MDB Group Limited

Pillar 3 disclosures report – Environmental, Social and Governance Risks

31 December 2023

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Glossary

Abbreviation / Terminology	Description
Capital Requirements Regulation ("CRR")	Regulation 575/2013, dated on 27.06.2013 Regulation – 575/2013 – EN – Capital Requirements Regulation – EUR-Lex (europa.eu) Regulation introduced to strengthen the prudential requirements of banks in the European Union.
Sustainable Finance Disclosure Regulation ("SFDR")	Regulation 2019/2088, dated on 09.12.2019 Regulation – 2019/2088 – EN – SFDR – EUR-Lex (europa.eu) Regulation introduced to improve transparency in the market for sustainability investment products, to prevent greenwashing and to increase transparency around sustainability claims made by financial market participants ("FMPs"), including financial advisors and portfolio management.
Climate-related and environmental risks ("CER" / "C&E risks")	**Physical risk** refers to the financial impact of a changing climate, including more frequent extreme weather events and gradual changes in climate, as well as of environmental degradation, such as air, water and land pollution, water stress, biodiversity loss (species extinction) and deforestation. Physical risk is therefore categorised as "acute" when it arises from extreme events, such as droughts, floods and storms, and "chronic" when it arises from progressive shifts, such as increasing temperatures, sea-level rises, water stress, biodiversity loss, land use change, habitat destruction and resource scarcity. This can directly result in, for example, damage to property or reduced productivity, or indirectly lead to subsequent events, such as the disruption of supply chains. **Transition risk** refers to an institution's financial loss that can result, directly or indirectly, from the process of adjustment towards a lower-carbon and more environmentally sustainable economy. This could be triggered, for example, by a relatively abrupt adoption of climate and environmental policies, technological progress or changes in market sentiment and preferences Examples: CO2/GHG emission, energy certificate labels, carbon (CO2) price, taxes on emissions (GHG equivalent),local taxation, additional energy certificates, state subsidies, additional capex/opex, change of customer preferences, change in asset valuation and collateral, reputation effect, change in business models, reporting, litigation risks, technology replacement, increased price of supplies (e.g. water, energy, etc.), mitigation actions (transfer of charges to clients), UE business restrictions, taxes and levies, bank restrictions, sectors interdependences.
Double materiality assessment	Double materiality assessment is performed by assessing the potential impact of the institutions' operations on ESG matters (inside-out perspective) and the potential financial and non-financial impact of ESG risks on the institutions' operations and activities (outside-in perspective). This assessment identifies which sustainability matters are most material to the organisation and its stakeholders.
CER materiality assessment	The CER materiality assessment is a strategic climate and environmental impact scan that maps the main CER identified to institutions' strategic objectives.
Business environmental scan	It is a strategic assessment that financial institutions undertake to understand the impact of CER on their operating environment. The main purpose of a business

	environment scan is to gain insights into how climate change and environmental factors may affect the institutions' operations, profitability, and long-term sustainability.
Climate Neutrality	It refers to the idea of achieving net zero greenhouse gas emissions by balancing those emissions, so they are equal (or less than) the emissions that get removed through the planet's natural absorption. It means to only emit as much greenhouse gas into the atmosphere as can be absorbed by nature, that is forests, oceans and soil. Climate neutrality can be achieved by emitting greenhouse gases at an equal rate to its removal from the atmosphere.
Carbon Neutrality	It refers to the idea of having a balance between emitting carbon and absorbing carbon from the atmosphere in carbon sinks.
Paris Climate Accords	Paris Climate Agreement (2015) – International treaty setting out a global framework to avoid dangerous climate change by limiting global warming to well below 2°C and pursuing efforts to limit it to 1.5°C.
European Green Deal	European Green Deal (2019/20) - a set of policy initiatives by the European Commission with the overarching aim of making the European continent climate neutral by 2050.
Scope emissions	Scope 1 emissions: direct emissions that a company generates from sources it owns or controls, like burning fuel for heating, using vehicles, or leaks from equipment like refrigeration units. Essentially, Scope 1 emissions are emissions that come directly from the company's activities. Scope 2 emissions: indirect emissions resulting from the generation of purchased energy used by the company, such as electricity, heating, and cooling. These emissions are associated with the energy the company buys and consumes, not from sources it directly controls. Scope 3 emissions: all other indirect emissions that occur in the company's value chain, including activities the company does not own or control. This category includes emissions from the supply chain, use of sold products, and waste disposal. Scope 3 emissions are often the largest share of a company's carbon footprint and are crucial for understanding the full environmental impact beyond direct operations.
GHG Protocol	GHG Protocol establishes comprehensive global standardised frameworks to measure and manage greenhouse gas (GHG) emissions from private and public sector operations, value chains and mitigation actions. About Us | GHG Protocol
Partnership for Carbon Accounting Financials ("PCAF") Standards	PCAF is a global partnership of financial institutions that work together to develop and implement a harmonised approach to assess and disclose the greenhouse gas (GHG) emissions associated with their loans and investments. It is a harmonised accounting approach that provides financial institutions with the starting point required to set science-based targets and align their portfolio with the Paris Climate Agreement. carbonaccountingfinancials.com

Paris Agreement Capital Transition Assessment ("PACTA")	It measures the alignment of financial portfolios to climate change scenarios, including Paris-aligned scenarios, across climate critical sectors. Home – PACTA (rmi.org)
Net Zero Emissions ("NZE")	The Net Zero Emissions by 2050 Scenario (NZE Scenario) is a normative scenario that shows a pathway for the global energy sector to achieve net zero CO2 emissions by 2050. International Energy Agency – Net Zero Emissions
Fit for 55 data collection exercise	Fit for 55 –a set of policy initiatives by the European Commission with the overarching aim to reduce greenhouse gas emissions by 55% by 2030 when compared to pre-industrial levels. In 2023/4, a sample of European banks were in scope of the one-off Fit-for-55 climate risk scenario analysis that aimed at assessing the resilience of the financial sector in line with the Fit-for-55 package, and to gain insights into the capacity of the financial system to support the transition to a lower carbon economy under conditions of stress. One-off Fit-for-55 climate risk scenario analysis | European Banking Authority (europa.eu)
European Central Bank ("ECB") Guide to climate-related and environmental risks	The guide explains how the ECB expects banks to prudently manage and transparently disclose C&E risks under existing prudential rules. ECB publishes final guide on climate-related and environmental risks for banks (europa.eu)
United Nations Sustainable Development Goals principles	United Nations Sustainability Development Agenda (2015) – United Nations member states agreement on facing global problems including extreme poverty and hunger, access to education, protection of the planet to ensure sustainable development.
Task Force on Climate-related Financial Disclosure	It provides information to investors about what companies are doing to mitigate the risks of climate change. It provides recommendations on the types of information that companies should disclose to support investors, lenders and insurance underwriters in appropriately assessing and pricing risks related to climate change. Task Force on Climate-Related Financial Disclosures | TCFD) (fsb-tcfd.org)
Taxonomy Regulation	Regulation 2020/852, dated on 18.06.2020 https://eur-lex.europa.eu/legal content/EN/TXT/PDF/?uri=CELEX:32020R0852&from=pl Taxonomy Regulation introduced a comprehensive classification system on sustainable activities. Under Article 8 of the Taxonomy Regulation, in-scope companies will have to report their contribution to the 6 environmental objectives (taxonomy eligibility and alignment): • Climate change mitigation • Climate change adaptation • Sustainable use and protection of water and marine resources • Transition to a circular economy • Pollution prevention and control, • Protection and restoration of biodiversity and ecosystems Taxonomy Eligible Activities: economic activities that meet specific criteria outlined in the EU Taxonomy. For an activity to be considered taxonomy eligible, it must align with environmental objectives such as climate change mitigation,

	adaptation, sustainable water use, circular economy practices, pollution prevention, and biodiversity protection. Essentially, these activities are deemed environmentally sustainable according to the EU's standards. Taxonomy Aligned Activities: eligible economic activities that not only meet the criteria for sustainability but also make a substantial positive impact on at least one environmental objective while avoiding significant harm to others. Additionally, they must comply with minimum social safeguards, ensuring they adhere to human rights, labour rights, and anti-corruption standards.
Corporate Sustainability Reporting Directive ("CSRD")	Corporate Sustainability Reporting Directive, Regulation (EU) 2021/0104, dated on 21.04.2021 *EUR-Lex - 52021PC0189 - EN - EUR-Lex (europa.eu)* Directive on regular reporting on environmental and social impact of their business activities, and on the business impact of their environmental, social and governance (ESG) efforts and initiatives. This replaced the Non-Financial Reporting Directive, and is applicable to large companies based in the EU or with an annual turnover of above €150 million in the EU. Companies meeting at least two of the following three conditions will have to comply with the CSRD: 1) €40 million in net turnover 2) €20 million in assets 3) 250 or more employees.
European Reporting Standards ("ESRS")	These are set of rules and requirements for companies to report on sustainability-related impacts, opportunities and risks under the EU's CSRD. The ESRS consist of two cross-cutting standards and 10 topical standards that cover environmental, social and governance (ESG) topics. The ESRS aim to standardise and improve the quality and comparability of non-financial reporting in Europe.

1. General overview

MDB Group Limited (the "Group" or ''MeDirect''), together with its consolidated subsidiaries, MeDirect Bank (Malta) plc ("MeDirect Malta") and MeDirect Bank SA ("MeDirect Belgium"), is required to disclose information on environmental, social and governance risks ("ESG risk") under Article 449a of Capital Requirements Regulation ("CRR"). On 30 November 2022, the European Commission adopted Implementing Regulation 2022/2453 amending the technical standards set forth in Implementing Regulation (EU) 2021/637 as regards the disclosure of ESG risks. This regulation adds additional disclosure requirements related to ESG risk.

MeDirect is committed to continue integrating ESG principles into its day-to-day operations and increase awareness on ESG matters across the Group. To do this, the Group promotes the observance of high standards of good corporate governance and business ethics. It is committed to continue growing its business in a responsible and sustainable manner, based on sound corporate values and ESG principles. Moreover, it is committed to continuing to build a trusted and distinctive brand in the markets it operates in. To ensure proper and sustainable business conduct, the Group focuses on skills and development of all employees, as well as yearly training programmes for employees and Board of Directors. The Group also ensures that the wider society is educated on topics concerning financial literacy, and other topics that helps make MeDirect a more inclusive and responsible bank.

The MeDirect Group Sustainability Risk Policy defines ESG risk as environmental, social or governance events or conditions that, if they occur, could result in an actual or a potential negative impact on the value of investment, as defined in the Sustainable Finance Disclosure Regulation ("SFDR"), which would directly or indirectly affect the value of the organisation.

ESG risk factors include the following:

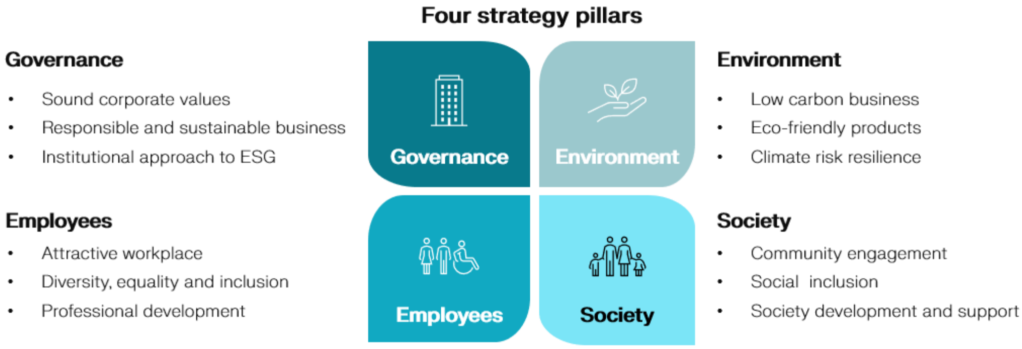
- Environmental: climate change risks/opportunities, air pollution, ecosystem change, unsustainable practices, environmental remediation, carbon emissions, resource depletion, energy inefficiency, water pollution, increased water scarcity, harm to biodiversity, deforestation, poor waste management practices, rising sea levels/coastal flooding and wildfires/bushfires. Within environmental risks, the Group considers the risks relating to the climate and environmental risks ("C&E risks" / "CER").
- Social: human rights violations, unethical and illegal working conditions, modern slavery/forced labour, breaches of employee rights/labour rights, child labour, discrimination, social cohesion and stability, product safety, restrictions on or abuse of consumers' rights, restricted access to clean water, reliable food supply, and/or sanitary living environment, and infringements on the rights of local communities/indigenous populations.
- Governance: lack of diversity at board or governing body level, inadequate external or internal audit, transparency and integrity concerning remuneration, tax and bribery and corruption, lack of appropriate board oversight, lack of scrutiny of executive pay, poor safeguards on personal data / IT security (of employees and/or customers), discriminatory employment practices, inadequate protection for whistle-blowers, workplace harassment, discrimination and bullying, and health and safety concerns for the workforce.

These environmental, social, and governance factors should be properly managed within the organisation as they might have negative consequences on the Group and its counterparties, including clients, suppliers or business partners, affecting its or their financial or market position in the short, medium- or long-term.

Group ESG Strategy - On the path to sustainability

MeDirect monitors evolving ESG trends as part of the horizon scanning process, and performs a double materiality assessment by considering the potential impact of the Group's operations on ESG matters (inside-out) and the potential financial and non-financial impact of ESG risks on the Group's operations and activities (outside-in). This assessment was carried out to determine the relevance of individual non-financial topics across ESG in accordance with the market and its stakeholders' expectations. The results of the materiality assessment guide the Group's ESG Strategy and the selection of topics reported in its Non-Financial Report.

MeDirect is currently implementing the Group ESG Strategy - On the path to sustainability for 2022-2024/25 - that is based on four strategy pillars. For more information read the Group ESG Strategy that is published on the website.



For each strategic pillar, several specific sustainability-driven objectives were identified, with each objective translating into a firm commitment on the part of the Group. As part of its pursuit of sustainability objectives, MeDirect is committed to continue making ESG factors key components of its decision-making processes and internal organisation.

The main objectives and commitments stemming from the ESG Strategy that are relevant for the management of ESG risks are included in this report. For full information refer to the Sustainability section[1] on MeDirect's website.

During 2024, the Group shall be reviewing the ESG Strategy to ensure continued consistency with the CER Materiality Assessment, which assessment ensures a business environment scan conducted on a yearly basis. Going forward, the Group is committed to review its ESG Strategy on a yearly basis to ensure alignment with the wider business strategy.

International Recognition

Market recognition of the ESG efforts is an important reflection of the quality of the Group's sustainability practices and implementation of the ESG Strategy. MeDirect's goal is to further enhance its sustainability rating through implementation of its ESG strategy.

In recent years, the Group participated in sustainability assessments conducted by EcoVadis[2], one of the most trusted providers of business sustainability ratings with a global network of more than 130,000+ rated companies. Starting from 2022, the Group continued to improve its sustainability rating score year on year, moving from a Silver medal rating in 2022 and 2023 to a Platinum medal rating in 2024, providing clear evidence of the Group's success in implementing its ESG strategy. In 2024, MeDirect ranked among the top 1% of companies best-rated by EcoVadis, recording substantial improvement in all areas.

For further details related to ESG qualitative information please refer to section 2 - Qualitative information on environmental, social and governance risks - of this report and the MeDirect Group Non-Financial Report, ESG Strategy and Sustainability Risk Policy that are published on the bank's website.

[1] *ESG and Sustainability Strategy - MeDirect*

[2] *Global, Trusted, Actionable Business Sustainability Solutions | EcoVadis*

2. Qualitative information on environmental, social and governance risks

2.1. Qualitative information on environmental risks

2.1.1. Business strategy and processes

MeDirect Group has incorporated ESG criteria into its main business processes, including credit, wealth, procurement, remuneration and governance processes, with the aim of managing sustainability risks and raising ESG/CER awareness in the organisation. For more information, refer to the Sustainability Risk Policy that is published on the bank's website.

Commitment towards Climate Neutrality

Financial institutions might be exposed to C&E risks associated with their physical operations, business portfolios and counterparties that may affect their financial standing and reputation. Moreover, the business activity of financial institutions can have an impact on the climate and the environment.

In its ESG strategy, MeDirect is committed to reduce or limit the impact of its business operations on the environment. The Group is actively working to support the transition to a low-carbon business and to achieve its climate targets. The Group follows international initiatives such as the Paris Climate Accords, the European Green Deal and Non-financial Reporting regulations and guidelines.

The Group defined in its ESG Strategy 2024/2025 (pillar 3) its short-medium-long term commitments related to its direct and indirect environmental impact:

1. Direct impact
    - Measure its own carbon emissions (1-3Y)
    - Reduce its own carbon emissions by 5% vs. 2022 (3-5Y) by 2026
    - Achieve carbon neutral operation (5-10Y) by 2032
    - Achieve a climate neutral Group (own and corporate clients' emissions) by 2050

2. Indirect impact
    - Exclusion list of environmentally sensitive sectors for which no financing will be provided
    - Maximum 6% limit of Group assets relate to sectors highly contributing to climate change
    - Minimum 5% share of green home loan sales in Malta and Belgium
    - Minimum 45% share of green mutual fund and ETFs offered by MeDirect Group
    - Minimum 10% share of fixed income Treasury assets invested in green bonds
    - Measure financed portfolio carbon emissions (1-3Y)

In 2023, the Group has engaged in a project to measure the Greenhouse Gas ("GHG") emissions for 2022 and 2023, both for its Scope 1, 2 and 3 own emissions and for its Scope 3 financed emissions, including the Group's residential and corporate lending portfolios, and treasury portfolio. The measurement of GHG emissions was carried out in alignment with the Greenhouse Gas Protocol ("GHG Protocol") and Partnership for Carbon Accounting Financials ("PCAF") Standards, to ensure transparent and accountable reporting of its environmental impact.

Between 2022 and 2023, the Group has managed to decrease its scope 1 carbon emissions by 7.8%, and its scope 1 and 2 (own) direct and indirect emissions by 46.6% using the market-based methodology while it slightly increased by 0.9% using the location-based method. As part of the 2024 update to the ESG Strategy, a specific (sub) strategy will be adopted in relation to the transition towards decarbonisation and climate neutrality of the Group by 2050.

The Group also assessed the sectoral alignment of its portfolios with Paris Agreement Capital Transition Assessment ("PACTA") forward-looking scenario-based transition pathways. The assessment concluded that MeDirect has no investments in PACTA sectors heavily impacted by climate transition risks, reflecting a conservative investment/risk strategy. The absence of companies from these essential PACTA sectors means that the relevant metrics cannot be applied or measured.

Green financing and investments

In its retail lending process, MeDirect has launched green residential home loans in Malta and Belgium to promote energy-efficient homes, which support the emission reduction strategy of the Group in an effort to reduce global warming. The Group also requests an EPC certificate from its retail borrowers. In addition, specific pre-defined post-loan origination conditions linked to CER have been introduced for all retail lending portfolios with the aim of improving the green home loan offerings to retail clients even post origination.

The Group also measures and monitors the range of green products offered to its clients in the Wealth Management Investment business and has implemented a green filter for Maltese investments. Moreover, the Group is integrating the sustainability preferences of its clients into the suitability assessments carried out prior to the provision of financial advisory and portfolio management services in order to be able to ultimately match the sustainability preferences of its clients. The Group also delivered on its goal to offer 45% share of green mutual funds and ETFs on its platform. The share of green mutual funds (article 8 (light green) and 9 (dark green) of the SFDR) offered by the Group to its customers reached 80% as at the end of 2023.

At the end of 2023, 11.8% of the Group's treasury portfolio was invested in green bonds, above the 10% target for 2024/2025. Refer to section 3 for the quantitative information, particularly templates 6-8 on Green Asset Ratio.

Clients' engagement approach

The Group has integrated climate risks into its risk management framework and business processes to develop a more resilient business model (e.g., CER materiality assessment, lending process, stress tests and models, business continuity and reputation) as defined in pillar 3 of its ESG Strategy. In line with its ESG Strategy, by 2024/2025 the Group is committed to achieve the following targets:

- Continue monitoring CER KPIs and undertake mitigating actions where necessary
- Start screening MeDirect corporate credit portfolio to identify EU taxonomy aligned/eligible assets

The Group did not define any absolute targets related to EU taxonomy aligned/eligible assets, as the current disclosures of its corporate clients do not permit such measurement. Most of its corporate clients are small to medium-sized unlisted companies that do not report under the Non-Financial Reporting Directive and therefore, data availability is limited. Nevertheless, an internal clients' engagement process was set up to start collecting relevant sustainability-related information from corporate clients (e.g., ESG questionnaires) during the loan origination process and for post-transaction analysis.

The Group's clients' engagement approach aims to facilitate the achievement of MeDirect's ESG Strategy targets, meet regulatory requirements and mitigate CER as a result of better understanding of the environmental profile of the Group's counterparties. The Group relies on the information/data it obtains from ongoing dialogue with its clients, as well as the public disclosures of its clients.

MeDirect has also incorporated CER into the collateral valuation process both for acute and chronic environmental physical risks. The Group requires EPC certificates from its retail clients for home loans collateralised with property, but the availability of the data on energy efficiency certificates is limited as there are no harmonised EPC label classifications across jurisdictions. In addition to the limited available client disclosure, publicly available statistics in different jurisdictions that the Group is operating in do not necessarily include required data to calculate proxy information to estimate client data. The Group Data Collection Procedure covers the data collection process at Group level, including identified data gaps.

Suppliers' engagement approach

In the procurement processes, whenever applicable and possible given its business profile and model, the Group requires its suppliers and any of its vendors to meet MeDirect's standards in the area of environmental awareness, amongst other things. The Group plans to conduct pre-qualification checks related to environmental aspects on vendors where the expected value of the proposed contract equals or exceeds €1 million to evaluate CER/ESG factors.

During the due diligence process related to potential third-party outsourcing providers, pre-contractual assessments are carried out by means of ESG questionnaires to evaluate whether the service provider has in place ethical standards and codes of conduct, including environmental matters.

During 2023, the Group has prepared and published on its website the Suppliers and Business Partners Code of Conduct.

Integration of C&E events into operational frameworks

The Group has integrated adverse climate-related and environmental events into its business continuity and incident management procedures, including relevant communication plans in the occurrence of an event of adverse physical and transition risks. The Group also incorporated in its operational framework CER impacting its operational centres and reputation.

The Business Continuity Plan ("BCP") includes scenarios related to natural hazards (e.g. storm, earthquake, flooding) and power failure, among others. The Incident management procedure includes scenarios related to physical risk due to inability to operate from offices/branches (e.g. earthquake, and other natural) with the escalation, communication messages and scenarios related to the reputation of counterparties affected by C&E risk.

The Operational & Reputational Risk Appetite Statement includes CER impact of the Group counterparties and Reputational Risk Management Policy includes C&E risk affecting reputation. The Group incorporated in Group Operational Risk Procedure damage to physical assets driven by e.g. natural disaster, flood or damage driven by controversial activities of the clients, suppliers and business partners associated with severe social and environmental damage impacting operational loss.

All policies, procedures and scenarios are reviewed and updated, if necessary, at least annually.

2.1.2. Governance

The Group continuously integrates CER/ESG risks and criteria in its risk framework by regularly updating relevant internal policies and procedures. It is committed to continue implementing dedicated ESG Strategy, with established risk management processes in the corporate governance framework, and concrete short-, medium- and long-term objectives and commitments.

Governance bodies involved in ESG management and oversight

Governance body	Responsibility	Reporting and frequency of reporting
Board of Directors (the "Board")	Responsible for the oversight of the implementation of the ESG Strategy and oversight of the thematic action plans	Reports approved by the Board; • annual non-financial disclosures, • biannual Pillar III disclosures on ESG risks, • annual CER materiality assessment,
Board Audit Committee ("BAC")	Responsible for matters relating to ESG reporting and assurance, ESG data, and financial impacts of ESG risks and opportunities.	Reports reviewed by the BAC: • biannual Pillar III disclosures on ESG risks • annual non-financial disclosures
Board Risk and Compliance Committee ("BRCC")	Responsible for matters relating to ESG risk management and controls, and emerging ESG risks and regulations. As from 2024, Chair of ESG Committee to provide regular updates to the BRCC.	Reports reviewed by the BRCC: • annual CER materiality assessment
Board Nominations and Renumerations Committee ("NRC")	Responsible for matters relating to composition and skills of the management body, and ESG objectives, including KPIs, as part of the incentive structures, respectively.	Reports reviewed/monitored by NRC: monitoring of pay gaps, reviewing of recruitment process, remuneration policy, and other ESG-related matters.

Executive Committee (ExCo)	Responsible for any matters escalated for discussion by the ESG Committee.	Annual approval of the Terms of Reference of the ESG Committee and other ESG-related discussion as required at ExCo level.
ESG Committee	Responsible for the oversight of the implementation of CER and ESG action plans, including the ESG Strategy, mainly to ensure consistency with the Group's business model, corporate culture, and values, as well as risk management framework.	Reports discussed at ESG Committee: • ESG Strategy • ESG/CER action plans • Non-Financial report • Pillar III ESG report

The Board of Directors is ultimately responsible for approving and overseeing the implementation of the Group's strategic objectives, main policies and procedures, ESG Strategy and Risk Management Framework, including CER/ESG considerations. Moreover, the Board reviews and approves the Group's Non-Financial report, together with the Group Annual Report & Financial Statements, ensuring that all material ESG-related topics are covered and disclosed. The Board is also responsible to validate the CER Materiality Assessment that analyses the sensitivity of the Group's business operations to climate (physical and transition) and environmental risks using a forward-looking approach. By setting the ESG agenda at the parent level, the Board ensures a common ESG strategic framework which can be deployed and implemented across the Group.

The Group ESG Committee has the overall responsibility for ESG matters, including CER. It oversees MeDirect ESG strategy and agenda implementation whilst providing advice and support to the Board of Directors on CER/ESG-related matters. The Committee includes key managers of the Group representing the main areas critical to the effective management of ESG and C&E risks. The Internal Audit function is a permanent invitee to the Committee as an observer in order to maintain its independent status. The Committee can invite any other internal or external parties to attend the Committee on an ad hoc basis to provide advice and/or information. The Committee meets at least quarterly.

During 2024, the terms of reference of the Group ESG Committee will be updated to streamline the Committee composition and the responsibility of the Chair of the Committee. Moreover, standing agenda items will be included in the quarterly agenda for the internal control functions to provide feedback to the Committee on any relevant sustainability-related matters. The Sustainability function is the primary coordination point driving the ESG strategy and agenda, engaging with the MeDirect Boards and interacting with the Group's business, support and control functions. Moreover, the Head of Regulatory Affairs and Sustainability is a member of the Prior Notice Unit ("PNU"). The PNU is responsible for assessing new products as part of the new products and services approval and review process. Relevant departments assess the risks related to their areas of expertise.

During 2023, the Group has incorporated sustainability criteria in its Corporate Governance Framework that shall be taken into consideration during the Board Collective Suitability Assessment that is conducted at least on a yearly basis.

Integration of ESG principles across all three lines of defence

The Group integrates ESG principles across all three lines of defence by updating business policies and procedures, the Risk Management Framework, Compliance Monitoring plans and the Internal Audit plans, as described in the Group Sustainability Risk Policy.

Business functions (first line of defence) are responsible for identifying, assessing and managing sustainability risks in the various stages of their business processes. Business functions implement the Group's procedures and policies related to sustainability risks in their day-to-day business operations.

The Risk Management function (second line of defence) is responsible for developing and tracking a dashboard of relevant CER and ESG risk indicators within the existing risk management and reporting frameworks of the Group. The Risk Management function ensures continuous enhancement of such indicators over time to ensure effective sustainability risk management across the entire Group. It integrates CER and ESG risks (both financial and non-financial) in its risk identification process, including the setting of risk appetite limits and tolerance thresholds. By doing so, the Group aims to analyse comprehensively the ways in which CER and ESG risk may affect different (risk) areas of the Group. Moreover, the Risk function is responsible for reviewing and updating on an annual basis the Group CER Materiality Assessment that analyses the sensitivity of the Group's business, operations and activities to climate (physical and transition) and environmental risks using a forward-looking approach.

Additionally, the Compliance functions (second line of defence) of both MeDirect Malta and MeDirect Belgium prepare a Compliance Monitoring plan, which is approved by the respective Board Risk and Compliance Committee, taking into account sustainability-related regulations, as appropriate. The Compliance function operates independently from the business units but advises/challenges business units and other internal functions to ensure that operations are in line with policies, procedures, and regulations.

The Internal Audit function ("IAF") (third line of defence) is responsible for the execution of a (risk and priority based) multi-year audit plan across the Group. In addition to a periodic review of internal control elements which encompass specific business segments and support processes, the IAF also covers the activities and performance of independent control functions (such as Risk Management and Compliance), ongoing projects and relevant third-party outsourcing and other intra-group business arrangements. In this context, the IAF considers ESG (governance) as a separate audit topic in its multi-year audit plan and embeds ESG/CER (where relevant) as a specific attention point in the audit scope and approach for specific business activity, support process and control function reviews. As the multi-year audit plan progresses, the IAF incrementally provide assurance that ESG/CER policies and procedures are adhered to and that related residual risks are appropriately addressed. Internal audit report observations and conclusions are made available to the Group Head of Regulatory Affairs and Sustainability, as appropriate.

Reporting and Disclosures

Refer to the section 2.1.1. Business strategy and processes for more information regarding the clients' and suppliers' engagement approach to obtain sustainability-related information, as well as environmental data, including GHG emissions, that is used for reporting purposes.

As a significant institution, the Group is subject to reporting and disclosure requirements stemming from different EU Regulations such as, the SREP ESG data collection and Non-Financial report that are reported on an annual basis, as well as the Pillar III ESG report that is disclosed twice a year. The Group will also be subject to the Article 8 Taxonomy reporting and the Corporate Sustainability Reporting Directive.

On an annual basis, the Group updates the CER materiality assessment. The Group used different data sources to assess the individual physical risks and transition risks. For the analyses of individual physical risks, the Group used the European Climate Risk Typology, European Environment Agency maps and Moody's Investor Services analysis, including sectoral heatmaps. Moody's analytics research and publicly available Grantham Research Institute on Climate Change and the Environment research papers were used as data sources for the assessment of transition risk.

In 2023/2024, the Group was also in scope of the one-off Fit for 55 data collection exercise, which included the reporting of environmental data namely, GHG emissions data for year-end 2022.

In 2023, the Group adopted an ESG Data Collection Procedure to identify the ESG-related data gaps and implement a data collection process to address the identified gaps.

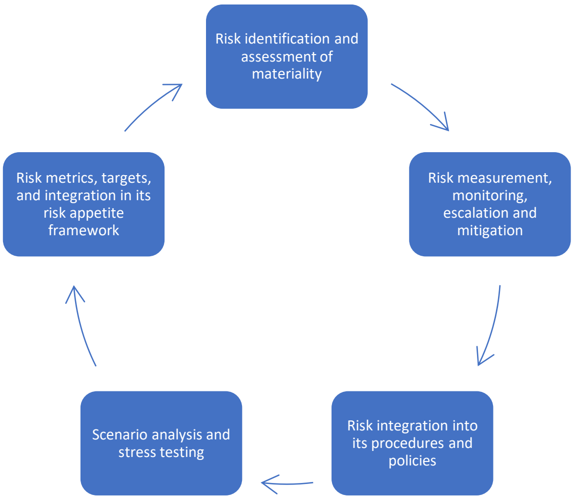
ESG-related objectives integrated within the Group's Remuneration Policy

Starting in 2022, the Group has incorporated sustainability objectives into its Remuneration Policy. The Group has determined variable compensation of its employees based on personal performance against qualitative objectives and at least one quantitative objective, pursuant to the ESG and Climate Risk initiatives, as appropriate given the nature of the individual's position, as stipulated in the ESG Strategy. ESG qualitative and quantitative performance objectives for key senior managers motivate these employees to participate actively in the ESG transformation and to support the ESG strategy implementation. Some of the sustainability objectives are employee-specific and are designed to discourage excessive risk-taking in relation to sustainability risks.

2.1.3. Risk management

Integration of sustainability criteria, including environmental factors in the Risk Framework

As part of the incorporation of sustainability criteria into its risk management framework, the Group considers:



MeDirect defines sustainability risks, including climate and environment-related risks, in its Group Sustainability Risk Policy as described in Section 1. General overview of this report. Special attention is paid to the physical and transition risks linked to climate change as such risks might affect the sustainability of the Group and its counterparties if these are not properly monitored and managed.

Linkage between C&E risks with traditional risk categories

Climate-related and Environmental ("C&E") risks can be either stand-alone risks or embedded within other risks, as they may contribute to other financial and non-financial risk categories, such as credit risk, operational risk, liquidity risk, counterparty risk or market risk. The table below describes some examples.

For more information relating to the key risk categories, refer to the Pillar III disclosures, section 2.1.2 Overview of the management of key risks[3].

Risk Categories	Potential effects of C&E / ESG Risks
Credit Risk	It can reduce the ability of corporate and retail clients to cover their obligations towards the Bank due to existing lending contracts. Such risks can include, physical weather events, need for capital expenditure as a result of new ESG/CER regulations, adverse effects on reputation resulting from participation in controversial or CER sensitive sectors, among others. Such risks can also lead to deterioration of collateral values (e.g. stranded assets, property damage due to physical weather events). C&E risk can result in credit losses, increase of probability of default (PD) and loss given default (LGD), impact on the loan-to-value ratios and reduction in income.
Market Risk	It can drive repricing of assets and affect valuation of equities (e.g., companies with unsustainable business models or operating in controversial/CER sensitive sectors, stranded assets, physical risk events), fixed income products (e.g., increased sovereign risk on some markets through increasing sovereign debt and reduction of access to capital markets for companies facing CER/ESG risks), commodities

[3] *Investor Relations and Financial Results - MeDirect*

	and derivatives, in each case resulting in adverse changes in the value of securities, interest rates, FX and credit spread volatility. It can adversely affect the value of the Group's financial assets revaluation and its income.
Liquidity Risk	It can affect the profitability of clients or counterparties (e.g. new ESG regulatory requirements or restrictions), potentially resulting in reduced deposits from such clients or counterparties. Physical weather events or natural disasters may cause a sudden increase in demand for liquidity, raising the cost of liquidity for the Group. CER/ESG-related liquidity risk can affect the Group's funding base through outflows of liquidity, resulting in limited availability of funding and increased cost of funding due to changing in clients' sentiment. Sudden revaluation of securities (e.g. due to stranded assets) may lower the value of the Group's high quality liquid assets, affecting liquidity buffers. ESG ratings downgrades may discourage investors and increase financing costs and refinancing risk.
Operational Risk	It can result in damage to operational centres (e.g., as a result of floods), client service delivery disruption (e.g., as a result of lack of energy supplies) and business continuity risk (e.g., as a result of weather events or liquidity/reputational risk as a result of changing market sentiment). It may also lead to customer risks associated with economic downturns affecting borrowers' ability to repay mortgages. It can lead to higher energy, water and insurance prices impacting the Group's operational costs.
Reputational Risk	It may arise from the materialisation of the above risks, impacting the reputation of the Group and the perceptions of clients, regulators, market participants, rating agencies, and other stakeholders. Not complying with the guidelines, norms, and regulations related to ESG/CER transformation may result in regulatory actions and client or counterparty litigation, affecting the reputation of the Group.
Litigation Risk	Litigation risk consist of the risk of any potential claim made against the Bank and/or legal proceedings instituted against the Bank as a result of the Bank's alleged failure to observe its CER and ESG-related obligations and/or carry out its business in a sustainable manner. It is important to note that the term "litigation risk" is to be understood broadly and can result from a number of different factors, including (but not limited to): (i) Environmental & climate change-related claims (ii) Claims alleging potential greenwashing (iii) Claims alleging human rights violations (iv) Liability for supply chains & subsidiaries (v) Alleged directorial misconduct and/or neglect of directorship duties (vi) Stakeholder (including clients, regulators, etc,) activism

NOTE: CER refers to climate and environment-related risks

The above describes the main transition channels between sustainability risks, including CER, and traditional risk categories. The influence of CER on credit, market, liquidity/funding, operational and reputational risk may depend on the severity of climate and environment-related changes, regulatory actions and evolving market sentiment and should be taken into account by the Group.

The Group integrates CER factors into its risk framework by updating its internal policies and procedures, implementing dedicated ESG Strategy objectives and commitments and incorporating CER considerations into its daily operations. The Group has updated a number of policies and procedures, in particular its Risk Management Framework, Risk Appetite Framework, Risk Appetite Statements, Lending Credit Frameworks and procedures, as well as the Stress Testing Framework, as part of internal capital adequacy assessment process ("ICAAP") and internal liquidity adequacy assessment process ("ILAAP") to ensure that C&E risks are properly identified, measured, monitored and mitigated, and if required, properly escalated and reported if breached.

During this process, the Group has taken into account its business profile and strategic direction as well as regulatory requirements as stipulated in the European Central Bank ("ECB") Guide to climate-related and environmental risks, United Nations Sustainable Development Goals principles, Task Force on Climate-related Financial Disclosure recommendations, Taxonomy Regulation, SFRD and MIFID II, among other regulations.

Incorporation of CER in the lending process

Moreover, the Group incorporates CER principles in its main business processes, as outlined in the Sustainability Risk Policy, with the aim of managing C&E risks and raising CER awareness within the organisation and amongst its clients and counterparties. As described in Section 2.1.2. Governance, the three lines of defence are responsible for identifying, assessing and managing C&E risks across the organisation, applying relevant requirements and controlling actions.

MeDirect restricts and/or prohibits the establishment of a banking relationship with certain types of clients operating in ESG-sensitive geographic locations or industries, as described in the Group's Client Acceptance Policy. In the corporate loan origination process, the Group implemented an exclusion list specifying the activities that the Group will not finance as a result of potentially negative effects on the environment, including greenhouse gas emissions, biodiversity loss and water scarcity.

The Group has also committed in its ESG Strategy that direct exposure to sectors contributing significantly to climate change that might have potentially negative impact on the environment will not exceed 6% of the Group's assets by 2024/25.

The Group evaluates environmental factors in its corporate lending process using sectoral heatmaps. Moreover, during 2023, the Group has incorporated risk appetite limits on CER for most of its lending portfolios, as stipulated in the appropriate Risk Appetite Statements.

In addition, MeDirect has adopted an ESG questionnaire used during loan origination for Maltese corporate clients and for post-transaction analysis for the international syndicated lending portfolio. The questionnaire has been designed to assess the ESG profile of the client and ESG risks related to the financing, including environmental risks. For further information on ESG questionnaires, refer to section 2.1.1 Business strategy and processes.

Reputational and litigation risks that may arise from the business activity of MeDirect linked to CER (impact on climate/environment) is limited to indirect impact through the business activity of its clients. This risk may arise from environmentally sensitive activities of the Group's corporate clients. MeDirect's credit procedures require tracking of news flow (including CER-related) relating to prospective corporate borrowers using external data providers information (e.g., Debtwire, Bloomberg, Google alerts). During the annual review process, credit analysts also review publicly available information on the covered portfolio e.g., management accounts and annual reports, ESG reports, press releases and websites. The ESG Questionnaire for corporate clients includes questions on litigation and reputational client risks.

During 2023, the Group refined the treatment of litigation risk as part of the overall operational and reputational risk management. Litigation risk is treated as an ancillary, inter-related risk insofar as the risk of litigation is directly linked (and ultimately largely determined by) to the adherence or lack thereof, to properly identify, monitor and mitigate all other risks forming part of the Group's risk horizon (e.g. CER, compliance risk, social risks, etc.,). MeDirect will continue ensuring that effective controls are in place to prevent and/or significantly mitigate any potential litigation risks.

Impact of environmental risks on capital and liquidity risks

A number of key risk indicators are monitored periodically by the Risk function relating to the monitoring of concentration risk to high CER sectors, flood and sea hazard risk, yearly energy efficiency of the properties, among others, in relation to the retail and corporate lending portfolios.

In addition to the existing KRIs, MeDirect has incorporated as from 2023, risk appetite limits relating to CER to its lending portfolios, particularly limits relating to poor EPC, coastal and flood risk limits, concentration risk and exclusion list. These limits have been included in the Risk Appetite Statements of the respective portfolios and are being managed, monitored and reported in line with the Risk Appetite Framework.

Starting from 2022, MeDirect conducted a CER materiality assessment to analyse the main CER factors that may affect the Group. This assessment is led by the Risk Management function and is reviewed on a yearly basis to ensure alignment with the wider business strategy. The annual refresh of the materiality assessment ensures a business environment scan is carried out annually, by assessing the main C&E risks that may affect its strategy, business model, asset portfolios, funding sources, treasury and hedging, wealth management services and business operating centres.

The assessment includes on and-off-balance sheet assets and contingencies, covering climate (physical) and environmental risks (Floods/Fluvial, Sea Level Risk, Drought/Extreme Heat, Forest Fire/Wildfire, Biodiversity Loss, Water Stress) and other climate (transition) risks (Policy/Regulations, Stranded Asset Risk, Market Sentiment, Technology Change), including high-level impact horizons. The Group uses climate heatmaps, research and maps to evaluate these risks. The assessment is conducted using a proportional and risk-based approach, applying available sources and data.

The latest assessment that was updated in March 2024 concluded that the Group's exposure to CER is limited, with the Group's exposure to C&E risk derived primarily from

- credit risk (deterioration of collateral value, deterioration of credit profiles of borrowers),
- retail funding primarily as a result of reputational risk (deposit outflows),
- wholesale funding primarily as a result counterparty/country risk and deterioration of collateral value,
- wealth management services as a result of deteriorating market sentiment (fund classes), and
- operational centres as a result of operational risk (higher energy requirements, physical risk of destruction or business failure).

Notwithstanding these risks, the Group has assessed its residual risk as low, particularly in the short-to medium-term.

The assessment concluded that based on its current CER/ESG risk profile, no additional capital or liquidity buffer is required to cover potential impact of C&E risk.

The Group will continue to monitor and reassess the evolution of CER regularly and update its assessments at least on an annual basis. As a result of the assessment, the Group has defined a list of KPIs to measure, monitor and report CER faced by the Group and its core portfolios on a quarterly basis. KPIs include:

- Mortgage Portfolio Flood Risk – % of Netherlands/Belgium mortgage portfolio exposure in higher flood risk areas
- Mortgage Portfolio Sea Hazard Risk – % of Netherlands/Belgium mortgage portfolio exposure in higher sea hazard risk areas
- Corporate Lending Portfolios - Concentration Risk in high CER sectors
- Mortgage Portfolio - Concentration Risk in EPC ratings
- Green Lending – Absolute value of the Group green lending
- Wealth Platform – Number of green investment funds distributed by MeDirect
- Treasury Portfolio - Value of green bond investments

The materiality assessment is led by the Risk function in collaboration with the various business units and is presented at the appropriate management and Board Committees for discussion and approval.

Moreover, C&E risk has been also assessed from both the normative and economic perspectives of the ICAAP, which assesses its impact on P&L, capital requirements and solvency (PD, LGD). In relation to the provisioning framework, the Group applies climate-adjusted scenarios for the estimation of the climate-adjusted credit loss allowances of its exposures classified within the International Corporate Lending, Maltese Business Lending, Dutch Mortgages, and Buy-to-Let portfolios. The Group applies stresses on the collateral pledged as security for the estimation of the climate-adjusted credit loss allowances of its exposures classified within the Belgian and Maltese mortgage portfolios. For more information, refer to the Group Annual Report for the year end December 2023.

The Group continues to evolve its stress testing processes to be able to conduct adequate and plausible Climate Risk Stress Tests that will allow the Group to make informed decisions. The CER stress tests are conducted on the annual basis by the Group. During the first quarter of 2024, the Group has expanded the stress scenarios from a CER perspective included within the ICAAP and ILAAP process to cover operational and credit losses, deposit flight and operational damage, among others.

Data availability, quality and collection

Refer to the section 2.1.1. Business strategy and processes for more information regarding the clients' and suppliers' engagement to obtain sustainability-related information, as well as environmental data, including GHG emissions. Environmental data is used for reporting and disclosures purposes, as stipulated in section 2.1.2. Governance. Information on data collection capabilities, data quality and data gaps is covered by the Group Data Collection Procedure. In Section 3, quantitative information and required data points were collected on a best-effort basis. It is expected that more accurate and quality data points will be collected as more and better data sources will become available (e.g., as a result of the further implementation of the Corporate Sustainability Reporting Directive ("CSRD") and the European Reporting Standards ("ESRS").

2.2. Qualitative information on social risks

2.2.1. Business strategy and processes

The Group's employees, counterparties and society in general are an important element of the ESG Strategy, as confirmed by the double materiality assessment conducted in 2022 during the preparation of the first Non-Financial Report.

As indicated in Section 1. General overview describing the main pillars of the ESG Strategy, the Group will continue focusing on the following key elements:

Employees:

- Continued creation of a unique corporate culture and an attractive workplace with high employee satisfaction
- Continuation of promotion of diversity, equality and inclusion as core principles guiding MeDirect's multi-cultural organisation
- Professional development of its employees will closely follow the changing business environment and will remain an important element of its business strategy

Society:

- Active engagement in local communities by participating in voluntary and charitable activities
- Support social inclusion through education, accessible banking and cooperation, raising public awareness and building a sustainable society
- Play an important role in developing and supporting society by offering innovative financial solutions, safe banking and social support schemes

The Group's employees are its most important assets. Helping employees to develop and ensuring attractive working conditions is crucial to the achievement of the Group's business goals and to increase employee satisfaction.

MeDirect is also aware of its role in society and will therefore continue to engage in community initiatives that promote inclusion, development and support future prosperity. Moreover, the Group will continue to contribute to the economic and social development of the countries in which it operates through its financial activity, delivery of digital solutions, participation in governmental support schemes and being a recognised employer and taxpayer.

Objectives and Commitments to address Social Risks

The Group defined in its ESG Strategy 2024/2025 (pillar 2: Employees and pillar 4: Society) a list of its medium-term commitments related to its employees and society as follows:

Employees:

- Further improvement of employee job satisfaction, with a minimum target of 80%
- All top management having specific and relevant ESG/CER objectives
- Maintain Board gender diversity with a minimum 20% representation of the under-represented gender
- Ensure Leadership gender diversity with the goal of achieving a minimum of 40% representation of the under-represented gender
- Maintain a gender-neutral recruitment process
- Minimum one ESG training per year
- Ensure gender diversity in the succession programme for managerial positions with the goal of achieving a minimum of 40% representation of the under-represented gender

- Increase number of training/development hours per employee by 25%

Society:

- Increase the number of Group-sponsored volunteer events to two person days annually
- Increase attendance at Group-sponsored volunteer events to a minimum of 75 employees
- Minimum five voluntary initiatives per year, focused on community, environment and other areas
- Maintain regular participation in charitable donations and sponsorships
- Minimum five Corporate Social Responsibility initiatives conducted each year
- Quarterly training for seniors to eliminate financial/digital illiteracy
- Regular training/events for students
- Revamping of current Internship programme and implementation of a graduate programme
- Maintain high exposure to social support schemes with a goal of 50% of Group lending

In the 2024 refresh of the ESG Strategy, additional commitments relating to pillars 2 (employees) and 4 (society) will be adopted, including the equal pay gap monitoring.

Moreover, the Group committed in its ESG Strategy 2024/2025 (Pillar 1 Governance) to achieve the following targets with regard to its counterparties:

- Maintain the policy of not onboarding clients from controversial industries and geographical locations (in line with the Group's Customer Acceptance Policy)
- Incorporate, if appropriate, human rights clauses in new contracts with suppliers and corporate lending clients
- Ensure that a minimum of 50% of key suppliers (including suppliers with contracts that exceed €1m) have ESG verification (to be determined by using questionnaires, vendors' statements and other techniques)
- Ensure that close to 100% of corporate lending clients have ESG/CER verification (to be determined by using questionnaires, review of annual reports, corporate websites and media news flow, where available, and other methods)Maintain a high Net Promotor Score (customer recommendation factor) score with a minimum score of 30

For more information regarding the progress of the implementation of ESG Strategy commitments, please refer to the Non-Financial report that is published on the bank's website.

Consideration of social factors when conducting business

The Group is aware of its responsibility to protect the health and safety of employees and visitors to its premises. The Group's Occupational Health and Safety policy sets out the basic rules relating to the safety and health of employees and visitors to its premises, in line with applicable environmental and occupational health and safety laws and regulations.

The Group designs products that are easy to understand and simple to use. It aims to ensure that any charges are transparent, fair and reasonable. The Group also aims to provide its clients will all necessary information to enable them to understand the Group's products and services as well as related costs. MeDirect treats its clients fairly and transparently. Staff members should not take unfair advantage of its clients or counterparties through manipulation, concealment, misinterpretation of material facts, unfair dealings and practices, or abuse of confidential information. As referenced in section 2.1.2, the PNU is responsible for assessing new products as part of the new products and services approval and review process.

Client complaints are an extremely important source of information to the Group, and staff members are required to ensure that all complaints are handled in line with the Group Complaints Handling Policy. Internal procedures and policies regarding complaints require staff members to inform its customers in a transparent way about procedures for filing complaints as well as terms and conditions and time limits applicable to complaint handling. The procedures describe how complaints are recorded, acknowledged and resolved.

The Group also protects the confidentiality of client information and ensures that such information is used only for the purpose for which it was collected and is not misused. The Group has a Data Protection Policy, prepared in accordance with the EU General Data Protection Regulation and consistent with other applicable national data protection legislation. In addition, the Information and Communication Technology ("ICT") and Security Risk Management Framework documents MeDirect's approach to monitoring and mitigating ICT risks, including cyber risks.

In relation to the wider community, each year, the Group prepares a plan for voluntary and charitable activities and sponsorships with the aim of actively engaging in local community initiatives. In accordance with the Group's Anti-Bribery and Corruption policy and procedures, the Group ensures that payments for sponsorships and donations are not used for purposes of bribery. Due diligence is performed on sponsorship and donation recipients, with consideration given to potential affiliation with public officials.

Moreover, to ensure proper sustainable business conduct by the Group, a yearly training programme has been initiated back in 2022 for Board of Directors and key stakeholders. As from 2024 onwards, mandatory e-learning module on ESG will also be provided to all employees on a yearly basis. This is in addition to the ongoing training and workshops that Sustainability team attend on a regular basis on topics related to ESG, to keep aware of ongoing changes and obligations within the regulatory sphere.

2.2.2. Governance

Social risk management is integrated within the wider Risk Management Framework, as defined in the Group Sustainability Risk Policy. Refer to Section 1. "General overview" of this report.

The same governance process applies as stipulated in section 2.1.2 Governance. All Management and Board Committees should assess any (potential) conflicts of interest before the start of the meeting. If required, the secretary of the Committee should report any arising conflicts of interest to the Compliance department.

Business units and internal control functions provide periodic updates to the appropriate Board/Management Committees on social risk issues. Updates might include information about management of employee and counterparty relations, pay gap monitoring, customer complaints, data protection and security, violations of ethical standards or labour rights, employees' development, and remuneration. A summary of the key metrics is included in the annual Group Non-Financial Report.

The Group has implemented policies and procedures to manage risk related to its employees by defining staff relationships and a labour standards framework while developing an organisational culture which supports internationally recognised human rights. MeDirect's compliance with these policies is a process of continuous improvement, and that is why MeDirect is committed to review all of its policies and procedures at least on an annual basis.

Among the most relevant policies relating to social aspects, particularly related to MeDirect's employees, include the Group Code of Conduct and Ethics, Diversity Policy, Discrimination and Harassment Policy, Whistleblowing Policy, Relationship at Work Policy, Recruitment Policy, Succession Policy, Conflict of Interest Policy, Reputation Risk Management Policy, Anti-Fraud Policy, and Anti-Bribery and Corruption Policy. In order to analyse employee's satisfaction, MeDirect conducts periodic surveys.

The ESG Strategy objectives relating to social matters focus on the short- to medium-term (to 2025). Pillar 2 - Employees of the ESG Strategy establishes the primary objectives in this area:

- Attractive workplace
- Diversity, equality and inclusion
- Professional development

The Group also implemented policies and procedures related to counterparty management, including in respect of clients, suppliers and business partners, outlining the Group's approach to relationship management, product and service delivery, human rights protection and sponsorships. With respect to key business partners and suppliers, MeDirect's policies are aimed to ensure the highest standards of business conduct, business ethics and integrity, as well as social responsibility from its business partners and suppliers. Such policies and procedures include the Group Code of Conduct and Ethics, Clients Acceptance Policy, Risk Appetite Statements, Anti-Money Laundering and Countering of Terrorism Policy, Reputation Risk Management Policy, Procurement Policy, Group Outsourcing framework, and the Supplier and Business Partner Code of Conduct, among others.

The Group defined in its ESG Strategy the primary objectives related to society (pillar 4):

- Community engagement
- Social inclusion
- Societal development and support

During this process, the Group considered its business profile and strategic direction as well as regulatory requirements, including, among others:

- Universal Declaration of Human Rights of the United Nations, International Labour Organisation's Declaration of Fundamental Principles and Rights at Work, the United Nations Sustainable Development Goals, Guidelines on Internal Governance
- EBA Guidelines on sound remuneration policies (EBA/GL/2021/04), ESMA Guidelines on certain aspects of the MiFID II remuneration requirements
- Fifth Money Laundering Directive, Criminal Codes
- GRI Standards

Alignment of Renumeration Policy with social risk objectives

The Group Remuneration Policy establishes a framework for defining roles, measuring performance, and adjusting compensation to take into account risk management. The Group's Remuneration Policy is designed to align with the Group's business strategy, risk tolerance, objectives, values and long-term interests, including social matters such as employees, clients and supplier relations, regulatory or community affairs and compliance with codes of conduct and other internal policies and procedures.

The Group Remuneration Policy includes fixed and variable components of employee remuneration, which are applied in a gender-neutral manner. Fixed remuneration consists of non-discretionary payments tied to the specific role and organisational responsibilities and benefits which do not depend on performance. Fixed remuneration may depend on professional qualifications, expertise and experience required for the position, role, complexity of responsibilities in the position, responsibility for team management, impact of the position on the results of the Group and other factors.

The Group determines variable compensation of its employees based on individual performance in relation to agreed qualitative and quantitative objectives established in line with the Group's strategy and its performance. Objectives depending on the role in the organisation include social aspects. Moreover, the Group has established ESG/CER performance objectives for key senior managers as described in Section 2.1.2. Governance.

The Group is committed to maintain a gender-neutral recruitment process. During the recruitment process, the Group undertakes rigorous checks on prospective employees in relation to technical and soft skills as well as cultural fit. The Group adopts an unbiased approach in the hiring process and ensures that prospective employees meet with a minimum of three different Group employees.

2.2.3. Risk management

The MeDirect Group Sustainability Risk Policy defines sustainability/ESG risk to include the social risk, events or conditions that, if they occur, could result in an actual or a potential negative impact on the value of investment, as defined in the SFDR Regulation, which would directly or indirectly affect the value of the organisation. Social risks mainly relate to human rights violations, ethical approaches to business, controversial sectors, employee rights and working conditions, including diversity, equality and discrimination, health and safety, data protection and information security.

Section 2.1.3 Risk Management of this report describes the main transition channels between sustainability/ESG risks (including social risk) and traditional risk categories. The influence of social risks on credit, market, liquidity/funding, operational or reputational risk may depend on the severity of non-compliance with regulations, market standards or stakeholders' expectations, regulatory actions, the severity of human rights violations, or impact on employees and counterparties.

As described in Section 2.1.2. Governance, the three lines of defence are responsible for identifying, managing and overseeing social risks across the organisation in accordance with relevant policies and procedures.

Integration of social factors into the Risk Management

The Group integrates social factors into its risk framework by updating its policies and procedures, implementing dedicated ESG Strategy objectives and commitments, and incorporating them into its daily operations. During this process, the Group aims to identify areas in which it might be exposed to potential social issues and to mitigate the impact of such issues.

Internal policies and procedures that address the Group's exposure to social risk in relation to its employees, clients, suppliers and business partners are referenced in Section 2.2.2 Governance.

The Group manages and mitigates social risks by restricting and/or prohibiting the establishment of banking relationships with clients from sanctioned countries, controversial industries or industries applying questionable business practices. Moreover, some socially sensitive activities might require enhanced due diligence to be carried out by the bank. Onboarding of new clients or continuation of existing relationships with clients is evaluated based on several assessment criteria, including the direct or indirect reputational risk associated with the potential/existing client.

In 2023, the Group incorporated in the due diligence of its portfolios the monitoring of the controversial activities of its corporate clients associated with severe environmental or social damage that might impact the Group's stability, reputation and future liability and litigation risks.

In its corporate lending business procedures, the Group has adopted sectoral ESG maps including social risk. In addition, the Group incorporated ESG questionnaires requiring its clients to share information on their approach to ESG and sustainability risks, including social aspects such as impact on society, employee-related issues and respect for human rights, among other information. ESG factors are also analysed during annual corporate portfolio reviews and screening where data is publicly available.

In the procurement process, whenever applicable and possible given its business profile and model, the Group requires its suppliers and any of its contractors to meet MeDirect's standards, including the existence of appropriate codes of conduct addressing issues such as human rights, social responsibility, labour practices and work environment. During 2023, the Group has prepared and published on its website the Suppliers and Business Partners Code of Conduct. To further enhance the due diligence relating to sustainability factors, including social aspects, the Group plans to conduct pre-qualification checks in relation to ethical practices and ESG factors on vendors where the expected expenditure equals or exceeds €1 million.

During the due diligence process related to potential third-party outsourcing providers, pre-contractual assessments, by means of ESG questionnaires, are carried out to evaluate whether the service provider has in place ethical standards and codes of conduct, including ethical, social responsibility, and child labour prohibition considerations.

Reputational risk management

All clients of the bank are onboarded in accordance with the Bank's Customer Acceptance Policy. The Group conducts due diligence related to Bribery and Corruption risk when establishing and maintaining relationships with clients or third parties. Reputational damage is covered within the Bank's obligation under the AML/CFT and Anti-Bribery and Corruption policy requirements, which stipulate that proper due diligence checks are required when dealing with customers and third parties, respectively. Requirements are further managed through the AML/CFT and Anti-Bribery and Corruption procedures that stipulate the processes in place, which include screening and negative news checks to be performed to ensure the bank is not involved with any relationships that could potentially lead to a reputational damage to the bank.

All Group employees are required to identify, manage and mitigate reputational risks that may affect the Group's reputation resulting from business activities undertaken by MeDirect and its counterparties. The following table presents examples of such risks:

Misconduct	Weak Governance	Operational Failings	External events
• Illegal or fraudulent activities by individuals • Employee behaviour and conduct • Misuse of client information • Doing business in an unethical manner	• Breach of regulatory requirements, including labour law and employee practices • Business activities that contradict brand core values • Inappropriate controls and internal governance of key decisions and processes	• Poor customer relations • Non-performance of core infrastructure and controls • Business disruption and inadequate continuity plans	• Incorrect or unfounded rumours • Negative public remarks by politicians/public institutions • Industry, market or jurisdictional contagion risk

The Group Code of Conduct and Ethics sets forth principles to be applied by the Group in relation to human rights, customer protection and product responsibility. The Group applies a zero-tolerance policy to any kind of human rights abuses, including (but not limited to) any form of harassment, discrimination, child labour, forced labour or slavery and inhumane or degrading treatment.

Since the conduct of the Group's suppliers could adversely affect the Group's reputation and standing in the market, the Group has extended this approach to its business relationships and, whenever applicable and possible, the Group requires its suppliers and any of its contractors to meet MeDirect's standards in the following areas: code of conduct including human rights, environmental awareness, social responsibility, labour practices and work environment. During 2023, the Group has prepared and published on its website the Suppliers and Business Partners Code of Conduct.

2.3.Qualitative information on governance risks

As referenced in section 1 of this report, MeDirect is committed to continue integrating ESG principles into its day-to-day operations and increase awareness on ESG matters across the Group. To do this, the Group promotes the observance of the highest standards of good corporate governance and business ethics. It is committed to continue growing its business in a responsible and sustainable manner, based on sound corporate values and ESG principles. Moreover, it is committed to continuing to build a trusted and distinctive brand in the markets it operates in.

Objectives and Commitments relating to Governance

The Group defined in its ESG Strategy 2024/2025 (pillar 1) its primary objectives and commitments related to Governance as follows:

- Shaping the MeDirect corporate culture and inspiring its employees to encourage an approach to business based on solid values
- Continuing to develop a responsible and sustainable business with the aim of building a trusted and distinctive brand
- Continuing to integrate ESG factors in the Group's corporate governance framework and to enhance its sustainability ratings

The Group also defined in its ESG Strategy 2024/2025 (pillar 1) a list of its commitments as follows:

- Enhance MeDirect sustainability rating
- ESG/CER integrated into annual compliance plans and the multi-year internal audit cycle
- Minimum of three independent members in the Board

MeDirect also committed to conduct ESG verification of its counterparties as follows:

- ESG verification of at least 50% of key suppliers (by means of questionnaires, vendors' statements and other methods)
- ESG/CER verification of close to 100% corporate lending clients (by means of questionnaires, review of annual reports, corporate websites, media news flow, where available, and other methods)

The Group is in process of reviewing all ESG Strategy objectives and commitments to ensure alignment with the evolving business strategy and CER materiality assessment, which covers the business environment scan as set out in the ECB Guide on climate-related and environmental risks.

2.3.1. Governance

High corporate governance standards, an ethical approach to business, and compliance with relevant regulations are important elements of responsible and sustainable organisations.

Governance risk can be associated with the governance framework of the Group or its counterparties, including its clients, suppliers and business partners.

The Group is committed to ensure that it continues to follow high standards in terms of transparency and integrity. It expects that the same level of standards is followed by its counterparties. In 2024, the Group is revamping its Group Corporate Governance Framework into a holistic Corporate Governance Memorandum to consolidate the Group's corporate governance rules and procedures for its Board of Directors and its committees. It shall set out rules and procedures to ensure that the Group addresses high standards of corporate governance and complies with the regulatory requirements and obligations.

Linked to the ESG verification, in its business procedures, the Group incorporates requirements related to its counterparties' exposure to ESG risk as described in the previous sections (including ESG questionnaires). In 2024 the Group is in the process of enhancing the distribution to and collection of ESG questionnaires from its corporate clients, suppliers and business partners.

The Board approves main policies and procedures and the ESG Strategy that outline MeDirect's corporate governance framework. In addition, the Board approves the Group Non-financial report that describes key sustainability commitments, policies and rules for the Group.

The Group has implemented policies to manage MeDirect governance risk including the Group Corporate Governance Framework, Diversity Policy, Whistleblowing Policy, Conflict of Interest Policy, Reputation Risk Management Policy, Anti-fraud Policy, and Anti-Money Laundering and Countering of Terrorism Policy.

For more information relating to the governance framework of the Group in relation to ESG, refer to section 2.1.2 Governance of this report.

2.3.2. Risk management

MeDirect defines sustainability risks, including governance risk, in its Group Sustainability Risk Policy. Special attention is paid to corporate governance, internal policies and procedures, compliance with law and market standards, strategy and risk management, personal data / IT security and transparency,

The influence of the governance risks on credit, market, liquidity/funding, operational and reputational risk may depend on the severity of non-compliance with regulations, market standards or stakeholders' expectations, regulatory actions or the severity of the impact of governance risk on the organisation or its counterparties.

As described in Section 2.1.2. Governance, the three lines of defence are responsible for identifying, managing, and overseeing governance risk across the organisation, in accordance with relevant policies and procedures.

The Group integrates governance factors into its risk management framework as it updates its policies and procedures, implements its dedicated ESG Strategy objectives and commitments and incorporates governance considerations into its daily operations.

Risk management of governance risks follows the same procedures adopted by the Group when it comes to all financial and non-financial risk pillars. The Group ensures that all risks are properly identified, measured, monitored and mitigated, and if required, properly escalated and reported if breached. This is in line with the Group Risk Management Framework and Risk Appetite Framework.

During the credit process in relation to corporate lending clients, the Group considers counterparties' corporate governance risk. In Malta lending, the Group uses sectoral heatmaps (including governance risk factors) and ESG questionnaires. In international syndicated lending, the Group reviews ESG ratings with the aim of identifying governance issues and reviews ESG questionnaires. During the KYC process, the organisational and management structure of the borrower is verified.

MeDirect requires its corporate clients to provide information describing the client's approach to ESG (e.g., to provide its ESG/CSR/Sustainability policy, strategy and principles), non-financial reporting and sustainability risks, including governance risk. ESG factors related to corporate lending clients are also analysed during annual corporate portfolio reviews and screening.

Most of the Group's corporate clients are small or medium-size non-listed companies from the EU, not subject to non-financial reporting requirements on ESG matters.

With the implementation of the CSRD, MeDirect will integrate additional governance risk assessment aspects for its clients. The compliance area will further analyse its clients' governance, particularly within the context of ongoing client due diligence. This analysis aligns with MeDirect's established policies and procedures to enhance focus on critical areas such as ethics, integrity, board diversity, equality, and client protection.

Quantitative information on transition risk and physical risk related to climate change

In 2022, MeDirect has started to disclose quantitative information on transition risk and physical risk related to climate change. The Group Pillar III Report is in line with Pillar 3 ESG implementing technical standards and instructions on prudential disclosures on ESG risks defined by the EBA[4], as presented in the below tables. The ESG information disclosed in this Pillar 3 reporting is not necessarily aligned with MeDirect Group's Non-Financial Report as it follows EBA guidelines. The disclosure perimeter includes exposures in the banking book, including loans and advances, debt securities and equity instruments not held-for-trading and not held-for-sale.

The quantitative information and required data points were collected on a best-effort basis. It is expected that more accurate and quality data points will be collected as more and better data sources will become available (e.g., as a result of the further implementation of the CSRD and the ESRS).

The Group applies transition periods for some tables and data as stipulated in Annex II of the Pillar 3 ESG implementing technical standards, as follows:

#	Template	Mandatory template	Transition periods
1	Banking book- Climate Change transition risk: Credit quality of exposures by sector, emissions and residual maturity	Yes	Transition period applicable for the following data points: • column C (environmentally sustainable exposures) to be reported as from 2023 YE Group Pillar III Report • column I/J/K (GHG emissions) to be reported as from H1 2024 Group Pillar III Report
2	Banking book - Climate change transition risk: Loans collateralised by immovable property - Energy efficiency of the collateral	Yes	
3	Banking book - Climate change transition risk: Alignment metrics	No	To be reported as from the H1 2024 Group Pillar III Report
4	Banking book - Climate change transition risk: Exposures to top 20 carbon-intensive firms	Yes	Transition period applicable for the following data point: • column C (environmentally sustainable exposures) to be reported as from 2023 YE Group Pillar III Report
5	Banking book - Climate change physical risk: Exposures subject to physical risk	Yes	
6	Summary of GAR KPIs	Yes	To be reported as from 2023 YE Group Pillar III Report
7	Mitigating actions: Assets for the calculation of GAR	Yes	To be reported as from 2023 YE Group Pillar III Report
8	GAR (%)	Yes	To be reported as from 2023 YE Group Pillar III Report
9	Mitigating actions: BTAR	No	To be reported in the H1 2024 Group Pillar III Report
10	Other climate change mitigating actions that are not covered in the EU Taxonomy	Yes	

[4] Annex II - Instructions for ESG prudential disclosures templates.pdf

Table 1. Banking book- Climate Change transition risk: Credit quality of exposures by sector, emissions and residual maturity [Template 1]

The objective of this template is to present (i) exposures to non-financial companies that are more susceptible to transition risk associated with the shift toward a low-emission and climate-resilient economy, which operate in sectors that contribute significantly to climate change (NACE codes: A, B, C, D, E, F, G, H, I, L) and (ii) exposures to non-financial companies operating in sectors other than those that contribute significantly to climate change (NACE codes: K, J, M-U).

NACE code classification is based on the principal activity of the relevant company and in the case of holding companies, the NACE code of the operating company and its underlaying business activity. Approximately 9.4% of the Group's corporate lending exposure at the end of June 2023 is classified as activities of the holding companies, most of which are included in the Group's international syndicated corporate lending portfolio. These clients are principally large international groups operating in various sectors and markets.

The table provides the gross carrying amount of loans and advances, debt securities and equity instruments as well as information on the credit quality of the exposures provided to non-financial corporates, other than those included in the held-for-trading or held-for-sale portfolios, classified by NACE economic sector. The Group corporate exposure is concentrated in international syndicated loans and Maltese corporate loans.

MeDirect analysed its syndicated corporate lending portfolio, Maltese corporate lending portfolio and Dutch professional Buy-To-Let mortgage portfolio, including loans, advances and bonds. These portfolios represent approximately 11% of the Group's assets.

MeDirect is aware that financing environmentally sensitive sectors could have an impact on the environment and MeDirect's reputation and financial standing. The Group is cognisant of the fact that certain potential corporate borrowers are active in sectors that may be associated with adverse effects on the environment, including greenhouse gas emissions, biodiversity loss and water scarcity.

MeDirect therefore has committed to limit its direct exposure to sectors highly contributing to climate change and not to finance sectors that might be associated with potentially negative effects on the environment in line with MeDirect's exclusion list. The Group does not currently have direct exposure to coal mining, electricity, gas, steam, air conditioning supply and water supply in view of its low-risk appetite in these sectors.

Starting from this end of 2023 report, the Group has started disclosing the information relating to environmentally sustainable exposures and the GHG financed emissions (as defined in the Pillar 3 ESG implementing technical standards). The Group will continue to analyse its clients' non-financial disclosure including whether:

- The client is obliged to publish non-financial report under the EU Non-Financial Reporting Directive
- The client discloses in its non-financial report information regarding Taxonomy-eligible and Taxonomy-aligned activities (turnover, capital expenditure, operating expenditure), GHG emissions (Scope 1, Scope 2, Scope 3) or in any other reports

Moreover, the Group will continue to analyse publicly available data on GHG emissions to be potentially used as a proxy measure where company-specific information is unavailable. Most of the Group's corporate clients are small- and medium-sized unlisted companies, with limited ESG-related publicly available information.

Table 1. Credit quality of exposures by sector, emissions and residual maturity

Sectors	Gross carrying amount (Mln EUR)					Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions (Mln EUR)			GHG financed emissions (scope 1, scope 2 and scope 3 emissions of the counterparty) (in tons of CO2 equivalent)		GHG emissions (column i): gross carrying amount percentage of the portfolio derived from company-specific reporting	<= 5 years	> 5 year <= 10 years	> 10 year <= 20 years	> 20 years	Average weighted maturity
		Of which exposures towards companies excluded from EU Paris-aligned Benchmarks	Of which environmentally sustainable (CCM)	Of which stage 2 exposures	Of which non-performing exposures		Of which Stage 2 exposures	Of which non-performing exposures		Of which Scope 3 financed emissions						
Exposures towards sectors that highly contribute to climate change	393.5	0.3	0.0	21.4	38.9	-4.7	-0.7	-2.0	36,144.7	21,580.1	100	284.4	23.8	85.3	0.0	5.3
A - Agriculture, forestry and fishing	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	46.6	45.7	100	0.2	0.0	0.0	0.0	1.8
B - Mining and quarrying	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0	0.0	0.0	0.0	0.0	
C - Manufacturing	109.6	0.0	0.0	0.0	22.7	-2.6	0.0	-1.8	27,264.9	16,946.6	100	109.6	0.0	0.0	0.0	1.9
C.17 - Manufacture of paper and paper products	10.1	0.0	0.0	0.0	0.0	-0.1	0.0	0.0	6,054.7	2,293.6	100	10.1	0.0	0.0	0.0	1.2
C.21 - Manufacture of basic pharmaceutical products and pharmaceutical preparations	20.6	0.0	0.0	0.0	0.0	-0.3	0.0	0.0	2,495.5	1,312.9	100	20.6	0.0	0.0	0.0	2.1
C.22 - Manufacture of rubber products	17.7	0.0	0.0	0.0	17.7	-0.9	0.0	-0.9	4,491.5	2,677.2	100	17.7	0.0	0.0	0.0	0.2
C.23 - Manufacture of other non-metallic mineral products	8.1	0.0	0.0	0.0	0.0	-0.1	0.0	0.0	3,725.1	741.0	100	8.1	0.0	0.0	0.0	2.3
C.25 - Manufacture of fabricated metal products, except machinery and equipment	8.0	0.0	0.0	0.0	0.0	-0.1	0.0	0.0	3.7	3.5	100	8.0	0.0	0.0	0.0	1.1
C.27 - Manufacture of electrical equipment	4.9	0.0	0.0	0.0	1.1	-0.6	0.0	-0.6	1,159.0	1,123.7	100	4.9	0.0	0.0	0.0	1.8
C.28 - Manufacture of machinery and equipment n.e.c.	18.6	0.0	0.0	0.0	0.0	-0.1	0.0	0.0	8,024.6	7,935.4	100	18.6	0.0	0.0	0.0	2.1
C.32 - Other manufacturing	21.5	0.0	0.0	0.0	3.8	-0.5	0.0	-0.4	1,310.8	859.2	100	21.5	0.0	0.0	0.0	2.1
D - Electricity, gas, steam and air conditioning supply	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0	0.0	0.0	0.0	0.0	0.5
D35.1 - Electric power generation, transmission and distribution	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0	0.0	0.0	0.0	0.0	0.5
E - Water supply; sewerage, waste management and remediation activities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0	0.0	0.0	0.0	0.0	
F - Construction	51.5	0.0	0.0	0.1	2.3	-0.3	0.0	-0.2	3,180.0	2,896.1	100	32.7	7.0	11.8	0.0	5.9
F.41 - Construction of buildings	47.8	0.0	0.0	0.1	2.5	-0.3	0.0	-0.2	2,619.4	2,385.4	100	29.0	7.0	11.8	0.0	6.2
F.43 - Specialised construction activities	3.7	0.0	0.0	0.0	-0.3	0.0	0.0	0.0	560.6	510.6	100	3.7	0.0	0.0	0.0	2.6
G - Wholesale and retail trade; repair of motor vehicles and motorcycles	50.9	0.3	0.0	0.0	1.6	-0.7	0.0	0.0	2,572.1	843.7	100	50.9	0.0	0.0	0.0	2.4
H - Transportation and storage	9.0	0.0	0.0	0.0	0.0	-0.1	0.0	0.0	48.1	31.7	100	9.0	0.0	0.0	0.0	0.5
H.52 - Warehousing and support activities for transportation	9.0	0.0	0.0	0.0	0.0	-0.1	0.0	0.0	48.1	31.7	100	9.0	0.0	0.0	0.0	0.5
I - Accommodation and food service activities	34.6	0.0	0.0	21.1	0.0	-0.7	-0.7	0.0	1,333.7	27.3	100	24.8	0.0	9.8	0.0	4.9
L - Real estate activities	137.7	0.0	0.0	0.2	12.3	-0.3	0.0	0.0	1,699.3	789.1	100	57.2	16.8	63.6	0.0	9.5
Exposures towards sectors other than those that highly contribute to climate change*	153.6	0.0	0.0	4.6	29.7	-8.4	0.0	-7.5				151.7	0.2	1.7	0.0	1.5
K - Financial and insurance activities	19.4	0.0	0.0	0.0	0.0	-0.1	0.0	0.0				17.5	0.2	1.7	0.0	3.1
Exposures to other sectors (NACE codes J, M - U)	134.2	0.0	0.0	4.6	29.7	-8.3	0.0	-7.5				134.2	0.0	0.0	0.0	1.3
TOTAL	547.1	0.3	0.0	26.0	68.6	-13.2	-0.7	-9.5	36,144.7	21,580.1	100	436.1	24.0	87.0	0.0	4.1

[1] In accordance with points (d) to (g) of Article 12.1 and in accordance with Article 12.2 of Climate Benchmark Standards Regulation

NOTE: NACE code classification is based on the principal activity of the counterparty (direct exposure) and in case of holding companies the NACE code of the obligor receiving the funding and its underlaying business activity (indirect exposure). NACE exposure of corporate lending includes allocation of the activities of holding companies (K.64.2) based on the underlaying business activity prepared using expert approach following Pillar 3 implementing technical standards on prudential disclosures on ESG risks. The table was updated based on verified and revisited by respective units' clients' NACE classification. Buy To Let (BTL) mortgage loans offered to corporate clients (legal entities) to finance purchase of residential immovable property are included in the table under NACE code L – Real estate activities.

The template also requires the identification of exposures to borrowers that are excluded from the EU Paris-aligned Benchmarks as specified in Article 12.1, points (d) to (g) and Article 12.2 of Commission Delegated Regulation (EU) 2020/18185 Climate Benchmark Standards Regulation. The assessment was conducted internally by the corporate lending departments based on an expert review of the portfolio of non-financial corporations, determined based on the following criteria:

- companies that derive 1 % or more of their revenues from exploration, mining, extraction, distribution or refining of hard coal and lignite;
- companies that derive 10 % or more of their revenues from the exploration, extraction, distribution or refining of oil fuels;
- companies that derive 50 % or more of their revenues from the exploration, extraction, manufacturing or distribution of gaseous fuels;
- companies that derive 50 % or more of their revenues from electricity generation with a GHG intensity of more than 100 g CO2 e/kWh.
- companies that are found or estimated to significantly harm one or more of the Group's environmental objectives

One position in our corporate lending portfolio is engaged in the wholesale distribution of oil fuels in Malta. The total exposure to this counterparty is 0.3 million euros.

Table 2. Banking book - Climate change transition risk: Loans collateralised by immovable property - Energy efficiency of the collateral [Template 2]

The objective of this template is to present the energy efficiency of the loans collateralised by commercial and residential immovable property and of repossessed real estate collateral, in relation to their energy consumption as expressed in kWh/m^2 and/or their energy performance certificate ("EPC") labels.

Following the implementation of EU Energy Performance of Buildings Directive (2010/31/EU) and the EU Energy Efficiency Directive (2012/27/ EU), in order to promote the energy efficiency of buildings, EPC certificates are compulsory for the sale and rental of immovable property in the Eurozone. However, application of the Directive is not standardised. EPC certificates are defined as certificates recognised by a Member State or by a legal person designated by it, which indicates the energy performance of a building or building unit, calculated according to a methodology adopted in accordance with the Energy Performance of Buildings Directive.

The Group does not always have access to EPC certificates, especially for the corporate loans collateralised by properties that were not subject to sale or rental agreements, or transactions (sales/rentals) that were not subject to the obligation of providing an EPC because they were entered into prior to the date of entry into force of the directive.

In compiling the table, the Group used the following assumptions:

- Malta mortgage portfolio – due to the lack of an official EPC label classification in Malta, no EPC label was assigned for the Malta mortgage portfolio and the gross carrying amount was included under column 'Without EPC label of collateral'. Information is available in the EPC certificate provided by the borrower in relation to the level of energy efficiency (kWh/m^2), even though an EPC label is not available.
- Netherlands mortgage portfolio – due to lack of official yearly energy requirements (kWh/m^2) from EPC certificates, the brackets for the level of energy efficiency were assigned using EPC label based on official Netherlands EPC label classifications. The level of energy efficiency (kWh/m^2) is not available based on EPC certificates but it is derived from the EPC label.
- Belgian mortgage portfolio – due to lack of EPC label data, the EPC label was estimated using Belgian EPC classifications (Flanders Region) and yearly energy requirements (kWh/m^2) from the EPC certificate. Brackets for the level of energy efficiency were assigned using yearly energy requirements set forth in the EPC certificates. Information is available in the EPC Certificate in relation to the level of energy efficiency, even though an EPC label is not available.

When a loan is collateralized by several properties, gross carrying amount of loan is allocated to the collateral using the weighted value of the collateral.

Table 2. Climate change transition risk: Loans collateralised by immovable property - Energy efficiency of the collateral

	Total gross carrying amount (in M EUR)															
		Level of energy efficiency (EP score in kWh/m² of collateral)						Level of energy efficiency (EPC label of collateral)							Without EPC label of collateral	
		0; <= 100	> 100; <= 200	> 200; <= 300	> 300; <= 400	> 400; <= 500	> 500	A	B	C	D	E	F	G		Of which level of energy efficiency (EP score in kWh/m² of collateral) estimated
Total EU area	2,597	79	674	1,008	460	270	44	364	234	680	349	202	196	127	444	
Of which Loans collateralised by commercial immovable property	62	1	0	0	0	0	0	0	0	0	0	0	0	0	62	
Of which Loans collateralised by residential immovable property	2,534	78	674	1,008	460	270	44	364	234	680	349	202	196	127	382	
Of which Collateral obtained by taking possession: residential and commercial	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
Of which Level of energy efficiency (EP score in kWh/m² of collateral) estimated	1,837	0	529	869	315	125	0								0	
Total non-EU area																
Of which Loans collateralised by commercial immovable property																
Of which Loans collateralised by residential immovable property																
Of which Collateral obtained by taking possession: residential and commercial																
Of which Level of energy efficiency (EP score in kWh/m² of collateral) estimated																

NOTE: All Malta mortgages EPC label is classified as "without EPC label of collateral" given there is no official EPC classification in Malta. Dutch NHG mortgage receivables energy efficiency is reported in the row "of which Level energy efficiency estimated", which includes the sum of estimated level of energy efficiency brackets based on EPC label or estimated EPC label. For Belgium mortgages, the level of energy efficiency is extracted from the EPC certificates. After this level of energy efficiency, the EPC label of the collateral is mapped following the Flanders EPC official classification.

This information is registered by the internal departments and the EPC labels are updated from time to time, based on publicly available databases. Under the scope of the template, the EPC labels are not to be reported for estimated level of energy efficiency (cells in grey). The table was updated based on verified and revisited data.

Banking book - Climate change transition risk: Alignment metrics [Template 3]

MDB Group only has one client engaged in activities that fall under the scope of the climate change transition risk alignment metrics, with a gross carrying amount exposure of 0.348 million euros. The company is a Maltese SME engaged in the distribution of fuels: NACE code 46.12. The company does not disclose information regarding the average tons of CO2 per gigajoule or the average share of high carbon technologies (ICE), neither discloses the amount of fuel distributed on a yearly basis. Out of all the metrics provided by PACTA to calculate alignment to Net Zero Emissions ("NZE") (volume trajectory mix, technology/fuel mix, emissions intensity, and transition disruption metric), none of them is related to product distribution. Hence, it is not possible to calculate the alignment to the NZE targets.

Table 3. Banking book - Climate change transition risk: Exposures to top 20 carbon-intensive firms globally [Template 4]

The objective of this template is to present aggregate exposure to the 20 most carbon-intensive companies in the world. The exposure should include loans and advances, debt securities and equity instruments included in the banking book but excluding financial assets held for trading and held for sale assets.

The Group has started disclosing the information relating to environmentally sustainable exposures in this report, the 2023 Pillar III Report, following Pillar 3 ESG implementing technical standards.

The assessment conducted by MeDirect was based on publicly available list of companies with GHG emissions disclosed in the in "Carbon Majors Database (CMD) Report" in April 2024. The list was prepared based on 1854-2022 years cumulative emissions.

EBA instructions present some examples of data sources to identify the top carbon-emitting companies, among others CMD.

The Group did not identify any exposure to the top 20 carbon intensive firms in its lending portfolios, both for the top 20 Carbon Majors entities by emissions for the whole period 1854-2022 and for the 2016-2022 period.

Table 3. Exposures to top 20 carbon-intensive firms globally

Gross carrying amount (aggregate)	Gross carrying amount towards the counterparties compared to total gross carrying amount (aggregate)*	Of which environmentally sustainable (CCM)	Weighted average maturity	Number of top 20 polluting firms included
0	0	0	0	0

*For counterparties among the top 20 carbon emitting companies in the world

Table 4. Banking book – Climate change physical risk: Exposures subject to physical risk [Template 5]

The objective of this template is to present the exposures subject to acute and chronic physical risk, including exposures by business sector, exposures collateralised by immovable property or repossessed real estate collateral, and exposures by the location of the activity of the borrower or of the collateral.

Physical risks are defined as risks which arise from the physical effects of climate change events. They can be categorised as:

- Acute - hazards that may cause sudden damage to properties, disruption of supply chains, depreciation of assets or result in operational downtime and lost manufacturing for fixed assets.
- Chronic - hazards relating to gradual changes in weather and climate with a possible impact on economic output and productivity.

In order to assess the physical risk of its portfolio, MeDirect reviewed its mortgage portfolios collateralised with the properties in Malta, Belgium and the Netherlands, which together represent 47.5% of the Group's assets, at the end of 2023 using European Climate Risk Typology ("ECRT") and EU EBA Climate Risk Stress Tests mapping of countries and regions taking into account following CERs scenarios:

Acute:

- Flooding Risk
- Forest Fire / Wildfire Risk
- Drought Risk
- Extreme Heat Risk

Chronic:

- Flooding / Sea level Risk
- Landslide Risk
- Biodiversity loss
- Water stress

Each scenario includes mapping of the locations to the risk from minor/low to very high. Allocation is based on Eurostat's nomenclature of territorial units for statistics for EU countries and/or postal code. Some of the scenarios apply a very long-term horizon.

The template 5 requires determination of which exposures are sensitive to the impact of physical risk, but the guidance of the EBA do not set forth the scenarios, metrics or thresholds based on which this determination should be made. The Group has applied a conservative approach and assumed that exposures classified as high or very high, in at least one CER scenario, are sensitive to impact from climate change physical events as presented in the tables below.

The Group has divided mortgage collateral into residential and commercial properties, taking into account the maturity dates, degree of sensitivity (long-term and sudden events related to climate change) and stage baskets with an indication of cumulative loss of value.

The Group analysed the Netherlands, Belgium and Malta geographical regions under the above scenarios.

Table 4. Exposures subject to physical risk – summary table

Variable: Geographical area subject to climate change physical risk - acute and chronic events	Gross carrying amount (Mln EUR)													
		of which exposures sensitive to impact from climate change physical events												
		Breakdown by maturity bucket					of which exposures sensitive to impact from chronic climate change events	of which exposures sensitive to impact from acute climate change events	of which exposures sensitive to impact both from chronic and acute climate change events	Of which Stage 2 exposures	Of which non-performing exposures	Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		
		<= 5 years	> 5 year <= 10 years	> 10 year <= 20 years	> 20 years	Average weighted maturity							of which Stage 2 exposures	Of which non-performing exposures
A - Agriculture, forestry and fishing	0.2	0	0	0	0	0	0	0	0	0	0	0	0	0
B - Mining and quarrying	0	0	0	0	0	0	0	0	0	0	0	0	0	0
C - Manufacturing	109.6	0	0	0	0	0	0	0	0	0	0	0	0	0
D - Electricity, gas, steam and air conditioning supply	0.0	0	0	0	0	0	0	0	0	0	0	0	0	0
E - Water supply; sewerage, waste management and remediation activities	0	0	0	0	0	0	0	0	0	0	0	0	0	0
F - Construction	51.5	0	0	0	0	0	0	0	0	0	0	0	0	0
G - Wholesale and retail trade; repair of motor vehicles and motorcycles	50.9	0	0	0	0	0	0	0	0	0	0	0	0	0
H - Transportation and storage	9.0	0	0	0	0	0	0	0	0	0	0	0	0	0
L - Real estate activities	137.7	0	0	0	0	0	0	0	0	0	0	0	0	0
Loans collateralised by residential immovable property	2534.5	1.32	2.50	48.52	626.18	25.61	560.58	117.93	0.00	7.07	0.44	-0.24	-0.10	-0.02
Loans collateralised by commercial immovable property	62.1	0	0	0	0	0	0	0	0	0	0	0	0	0
Repossessed colalterals	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other relevant sectors (breakdown below where relevant)	0	0	0	0	0	0	0	0	0	0	0	0	0	0

NOTE: Table includes in the row related to loans collateralised with property the Malta mortgages, Belgian mortgage receivables, Belgian Buy-To-Let mortgage portfolio, Dutch NHG mortgage receivables, Dutch Buy-To-Let mortgage portfolio and corporate loans. NACE exposure of corporate lending includes allocation of the activities of holding companies (K.64) based on the underlaying business activity prepared using expert approach following Pillar 3 implementing technical standards on prudential disclosures on ESG risks (indirect exposure). The table was updated based on verified and revisited data.

Table 4.1. Exposures subject to physical risk – Dutch market

Variable: Geographical area subject to climate change physical risk - acute and chronic events	Gross carrying amount (Mln EUR)													
		of which exposures sensitive to impact from climate change physical events												
		Breakdown by maturity bucket					of which exposures sensitive to impact from chronic climate change events	of which exposures sensitive to impact from acute climate change events	of which exposures sensitive to impact both from chronic and acute climate change events	Of which Stage 2 exposures	Of which non-performing exposures	Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		
		<= 5 years	> 5 year <= 10 years	> 10 year <= 20 years	> 20 years	Average weighted maturity							of which Stage 2 exposures	Of which non-performing exposures
Loans collateralised by residential immovable property	2104.39	1.32	0.79	16.11	464.51	26.64	364.79	117.93	0.00	3.64	0.00	-0.13	-0.07	0.00
Loans collateralised by commercial immovable property	14.9	0	0	0	0	0	0	0	0	0	0	0	0	0
Repossessed colaterals	0	0	0	0	0	0	0	0	0	0	0	0	0	0

NOTE: Table includes Dutch NHG mortgage receivables and Dutch Buy-To-Let mortgage portfolio

For Dutch NHG mortgage receivables loans are collateralised with residential owner-occupied properties and for Dutch Buy-To-Let mortgages receivables, loans are collateralised with residential properties for the majority of the portfolio and some commercial properties. Buy-To-Let mortgages are usually collateralised by more than one property. The estimation of exposure to physical risk was based on collateral level. At a portfolio level, regions where collateral is located in the Dutch NHG and Buy-To-Let mortgage portfolio are exposed to overall moderate fluvial flood, coastal, water stress and biodiversity loss risks as per CER materiality assessment. However, at a collateral level some properties are located in high physical risk areas.

Table 4.2. Exposures subject to physical risk – Belgian market

Variable: Geographical area subject to climate change physical risk - acute and chronic events	Gross carrying amount (Mln EUR)													
		of which exposures sensitive to impact from climate change physical events												
		Breakdown by maturity bucket					of which exposures sensitive to impact from chronic climate change events	of which exposures sensitive to impact from acute climate change events	of which exposures sensitive to impact both from chronic and acute climate change events	Of which Stage 2 exposures	Of which non-performing exposures	Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		
		<= 5 years	> 5 year <= 10 years	> 10 year <= 20 years	> 20 years	Average weighted maturity							of which Stage 2 exposures	Of which non-performing exposures
Loans collateralised by residential immovable property	329.26	0.00	1.71	32.41	161.67	23.06	195.80	0.00	0.00	3.43	0.44	-0.10	-0.03	-0.02
Loans collateralised by commercial immovable property	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Repossessed colaterals	0	0	0	0	0	0	0	0	0	0	0	0	0	0

NOTE: Table includes Belgian mortgage receivables portfolio

In the Belgian mortgages portfolio, loans are collateralised by residential properties only. The mortgages can be collateralised by more than one property and the estimation of physical risk is based on collateral level, allocating the gross carrying amount of the loan proportionally to the value of the collateral. At a portfolio level, regions where collateral is located are exposed to overall moderate fluvial flood and coastal risks as per CER materiality assessment. However, at a collateral level some properties are located in high physical risk areas.

Table 4.3. Exposures subject to physical risk – Maltese market

Variable: Geographical area subject to climate change physical risk - acute and chronic events	Gross carrying amount (Mln EUR)													
		of which exposures sensitive to impact from climate change physical events												
		Breakdown by maturity bucket					of which exposures sensitive to impact from chronic climate change events	of which exposures sensitive to impact from acute climate change events	of which exposures sensitive to impact both from chronic and acute climate change events	Of which Stage 2 exposures	Of which non-performing exposures	Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		
		<= 5 years	> 5 year <= 10 years	> 10 year <= 20 years	> 20 years	Average weighted maturity							of which Stage 2 exposures	Of which non-performing exposures
Loans collateralised by residential immovable property	123.49	0	0	0	0	0	0	0	0	0	0	0	0	0
Loans collateralised by commercial immovable property	61.65	0	0	0	0	0	0	0	0	0	0	0	0	0
Repossessed colaterals	0	0	0	0	0	0	0	0	0	0	0	0	0	0

NOTE: Table includes Malta retail mortgage portfolio and domestic corporate loans collateralised with residential and commercial properties

Regions in the Malta loans collateralised with property were not exposed to any of high or very high hazard scenarios. For the corporate lending portfolios, as indicated in the CER materiality assessment conducted by the Group, the exposure to physical risk is low to moderate.

The international syndicated corporate lending portfolio accounts for approximately 6.8% of the Group's assets and operates under a clearly defined mandate to invest through minority participations in European syndicated loans in specific sectors and jurisdictions. The portfolio is invested primarily in Western / Northern European exposures and excludes sectors with material exposure to physical risks (e.g., agriculture, mining, resource extraction, power generation and real estate). The resulting geographical and sector profile of the portfolio is assessed as carrying a low level of physical risk exposure.

The Malta corporate lending portfolio is relatively small (approximately 2.8% of the Group's assets) and concentrated, with 81.8% of exposure in the real-estate and construction sectors. Malta exposure to physical risk scenarios is limited, primarily consisting of exposures with very low to moderate physical risk.

Table 5. Summary of GAR KPIs [Template 6]

The objective of this template is to provide a summary of the Key Performance Indicators ("KPIs") related to Taxonomy-aligned exposures. This template aims to offer a concise overview of the performance indicators that are specifically aligned with the Taxonomy requirements, focusing on the environmental sustainability aspects of financial institutions' exposures. By detailing these KPIs, this template helps institutions disclose essential information regarding their exposures that are in line with the Taxonomy regulations, thereby enhancing transparency and accountability in reporting on ESG risks.

Table 5. Summary of GAR KPIs

	KPI			% coverage (over total assets)*
	Climate change mitigation	Climate change adaptation	Total (Climate change mitigation + Climate change adaptation)	
GAR stock	12%	0	12%	50%
GAR flow	8%	0	8%	75%

* % of assets covered by the KPI over banks´ total assets

NOTE: the calculation and breakdown of the GAR on stock and flows is explained in template 8.

Table 6. Mitigating actions: Assets for the calculation of GAR [Template 7]

The main objective of Template 7 is to enable financial institutions to disclose the actions for mitigation and adaptation to climate change they have taken. The exposure of assets for climate change adaptation and mitigation is used in the calculation of the Green Asset Ratio ("GAR"). The GAR is a key performance indicator that measures the proportion of an institution's exposures that are taxonomy-aligned, i.e., financing economic activities that contribute substantially to environmental objectives while avoiding significant harm to other objectives.

Mitigating actions are crucial in the context of the GAR because they demonstrate the steps financial institutions are taking to reduce the environmental impact of their exposures and align them with the Taxonomy requirements. By disclosing these actions, institutions can provide a more comprehensive picture of their efforts to promote sustainable finance and manage ESG risks.

Table 6. Mitigating actions: Assets for the calculation of GAR

	Million EUR	Total gross carrying amount	Disclosure reference date T														
			Climate Change Mitigation (CCM)					Climate Change Adaptation (CCA)					TOTAL (CCM + CCA)				
			Of which towards taxonomy relevant sectors (Taxonomy-eligible)					Of which towards taxonomy relevant sectors (Taxonomy-eligible)					Of which towards taxonomy relevant sectors (Taxonomy-eligible)				
				Of which environmentally sustainable (Taxonomy-aligned)					Of which environmentally sustainable (Taxonomy-aligned)					Of which environmentally sustainable (Taxonomy-aligned)			
					Of which specialised lending	Of which transitional	Of which enabling			Of which specialised lending	Of which adaptation	Of which enabling			Of which specialised lending	Of which transitional/adaptation	Of which enabling
	GAR - Covered assets in both numerator and denominator																
1	Loans and advances, debt securities and equity instruments not HfT eligible for GAR calculation	2,871	2,491	334	0	0	0	0	0	0	0	0	2,491	334	0	0	0
2	**Financial corporations**	438	68	8	0	0	0	0	0	0	0	0	68	8	0	0	0
3	Credit institutions																
4	Loans and advances																
5	Debt securities, including UoP	438	68	8	0	0	0	0	0	0	0	0	68	8	0	0	0
6	Equity instruments																
7	Other financial corporations																
8	of which investment firms																
9	Loans and advances																
10	Debt securities, including UoP																
11	Equity instruments																
12	of which management companies																
13	Loans and advances																
14	Debt securities, including UoP																
15	Equity instruments																
16	of which insurance undertakings																
17	Loans and advances																
18	Debt securities, including UoP																
19	Equity instruments																
20	**Non-financial corporations (subject to NFRD disclosure obligations)**	10	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
21	Loans and advances	10	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
22	Debt securities, including UoP																
23	Equity instruments																
24	**Households**	2,423	2,423	326	0	0	0						2,423	326	0	0	0
25	of which loans collateralised by residential immovable property	2,423	2,423	326	0	0	0						2,423	326	0	0	0
26	of which building renovation loans																
27	of which motor vehicle loans																
28	**Local governments financing**																
29	Housing financing																
30	Other local governments financing																
31	Collateral obtained by taking possession: residential and commercial immovable properties																
32	**TOTAL GAR ASSETS**	2,871	2,491	334	0	0	0	0	0	0	0	0	2,491	334	0	0	0
	Assets excluded from the numerator for GAR calculation (covered in the denominator)																
33	**EU Non-financial corporations (not subject to NFRD disclosure obligations)**	537															
34	Loans and advances	537															
35	Debt securities	0															
36	Equity instruments	0															
37	**Non-EU Non-financial corporations (not subject to NFRD disclosure obligations)**	0															
38	Loans and advances	0															
39	Debt securities	0															
40	Equity instruments	0															
41	Derivatives	208															
42	On demand interbank loans	298															
43	Cash and cash-related assets	286															
44	Other assets (e.g. Goodwill, commodities etc.)	249															
45	**TOTAL ASSETS IN THE DENOMINATOR (GAR)**	4,449															
	Other assets excluded from both the numerator and denominator for GAR calculation																
46	Sovereigns	270															
47	Central banks exposure	265															
48	Trading book	0															
49	**TOTAL ASSETS EXCLUDED FROM NUMERATOR AND DENOMINATOR**	535															
50	**TOTAL ASSETS**	4,984															

NOTE: In the Dutch mortgage portfolio, some Buy-to-let loans are granted to non-NFRD legal entities. The exposure to these loans -58.4 million euros in gross carrying amount- is included under EU Non-financial corporations (not subject to NFRD disclosure obligations).

The Annex to the Commission's draft delegated act supplementing the Taxonomy Regulation[5] specifies different screening criteria for the acquisition of buildings built on or before 31 December 2020 and for acquisition of buildings built after 31 December 2020. Buildings built before 31 December 2020 should have at least an EPC class A, in order to be aligned with the Taxonomy, according to the taxonomy screening criteria. For transactions on buildings built after 31 December 2020, in accordance with the taxonomy screening criteria, the Primary Energy Demand ("PED"), defining the energy performance of the building resulting from the construction, should be at least 20% lower than the threshold set for the nearly zero energy building ("NZEB") requirements in national measures implementing Directive 2010/31/EU of the European Parliament and of the Council.

0.0003% of the total gross carrying amount of the Dutch mortgage portfolio relates to loans on the acquisition of buildings built after December 2020. The actual level of energy efficiency in kWh/m^2 is not available for these properties and therefore, taxonomy alignment could not be estimated. For the loans on the acquisition of buildings built before December 2020 of the Dutch portfolio, those collaterals with EPC label A were considered as taxonomy aligned as explained in the Annex to the Commission's draft delegated act supplementing the Taxonomy Regulation.

For the Belgium mortgage portfolio, collateral properties built before 31 December 2020 and with EPC label A were considered as taxonomy aligned. Belgian properties built after December 2020 with an energy efficiency below 54 kWh/m^2 for Brussels

[5] Report - Advice to COM_Disclosure Article 8 Taxonomy.pdf (europa.eu)

region, 24 kWh/m^2 for Flanders region and 102 kWh/m^2 for Wallonia region (20% lower than the primary energy demand resulting from the relevant NZEB requirements) were considered as taxonomy aligned.

In the Malta mortgage portfolio, for properties built before December 2020 it was not possible to estimate taxonomy aligned assets given there is no official EPC label classification; hence, it was not possible to estimate A-EPC labels from the energy efficiency data. Maltese properties built after December 2020 with an energy efficiency below 67.2 kWh/m^2 (20% lower than the primary energy demand resulting from the relevant NZEB requirements) were considered as taxonomy aligned.

Only one counterparty in our corporate lending portfolio reports under NFRD, reporting no taxonomy eligible activities. The vast majority of our corporate lending portfolio counterparties do not report under NFRD and hence their activities are not reported under GAR. The taxonomy eligibility and alignment of these counterparties will be reported under BTAR in the next Pillar III ESG report due December 2024.

Data on taxonomy eligible and aligned activities of the financial corporations from whom MeDirect owns covered bonds was retrieved from annual reports, non-financial reports and green asset ratios. For some financial entities this data was not publicly available.

Table 7. GAR (%) [Template 8]

The purpose of this template is to show to what extent credit institutions' activities qualify as environmentally sustainable in accordance with Articles 3 and 9 of Regulation (EU) 2020/852 so that stakeholders can understand the actions put in place by the institutions to mitigate climate change transition and physical risks.

The template provides information regarding the Green Asset Ratio both for the current reporting period - KPIs on flows - and for the total - KPIs on stock - and divided by climate change mitigation and adaptation activity exposure.

Table 7.1. GAR (%) – KPIs on stock

		Disclosure reference date T: KPIs on stock															
		Climate Change Mitigation (CCM)					Climate Change Adaptation (CCA)					TOTAL (CCM + CCA)					
		Proportion of eligible assets funding taxonomy relevant sectors					Proportion of eligible assets funding taxonomy relevant sectors					Proportion of eligible assets funding taxonomy relevant sectors					Proportion of total assets covered
			Of which environmentally sustainable					Of which environmentally sustainable					Of which environmentally sustainable				
	% (compared to total covered assets in the denominator)			Of which specialised lending	Of which transitional	Of which enabling			Of which specialised lending	Of which adaptation	Of which enabling			Of which specialised lending	Of which transitional/adaptation	Of which enabling	
1	**GAR**	87%	12%	0%	0%	0%	0%	0%	0%	0%	0%	87%	12%	0%	0%	0%	50%
2	Loans and advances, debt securities and equity instruments not HfT eligible for GAR calculation																
3	Financial corporations	15%	2%	0%	0%	0%	0%	0%	0%	0%	0%	15%	2%	0%	0%	0%	1%
4	Credit institutions	15%	2%	0%	0%	0%	0%	0%	0%	0%	0%	15%	2%	0%	0%	0%	1%
5	Other financial corporations																
6	of which investment firms																
7	of which management companies																
8	of which insurance undertakings																
9	Non-financial corporations subject to NFRD disclosure obligations	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
10	Households	100%	13%	0%	0%	0%						100%	13%	0%	0%	0%	49%
11	of which loans collateralised by residential immovable property	100%	13%	0%	0%	0%						100%	13%	0%	0%	0%	49%
12	of which building renovation loans																
13	of which motor vehicle loans																
14	Local government financing																
15	Housing financing																
16	Other local governments financing																
17	Collateral obtained by taking possession: residential and commercial immovable properties																

NOTE: the KPIs on stock of GAR are calculated after the data in template 7.

Table 7.2. GAR (%) – KPIs on flows

		Disclosure reference date T: KPIs on flows															
		Climate Change Mitigation (CCM)					Climate Change Adaptation (CCA)					TOTAL (CCM + CCA)					
		Proportion of new eligible assets funding taxonomy relevant sectors					Proportion of new eligible assets funding taxonomy relevant sectors					Proportion of new eligible assets funding taxonomy relevant sectors					Proportion of total new assets covered
			Of which environmentally sustainable					Of which environmentally sustainable					Of which environmentally sustainable				
	% (compared to total covered assets in the denominator)			Of which specialised lending	Of which transitional	Of which enabling			Of which specialised lending	Of which adaptation	Of which enabling			Of which specialised lending	Of which transitional/adaptation	Of which enabling	
1	**GAR**	73%	8%	0%	0%	0%	0%	0%	0%	0%	0%	73%	8%	0%	0%	0%	75%
2	Loans and advances, debt securities and equity instruments not HfT eligible for GAR calculation																
3	Financial corporations	11%	2%	0%	0%	0%	0%	0%	0%	0%	0%	11%	2%	0%	0%	0%	22%
4	Credit institutions	11%	2%	0%	0%	0%	0%	0%	0%	0%	0%	11%	2%	0%	0%	0%	22%
5	Other financial corporations																
6	of which investment firms																
7	of which management companies																
8	of which insurance undertakings																
9	Non-financial corporations subject to NFRD disclosure obligations	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
10	Households	100%	11%	0%	0%	0%						100%	11%	0%	0%	0%	52%
11	of which loans collateralised by residential immovable property	100%	11%	0%	0%	0%						100%	11%	0%	0%	0%	52%
12	of which building renovation loans																
13	of which motor vehicle loans																
14	Local government financing																
15	Housing financing																
16	Other local governments financing																
17	Collateral obtained by taking possession: residential and commercial immovable properties																

NOTE: KPIs on flows discloses the gross carrying amount of eligible and aligned new assets funding taxonomy relevant activities in the reporting period 2023. The proportion of taxonomy aligned assets in 2023 (KPIs on flows) is lower than the proportion for the whole portfolio of mortgage loans to households (KPIs on stock).

Table 8. Other climate change mitigating actions that are not covered in Taxonomy [Template 10]

The objective of this template is to present exposures, including loans and bonds, that are not in line with EU Regulation 2020/852 but provide support to clients in the transformation process contributing to the mitigation of physical and transition-based risks arising from climate change.

In 2022, MeDirect launched green residential home loans in Malta (April 2022) and Belgium (December 2022) to promote energy-efficient homes which contribute to the emission reduction of buildings in an effort to reduce global warming. Clients with a green EPC certificate (equivalent to a certain level of annual energy requirements in kWh) can apply for green home loans with preferential terms through the MeDirect's Green Home Loan product in Malta and Allianz MeHomeLoans Green Loan product in Belgium.

In 2024, MeDirect will also extend its offering of post-loan origination conditions products linked to CER for its Maltese retail mortgage lending portfolio to incentivise borrowers to reduce C&E risks.

The Group is not active in green, sustainability-linked or transitional project financing or bond issuance for its clients but currently focuses its asset origination on mortgages.

The Maltese corporate lending market is relatively small, and the availability of green projects in the fields of renewable energy (solar, wind and hydro power), clean transportation, green buildings or data centres, development and implementation of products or technology that reduce the use of energy or sustainable management of natural resources and land use, as well as social projects in the areas of healthcare and affordable housing projects is limited.

In addition, the Group has been actively investing in green or covered bonds in its Treasury banking portfolio certified according to the European Green Bond Standard[6].

Table 8. Other climate change mitigating actions that are not covered in Taxonomy

Type of financial instrument	Type of counterparty	Gross carrying amount (million EUR)	Type of risk mitigated (Climate change transition risk)	Type of risk mitigated (Climate change physical risk)	Qualitative information on the nature of the mitigating actions
Bonds (e.g. green, sustainable, sustainability-linked under standards other than the EU standards)	Financial corporations	82.3	Yes	No	Investing in green bonds or covered bonds by within banking/treasury book
	Non-financial corporations	0			
	Of which Loans collateralised by commercial immovable property	0			
	Households	0			
	Of which Loans collateralised by residential immovable property	0			
	Of which building renovation loans	0			
	Other counterparties	0			
Loans (e.g. green, sustainable, sustainability-linked under standards other than the EU standards)	Financial corporations	0			
	Non-financial corporations	0			
	Of which Loans collateralised by commercial immovable property	0			
	Households	3.2818	Yes	Yes	Green home loans
	Of which Loans collateralised by residential immovable property	3.2818	Yes	Yes	Green home loans
	Of which building renovation loans	0			
	Other counterparties	0			

[6] European green bond standard | EUR-Lex (europa.eu)