net interest income. These hedging relationships comprise interest rate swaps hedging interest rate risk on specific fixed rate debt securities, on an individual asset basis. The Losses are reflected within interest arising from investment securities, where interest on the hedged items is presented.

On the other hand, for the macro hedging relationships comprising interest rate swaps hedging interest rate risk on a portfolio of the Group's fixed rate mortgages, fair value gains of €238.2 million (2021: gains of €48.3 million) arising on derivatives designated in fair value hedge relationships and losses of €235.5 million (2021: losses of €47.7 million) representing net decrease (2021: decrease) in the fair value of the hedged items attributable to the hedged risk are included within the Group's net interest income. The losses are reflected within interest arising from loans and advances to customers, where interest on the hedged items is presented.

Within interest income, the Group is netting-off amounts of €3.1 million (2021: €5.1 million) relating to interest expense on interest rate swaps used to hedge the International Mortgage portfolios.

Notes to the financial statements

	Group 2022 €000	2021 €000
Micro hedging:		
Gains on hedging instruments	**5,591**	1,141
Losses on hedged items attributable to the hedged risk – basis adjustment to Securities Investments measured at amortised cost (see Note 8)	**(5,535)**	(1,156)
	56	(15)
Macro hedging:		
Gains on hedging instruments	**238,200**	48,339
Losses on hedged items attributable to the hedged risk – basis adjustment to International Mortgage portfolio (see Note 7)	**(235,500)**	(47,666)
	2,700	673
Net gains representing ineffective portion of fair value hedges	**2,756**	658

25. Net fee and commission income

	Group 2022 €000	2021 €000
Fee and commission income		
Corporate secured lending fee income	**1,151**	571
Banking transactions fee income	**1,262**	1,158
Investment services fees	**6,803**	6,591
Total fee and commission income	**9,216**	8,320
Fee and commission expense		
Corporate secured lending fee expense	**111**	174
Banking transactions fee expense	**851**	554
Investment services transaction and custody fees	**1,963**	1,725
Other fee expense	**163**	184
Total fee and commission expense	**3,088**	2,637
Net fee and commission income	**6,128**	5,683

The Group's net fee and commission income excludes income and expenses that form an integral part of the effective interest rate on financial assets and financial liabilities that are not at fair value through profit or loss, but in the financial year ended 31 December 2022 includes income of €1.3 million (2021: €0.6 million) and expenses of €0.1 million (2021: €0.2 million) relating to such financial assets and liabilities.

The net revenue arising during 2022 (i.e. the gross revenue less any commissions directly related to the acquisition of the said gross revenue) derived from activities in relation to MeDirect Malta's category 2 investment services licence in Malta amounted to €1.9 million (2021: €2.0 million). No activities were carried out in 2022 and 2021 in relation to its category 4A investment services licence in Malta.

26. Net trading income

	Group 2022 €000	2021 €000
Net income from foreign exchange activities	**1,671**	2,575
Net income from held for trading financial instruments	**(263)**	112
	1,408	2,687

27. Personnel expenses

Personnel expenses incurred, including remuneration and emoluments paid to the directors of MeDirect Malta and MeDirect Belgium, are analysed as follows:

	Group	
	2022	2021
	€000	€000
Directors' emoluments		
- salaries	**2,888**	3,180
- defined contribution social security costs	**31**	40
- fees	**668**	733
- other emoluments	**66**	18
Staff costs		
- salaries	**20,656**	18,426
- defined contribution social security costs	**2,005**	1,849
Staff costs capitalised within Intangible Assets (Note 11)	**(2,018)**	(1,734)
	24,296	22,512

The directors of Medifin Leasing Limited and MeHomeLoans B.V. do not receive any directors' emoluments as they are employed within the MDB Group and their remuneration for 2022 and 2021 are presented above within 'Staff costs'.

As per above, in the financial year ended 31 December 2022 salary costs amounted to €23.5 million (2021: €21.6 million) with variable remuneration accounting for 10.7% (2021: 11.9%) of these amounts.

The salary costs include expenses for defined contributions plans amounting to €0.5 million (2021: €0.1 million).

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

	Group	
	2022	2021
	No.	No.
Executive and senior management	**16**	19
Other managerial, supervisory and clerical	**326**	293
Other	**6**	6
	348	318

The number of persons employed with the Group as at the reporting date, including executive directors, was 335 (2021: 337).

Share-based payments are granted to certain executive directors and other material risk takers under a performance and retention bonus plan. Under this plan, executive directors and other material risk takers are entitled to share-linked instruments the value of which is based on changes in the fair value of the ordinary shares of MDB Group Limited but which are settled in cash and hence do not entitle the employees to shares or any interest in or right over such shares. Therefore, share-linked instruments comprise a number of notional ordinary shares of MDB Group Limited determined at award date by reference to the related bonus amounts taking cognisance of the fair value of the shares at that date.

The plan contemplates upfront share-linked awards and deferred share-linked awards that are subject to a deferral period of not less than twelve months but not greater than five years. Deferred share-linked awards attributable to retention bonuses are subject to a vesting period during which period the specific officer or employee must remain in employment for vesting to occur. Meanwhile, performance bonuses vest immediately, but are also subject to a deferral period. Any tranche of a retention bonus which has not yet vested lapses if the executive director leaves employment before the end of the deferral period, unless the executive director leaves due to certain specific reasons as listed in the deferred bonus plan. Settlement amounts are determined on the basis of the fair value of the ordinary shares at settlement date, which is the end of the retention period.

An assessment of performance over the relevant period is used to determine the amount of the deferred performance bonus award to be granted. Unlike performance awards, retention awards generally require the respective executive directors to remain in employment over the vesting period and are not subject to performance conditions after the grant date. The share-based payment is classified as cash-settled since the share-based payment transactions with the employees are settled through a cash payment.

Notes to the financial statements

The following is an analysis of the deferred remuneration in the form of share linked instruments awarded to specific executive directors and other material risk takers during the financial year.

	2022		2021	
	Vested €000	**Unvested €000**	Vested €000	Unvested €000
Group				
Total outstanding deferred remuneration – share-based payments				
Year ended 31 December				
At beginning of year	**1,507**	**1,200**	309	2,538
Awarded throughout the year	**-**	**197**	-	438
Vested throughout the year	**587**	**(587)**	1,638	(1,638)
Paid throughout the year	**(553)**	**-**	(306)	-
Performance and other adjustments throughout the year	**(45)**	**-**	(134)	-
Forfeited throughout the year	**-**	**-**	-	(138)
At end of year	**1,496**	**810**	1,507	1,200

The total expense recognised during the financial year ended 31 December 2022, disclosed in the table above within 'salaries' amounted to €0.2 million (2021: €0.2 million) and the resultant liability as at 31 December 2022, arising from deferred share-based payments and presented in the statement of financial position with 'Accruals and deferred income', amounted to €2.3 million (2021: €2.7 million).

28. Other administrative expenses

Other administrative expenses are analysed as follows:

	Group		Company	
	2022 €000	2021 €000	**2022 €000**	2021 €000
IT support and telecommunication costs	**7,974**	6,704	**-**	-
Legal and professional expenses	**7,438**	7,002	**34**	7
Regulatory expenses	**6,060**	7,390	**1**	1
Indirect taxation	**4,666**	4,868	**2**	-
Other expenses	**11,034**	12,436	**4**	2
	37,172	38,400	**41**	10

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

	Group		Company	
	2022 €000	2021 €000	**2022 €000**	2021 €000
Audit services	**455**	511	**10**	5
Other assurance services	**20**	29	**-**	-
Tax related services	**10**	5	**-**	-
Other non-audit services	**38**	51	**-**	-

Other non-audit services consisted of regulatory advisory services in respect of the Group's compliance with elements of the accounting and regulatory framework it is exposed to or which the Group will be exposed to in the future. These non-audit services have no linkage whatsoever to the audited financial statements.

Notes to the financial statements

29. Change in expected credit losses and other credit impairment charges

	Group	
	2022	2021
	€000	€000
Change in expected credit losses		
Loans and advances to customers, including credit-related commitments		
- International Corporate Lending portfolio (including accrued income)	**6,388**	35,206
- Dutch Mortgage portfolio	**(37)**	13
- Belgian Mortgage portfolio	**(164)**	-
- Maltese Business Lending portfolio	**3,691**	307
- Maltese Mortgage portfolio	**(92)**	(77)
Investments measured at amortised cost		
- Securities portfolio	**(65)**	107
- Securitisation portfolio	**(7)**	11
Investments measured at fair value through other comprehensive income		
- Securities portfolio	**-**	156
- Securitisation portfolio	**-**	(32)
Other credit impairment charges		
Amounts written off on loans and advances to customers		
- International Corporate Lending portfolio	**(7,673)**	(38,017)
	2,041	(2,326)

30. Tax expense

	Group		Company	
	2022	2021	**2022**	2021
	€000	€000	**€000**	€000
Current tax expense				
- current year tax charge	**445**	420	**-**	-
Deferred tax (Note 13)				
- current year tax	**15**	904	**-**	-
Income tax charge	**460**	1,324	**-**	-

The tax recognised in profit or loss on the Group's and the Company's profit/(loss) before tax differs from the theoretical amount that would arise using the applicable tax rate in Malta, which is the Company's country of incorporation, as follows:

	Group		Company	
	2022	2021	**2022**	2021
	€000	€000	**€000**	€000
Profit/(loss) before tax	**9,168**	(13,883)	**8,582**	(15,319)
Tax at the applicable rate of 35%	**3,209**	(4,859)	**3,004**	(5,362)
Tax effect of:				
Non-deductible expenses	**70**	50	**14**	4
Unrecognised deferred tax movements (Note 13)	**(3,128)**	4,851	**-**	-
Income not subject to tax	**(1,846)**	(1,235)	**-**	-
Share of results of subsidiary undertaking	**-**		**(3,018)**	5,364
Effect of different tax rates	**2,044**	2,633	**-**	-
Other	**111**	(116)	**-**	(6)
Income tax charge	**460**	1,324	**-**	-

Notes to the financial statements

31. Cash and cash equivalents

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

	Group		Company	
	2022	2021	**2022**	2021
	€000	€000	**€000**	€000
Analysis of cash and cash equivalents:				
Cash in hand	**4**	1	**-**	-
Call deposits	**108,513**	129,398	**158**	102
Target 2 overnight deposits	**123,448**	302,709	**-**	-
Amounts owed to financial institutions with original maturity of less than 3 months	**(395,135)**	(273,349)	**-**	-
Per Statement of cash flows	**(163,170)**	158,759	**158**	102
Adjustments to reflect:				
Other balances with central banks	**26,477**	25,916	**-**	-
Deposits with original maturity of over 3 months and encumbered deposits	**294,632**	69,479	**-**	-
Amounts owed to financial institutions with original maturity of over 3 months	**(150,000)**	-	**-**	-
Per Statement of financial position	**7,939**	254,154	**158**	102

		Group		Company	
		2022	2021	**2022**	2021
	Notes	**€000**	€000	**€000**	€000
Analysed as follows:					
Balances with central banks and cash	4	**149,929**	328,626	**-**	-
Loans and advances to financial institutions	6	**403,145**	198,877	**158**	102
Amounts owed to financial institutions	17	**(545,135)**	(273,349)	**-**	-
		7,939	254,154	**158**	102

32. Contingent liabilities

As at 31 December 2022, the Group had cash secured guarantee obligations amounting to €9.4 million (2021: €2.4 million).

33. Commitments

Commitments to lend

Commitments to lend represent undrawn formal standby facilities, credit facilities and other similar commitments to lend. As at 31 December 2022, the Group had undrawn commitments of €125.1 million (2021: €208.4 million) under international lending revolving credit facilities. In addition, lending commitments in relation to the Group's Dutch Mortgage portfolio amounted to €98.4 million (2021: €72.1 million), Belgian Mortgage portfolio amounted to €63.8 million (2021: €nil) and Maltese mortgage portfolio amounted to €33.2 million (2021: €37.5 million).

As at 31 December 2022, undrawn facilities on corporate term loans of the Group in Malta amounted to €13.6 million (2021: €58.3 million).

Commitments to purchase

As at 31 December 2021, the Group also had commitments to purchase facilities on term loans amounting to €11.0 million.

34. Related parties

Immediate and ultimate parent company

The ultimate controlling party of MDB Group Limited is AnaCap Financial Partners II L.P.

The ultimate parent company of the Company is Medifin Investments Limited, a non-cellular company incorporated and registered in Guernsey.

The immediate parent company of the Company is Medifin Finance Limited, a non-cellular company incorporated and registered in Guernsey.

Related parties of the Group and the Company include subsidiaries, the ultimate controlling party, the ultimate parent company, the immediate parent company, all entities controlled by the ultimate parent company, Key Management Personnel, close family members of Key Management Personnel and entities which are controlled or jointly controlled by Key Management Personnel or their close family members.

Transactions with Key Management Personnel

Key Management Personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Group, being the directors of MDB Group Limited, MeDirect Malta and MeDirect Belgium.

Key Management Personnel compensation consisting of directors' remuneration is disclosed in Note 27. The Group also provides non-cash benefits to Key Management Personnel, including gross rent payable on accommodation based in Malta, presented within 'Personnel expenses', and health and life insurance premiums paid by the Group amounting to €0.1 million in the financial year ended 31 December 2022 (2021: €0.1 million), presented within 'Other administrative expenses'.

Related party balances and transactions

During the course of its activities, the Group conducted business on commercial terms with all related parties.

Notes to the financial statements

The following table provides the total amount of Group transactions which have been entered into, and Group balances with, related parties of the Group for the relevant financial year:

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

Related party	Year ended 31 December 2021 Income from related parties €000	Year ended 31 December 2021 Expenses charged by related parties €000	As at 31 December 2021 Amounts owed by related parties €000	As at 31 December 2021 Amounts owed to related parties €000	Transaction/balance type
Ultimate controlling party	-	189	-	-	Monitoring fees
	-	86	-	-	Interest expense
	-	-	-	921	Debt securities in issue
Ultimate parent company	5	-	-	-	Service charge fees
	-	-	-	912	Other liabilities
Immediate parent company	5	-	-	0	Service charge fees
	-	-	-	234	Other liabilities
Key management personnel	1	-	-	-	Interest income
	-	-	-	235	Amounts owed to customers
	-	-	-	25	Subordinated liabilities

As regards the Company at 31 December 2022, the amounts receivable from subsidiary companies comprise a callable loan granted by MDB Group Limited to MeDirect Malta with a carrying amount of €10.3 million (2021: €10.1 million) which is due on 10 February 2031, the terms of which mirror those of the subordinated notes issued by MDB Group Limited on the Global Exchange Market of Euronext Dublin. As a result, the loan bears a fixed interest rate of 9.75% per annum until 10 February 2026 and thereafter will bear interest at a fixed rate which will be set by an Agent Bank on 10 February 2026. The interest income on such amounts receivable in the financial year ended 31 December 2022 amounted to €1.2 million (2021: €1.1 million) and the accrued interest as at 31 December 2022 was equivalent to €0.9 million (2021: €1.0 million). Other amounts receivable from group companies of €0.5 million (2021: €0.2 million) and amounts payable to group companies amounting to €0.6 million (2021: €0.3 million) are unsecured, interest free and repayable on demand.

Also a service level agreement is in place between the Company and MeDirect Malta with an annual charge of €5 thousand by MeDirect Malta.

Notes to the financial statements

35. Segmental information

The Group engages primarily in the business of lending conducted from Malta and Belgium through Dutch, Belgian and Maltese mortgage lending together with the investment in high credit quality collateralised instruments such as covered bonds, guaranteed senior bank debt, sovereign related debt and investment in AAA tranches of securitisation special purpose entities.The Group also has a lending portfolio consisting of international corporate lending and Malta corporate lending. Revenues secured through the above-mentioned assets are complemented by the revenues generated by the Group on its wealth management business.

The Group's internal management reporting to the Board of Directors and Senior Management, is mainly analysed by jurisdiction. For each jurisdiction, the Senior Management, reviews internal management reports in order to make decisions about allocating resources and assessing performance. Where applicable, such as in the case of international corporate lending, these internal management reports are also supplemented by reports in respect of the Group's revenue streams on a consolidated basis.

Further information about the products and services and geographical areas is set out in Notes 2, 7, 8, 24 and 25 to the financial statements which provide information about the financial risks, credit concentrations by sector and location, together with revenues from the single reportable segment. The investment portfolio is spread across a large number of exposures diversified in government, financial institutions and other corporates.

	Year ended 31 December 2022			Year ended 31 December 2021		
	Malta €000	**Belgium €000**	**Total €000**	Malta €000	Belgium €000	Total €000
Turnover *	**48,530**	**52,258**	**100,788**	49,429	36,547	85,976
Interest expense	**(8,892)**	**(14,057)**	**(22,949)**	(10,929)	(16,179)	(27,108)
Fee expense and other losses	**(1,544)**	**(1,544)**	**(3,088)**	(2,510)	(127)	(2,637)
Change in expected losses and other credit impairment charges						
- International corporate lending	**(833)**	**(453)**	**(1,286)**	(669)	(2,142)	(2,811)
- Dutch mortgages	**-**	**(37)**	**(37)**	-	13	13
- Belgian mortgages	**-**	**(164)**	**(164)**	-	-	-
- Maltese business lending	**3,712**	**-**	**3,712**	307	-	307
- Maltese mortgages	**(112)**	**-**	**(112)**	(77)	-	(77)
- Other	**(21)**	**(51)**	**(72)**	140	102	242
Total change in expected losses and other credit impairment charges	**2,746**	**(705)**	**2,041**	(299)	(2,027)	(2,326)
Depreciation and amortisation	**(3,975)**	**(2,181)**	**(6,156)**	(4,827)	(2,049)	(6,876)
Other operating expenses	**(22,252)**	**(39,216)**	**(61,468)**	(23,690)	(37,222)	(60,912)
Profit/(loss) before tax	**14,613**	**(5,445)**	**9,168**	7,174	(21,057)	(13,883)
Taxation	**(291)**	**(169)**	**(460)**	(1,186)	(138)	(1,324)
Profit/(loss) after tax	**14,322**	**(5,614)**	**8,708**	5,988	(21,195)	(15,207)
Capital expenditure	**5,126**	**988**	**6,114**	3,851	602	4,453
	As at 31 December 2022			As at 31 December 2021		
Total assets (€million)	**1,133**	**3,531**	**4,664**	1,952	2,288	4,240
Total liabilities (€million)	**1,072**	**3,347**	**4,419**	1,538	2,467	4,005
Full time equivalent staff (No)	**276**	**59**	**335**	278	59	337

* Turnover is defined as interest income, fee and commission income and other operating income. The turnover allocated to Belgium in the financial year ended 31 December 2022 includes interest charged to MeDirect Malta amounting to €1.2 million (2021: €7.3 million).

Total assets allocated to Malta include non-current assets held for sale amounting to €1.8 million (2021: €1.8 million).

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

The preceding table also covers the disclosure required by Article 89 of CRD V whereby the Group must disclose information about turnover, number of employees, profit before tax, tax and public subsidies received by country, taking into account all jurisdictions in which it operates. The Group has not received any public subsidies that relate to the Group's activities as a credit institution.

36. Investor compensation scheme

In accordance with the provisions of the Investor Compensation Scheme Regulations, 2003, issued under the Maltese Investment Services Act (Cap. 370), licence holders are required to transfer a variable contribution to an Investor Compensation Scheme Reserve and place the equivalent amount with a bank, pledged in favour of the Scheme. Alternatively, licence holders can elect to pay the amount of variable contribution directly to the Scheme. Throughout the financial years ended 31 December 2022 and 2021, MeDirect Malta was not required to pay any variable contribution to the Scheme.

37. Assets held on a nominee basis

As part of its Wealth Management proposition, the Group acts as a nominee holder of financial instruments on behalf of customers under its Category 2 Investment Services licence. Assets held on a nominee basis are not assets of the Group and are not recognised in the statements of financial position. Accordingly, the Group is not exposed to any credit risk relating to such placements, as it does not guarantee these investments.

At 31 December 2022, the total assets held by the Group on behalf of customers amounted to €1,435.8 million (2021: €1,546.4 million).

38. Events after the reporting date

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

39. Comparative financial information

With effect from the current financial period the Company effected a change in accounting policy whereby in the separate financial statements of the Company, the investment in subsidiary is being accounted for using the equity method. Refer to note 1.2.

In this respect, comparative figures disclosed in the main components of these financial statements and the notes have been reclassified to conform with the current period's presentation for the purposes of fairer representation.

40. Statutory information

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

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

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

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

Independent Auditor’s Report

Ernst & Young Malta Limited
Regional Business Centre
Achille Ferris Street
Msida MSD 1751
Malta

Tel: +356 2134 2134
Fax: +356 2133 0280
ey.malta@mt.ey.com
ey.com

INDEPENDENT AUDITOR'S REPORT

to the Shareholders of MDB Group Limited

Report on the audit of the financial statements

Opinion

We have audited the separate and consolidated financial statements of MDB Group Limited [(the "Company") and its subsidiaries (the "Group")], set on pages 47 to 196, which comprise the separate and consolidated statement of financial position as at 31 December 2022, and the separate and consolidated statement of comprehensive income, the separate and consolidated statement of changes in equity and the separate and consolidated statement of cash flows for the then ended, and notes to the separate and consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying separate and consolidated financial statements give a true and fair view of the separate and consolidated financial position of the Company and Group as at 31 December 2022, and of their separate and consolidated financial performance and their separate and consolidated cash flows for the for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS") and the Companies Act (Cap.386) of the Laws of Malta (the "Companies Act").

Basis for opinion

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

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INDEPENDENT AUDITOR'S REPORT

to the Shareholders of MDB Group Limited

Report on the audit of the financial statements

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

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

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

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

The Group's international corporate lending portfolio which comprises of syndicated loans and advances to international corporates, amounts to 22% of the gross loans and advances to customers of the Group. The expected credit losses (ECL) on such portfolio, as described and disclosed in notes 1.5, 2.2, 3.2, 7 and 29 represents 2.8% of the gross international corporate lending portfolio and 95% of the total expected credit losses on loans and advances to customers of the Group as at 31 December 2022.

Measurement of ECL for stage 1 and 2 exposures

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

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

The Group applies macroeconomic scenarios sourced from an external vendor to the PD and LGD term structures for the estimation of credit loss allowances in respect of Stage 1 and Stage 2 exposures. The macroeconomic scenarios represent the Group's view of the range of potential outcomes, and application of these scenarios captures the non-linearity of expected credit losses under different scenarios for all portfolios.

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

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INDEPENDENT AUDITOR'S REPORT
to the Shareholders of MDB Group Limited

Report on the audit of the financial statements

Measurement of ECL for stage 3 exposures

In respect of defaulted / Stage 3 exposures, the Group utilises an internally developed discounted cash flow ("DCF") methodology in order to estimate the net present value of forecasted operating cash flows under multiple forward-looking scenarios discounted using the borrower-specific weighted average cost of capital ("WACC"). In this regard, forward-looking expectations based on the impact of changing macroeconomic conditions on the borrower are reflected in multiple scenarios of operating cash flows developed by management, which are discounted and probability-weighted in accordance with the requirements of IFRS 9.

Reasons for designation as a KAM

ECL calculations are based on complex statistical analyses and modelling assumptions and calibrated by reference to historical information in respect of default levels and loss severities. In view of the inherent level of estimation uncertainty in modelling such aspects of the ECL calculation, a significant element of expert judgement is required to ensure that model parameters produce an ECL output which is reasonable and appropriate in light of existing conditions.

Judgement is firstly required in determining whether there is objective evidence that an exposure is credit-impaired. In performing this assessment, management applies a significant level of judgement in evaluating all relevant information on indicators of unlikeliness-to-pay, including the consideration of factors that immediately indicate deterioration in the financial condition of borrowers, but also in respect of factors that impact the outlook of borrowers affecting their ability to pay. A high level of judgement is required for loans to borrowers showing continued signs of financial difficulty similar to those experienced during the preceding financial year, and for borrowers that are performing better compared to the prior year to understand whether the improvements are sustainable going forward.

The Group utilises a DCF approach for its defaulted exposures. In estimating the cash flows, management makes judgements about a borrower's financial situation and future repayment prospects, taking into consideration borrower's plans for growth within the current environment. In this regard, judgement is applied in estimating the expected future cash flows from each borrower under the different scenarios, assigning probabilities to each scenarios, and determining appropriate discount rates reflecting borrower specific characteristics. The determination of operating cash flows under multiple scenarios requires a significant level of judgement in order to adequately capture the current economic conditions.

INDEPENDENT AUDITOR'S REPORT

to the Shareholders of MDB Group Limited

Report on the audit of the financial statements

Audit procedures

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

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

ECL measurement for Stage 1 and Stage 2 exposures

- Involved our Quantitative Analysis specialist to assess the appropriateness of the ECL measurement model in line with IFRS 9 requirements;
- Assessed the reasonableness of key assumptions with the involvement of our Quantitative specialist including:
  - the Staging of the loans and historical stage migrations;
  - the PD's generated by the Moody's tool and the volatility adjusted PD's;
  - the relevant data points for the determination of the LGD;
- Analysed other key assumptions and inputs including:
  - expected maturities of individual borrower and performed back testing by assessing the historical accuracy of management's prediction of expected maturity to actual maturity;
  - Benchmarked the PD's estimated by the model as at year end with PDs for exposures with similar credit quality issued by an independent credit rating agency;
  - Benchmarked the LGDs estimated by the model with proposed LGDs for similar credit exposures by an independent credit rating agency and the European Banking Authority;
  - For a risk-based sample of borrowers with credit upgrades during the financial year, independently assessed whether a decrease in credit risk has been experienced;
  - For a sample of Stage 1 and Stage 2 borrowers, independently assessed the staging appropriateness;
- Tested the accuracy of the model data inputs used against source data including borrowers' information such as key financial data points, sector, geographic location, days past due, amongst others.

ECL measurement for Stage 3 exposures

- For stage 3 loans we obtained understanding of the borrower's latest developments and inspected information available to assess the prospects of recoverability
- Involved our Valuation specialist to assess the appropriateness of the DCF methodology and reasonability of key inputs such as:
  - the expected future cashflows against industry peers;
  - the discount rate used in determining the present value.

INDEPENDENT AUDITOR'S REPORT
to the Shareholders of MDB Group Limited

Report on the audit of the financial statements

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

Valuation of derivatives and hedge accounting of the Group

The net value of the derivatives of the Group amounted to 146% of the net assets as at year end, as disclosed in Note 2.2.9, 3.3 and 5.

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

The Group applies fair value hedge accounting to portfolio hedges of interest rate risk (macro hedging) under the EU carve-out version of IAS 39 in respect of its retail operations after considering the duration gap between the Dutch mortgages and core deposits. The hedging activities are designated as a portfolio fair value hedge in respect of the mortgage book, being the hedged items. The Group applies micro fair value hedging to hedge separate hedged positions on an individual asset basis, generally fixed interest securities, by utilising interest rate swaps as hedging instruments.

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

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

Reasons for designation as a KAM

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

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INDEPENDENT AUDITOR'S REPORT

to the Shareholders of MDB Group Limited

Report on the audit of the financial statements

Audit procedures

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

- Compared the fair values of the derivatives recognized by the Group to the valuation issued by the Group's external counterparties;
- For a sample basis, recalculated the fair value of derivatives using the term of the instrument and key inputs from independent sources including benchmark interest rate curves;
- Assessed the Group's hedging documentation to determine whether it meets the criteria as described in the "carved-out" version of IAS 39 as adopted by the European Union;
- Assessed the reasonableness of the model used by the Group to forecast future early repayments and renegotiations of mortgage loans and back tested to recent financial years;
- Compared the volume of hedging derivatives with the projected volume of hedged mortgage loans over future time buckets to identify any over-hedging situations;
- Analysed the effectiveness tests performed by the Group to determine whether the hedging relationships are effective and whether the ineffectiveness was calculated correctly;
- Assess the appropriateness of the hedge accounting in line with the results of the Group's model and testing.

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

Other information

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

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

In connection with our audit of the separate and consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the separate and consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

INDEPENDENT AUDITOR'S REPORT

to the Shareholders of MDB Group Limited

Report on the audit of the financial statements

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

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

In preparing the separate and consolidated financial statements, the directors are responsible for assessing the Company's and Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company and/or Group to cease operations, or have no realistic alternative but to do so. Those charged with governance are responsible for overseeing the Company's and Group's financial reporting process.

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the separate and consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these separate and consolidated financial statements.

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

- identify and assess the risks of material misstatement in the separate and consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's and the Group's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors;

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INDEPENDENT AUDITOR'S REPORT
to the Shareholders of MDB Group Limited

Report on the audit of the financial statements

- conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's and the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the separate and consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company and/or Group to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the separate and consolidated financial statements, including the disclosures, and whether the separate and consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the separate and consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the those charged with governance, we determine those matters that were of most significance in the audit of the separate and consolidate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

INDEPENDENT AUDITOR'S REPORT
to the Shareholders of MDB Group Limited

Report on other legal and regulatory requirements

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

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

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

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

- proper accounting records have not been kept;
- proper returns adequate for our audit have not been received from branches not visited by us;
- the financial statements are not in agreement with the accounting records and returns;
- we have not received all the information and explanations we require for our audit.

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

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

Ernst & Young Malta Limited
Certified Public Accountants
21 March 2023