

MDB Group Limited

Pillar 3 disclosures report – Environmental, Social and Governance Risks

30 June 2023

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1. General overview

MeDirect Group is required to disclose information on environmental, social and governance risks (“ESG risk”) under Article 449a of 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.

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 material negative effect on the value of an investment as defined in the SFDR Regulation 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 wild-fires/bushfires.
- 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.

Sustainability risks can be either stand-alone risks or have an impact on other risks. Sustainability risks 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.

Table: Mapping CER/ESG risks with traditional risk categories (transmission channels)

Risk Categories	Potential effects of CER/ESG Risks
Credit Risk	<p>CER/ESG-related credit risks can reduce the ability of business and retail clients to cover their obligations. Such risks can include, amongst others, 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 or human rights violations.</p> <p>Such risks can also lead to deterioration of collateral values (e.g. stranded assets, property damage due to physical weather events).</p> <p>CER/ESG risk can result in credit losses, increase of probability of default (PD) and loss given default (LGD), stability of loan-to-value ratios and reduction in income.</p>
Market Risk	<p>CER/ESG-related market risk can cause repricing of assets and affect valuation of equities (e.g., companies with unsustainable business models or operating in controversial/CER sensitive sectors or violating human rights, stranded assets, physical risk events), fixed income products (e.g., increased sovereign risk and reduction of access to capital markets for companies facing CER/ESG risks), commodities and derivatives, in each case resulting in adverse changes in the value of securities, interest rates, FX and credit spread volatility.</p> <p>CER/ESG-related market risk can adversely affect the value of the Group’s financial assets its income.</p>

Liquidity Risk	<p>CER/ESG-related liquidity risk can affect the profitability of clients or counterparties, potentially resulting in reduced deposits from such clients or counterparties.</p> <p>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 or liquidity limited availability of funding and increased cost of funding due to changing client sentiment, reputational risk or impact of physical weather events.</p> <p>Sudden revaluation of securities may lower the value of the Group's high quality liquid assets, affecting liquidity buffers.</p> <p>ESG ratings downgrades may discourage investors and increase financing costs and refinancing risk.</p>
Operational Risk	<p>CER/ESG-related operational risk 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).</p> <p>CER/ESG-related operational risk can lead to higher energy, water and insurance prices impacting the Group's operational costs.</p> <p>Not complying with the guidelines, norms, and regulations related to ESG/CER transformation may result in regulatory actions and client or counterparty litigation.</p>
Reputational Risk	<p>CER/ESG-related reputational risk may arise from the materialisation of the above risks, impacting the reputation of the Group and the perceptions of clients, regulators, stakeholders, market participants and rating agencies.</p>

NOTE: CER refers to climate and environment-related risks

MeDirect Group has incorporated CER/ESG criteria into its main business processes including credit, wealth, procurement, remuneration and governance processes, as summarised in the Risk Sustainability Policy, with the aim of managing sustainability risks and raising ESG/CER awareness in the organisation and its counterparties.

As part of the incorporation of sustainability criteria into its main business processes, the Group considers:

- 1) Risk identification and assessment of materiality;
- 2) Risk measurement, monitoring and mitigation;
- 3) Risk integration into its procedures and policies;
- 4) Scenario analysis and stress testing; and
- 5) Risk metrics, targets, and integration in its risk appetite framework

Wherever possible the Group applies a double materiality principle while analysing sustainability risk by taking into account the following factors in the short-, medium-, and long-term:

- 1) the impact of CER/ESG factors on the Group's operations, financial results, capital and strategic development; and
- 2) the impact of the Group's activities on society and the environment.

The Group continuously integrates CER/ESG risks and criteria in its risk framework by regularly updating relevant internal policies and procedures and implementing dedicated ESG Strategy establishing sustainability risk management processes in the corporate framework and defining main short-, medium- and long-term objectives and commitments.

The Group Board of Directors is ultimately responsible for approving and overseeing the implementation of the Group's strategic objectives, principal policies and procedures, including its ESG Strategy and CER/ESG risk management framework. The Board of Directors has general oversight of the ESG strategy and agenda that incorporates CER/ESG risk procedures and commitments into the Group's risk management framework. Moreover, the Board reviews and approves the Group's Non-Financial report, together with the Group Annual Report & Financial Statements, ensuring that all material ESG -related topics are covered and disclosed.

The Group Board structure enables the Group to coordinate its CER/ESG policies and procedures in order to ensure consistency on matters affecting the entire Group, such as emerging sustainability risks. By setting the ESG agenda at the parent level, the Group Board ensures a common ESG strategic framework which can be deployed and implemented across the Group.

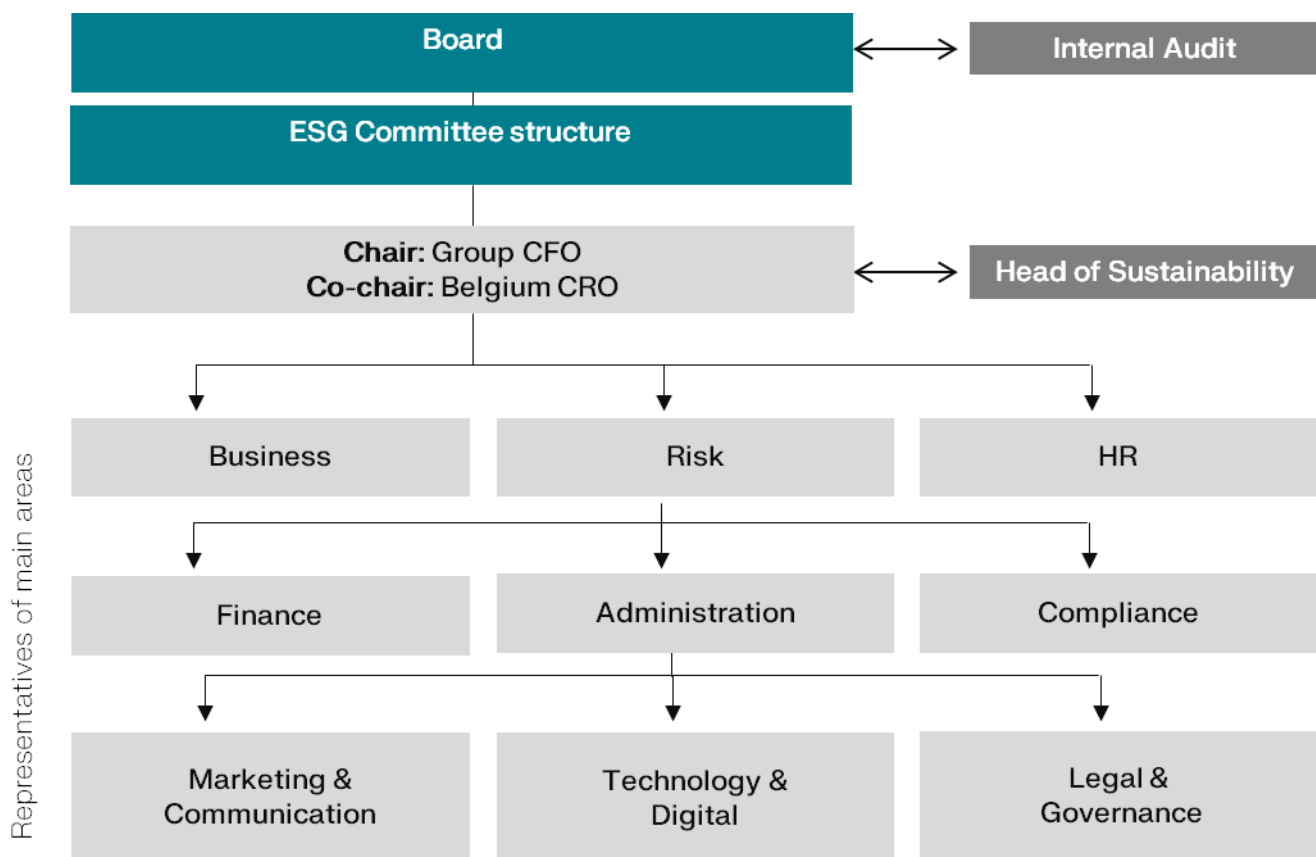
The Group ESG Committee has the overall responsibility for CER/ESG risk matters and oversees MeDirect ESG strategy and agenda implementation whilst providing advice and support to the Board of Directors on CER/ESG-related matters. The

Committee includes key managers of the Group representing the main areas critical to the effective management of ESG and CER risks. The Group Chief Financial Officer is the Committee Chair, and the MeDirect Belgium Chief Risk Officer is the Committee Co-Chair. 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 Internal Audit function is a permanent invitee to the Committee as an observer in order to maintain its independent status. The Committee meets at least quarterly and reviews the status of the CER/ESG agenda implementation.

The Group Head of Sustainability 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 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.

Chart. MeDirect Group ESG Committee



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

Business functions are the first line of defence and are responsible for identifying, assessing and managing sustainability risks within their specific operations and for incorporating the management of such risks in the various stages of their business processes. Business functions are expected to apply the Group’s procedures and policies related to sustainability risks in their day-to-day business operations.

Risk functions are the second line of defence and are responsible for developing and tracking a dashboard of relevant CER and ESG risk indicators within the existing risk reporting frameworks of the Group. Second line of defence functions ensure continuous enhancement of such indicators over time to ensure effective sustainability risk management across the entire Group. Risk functions are expected to integrate CER and ESG risks (both financial and non-financial) in their 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 areas of the Group. Moreover, risk functions review and update on an annual basis the Group CER Materiality Assessment that analyses the sensitivity of the Group's businesses to physical and transition risks using a forward-looking approach. As part of their oversight and compliance roles under this Policy, the Chief Risk Officers of MeDirect Malta and MeDirect Belgium are required to monitor and evaluate sustainability risks, set risk appetite and tolerance thresholds and establish a sustainability risk-specific risk management framework and procedures.

Additionally, the Compliance functions prepare a Compliance Monitoring plan, which is approved by the Board Risk and Compliance Committee, taking into account ESG and CER risks, as appropriate. The Compliance function operates independently from the business units but advises and assists business units and other internal functions to ensure that operations are in line with policies, procedures and regulations.

The Internal Audit function (IAF) is the third line of defence and executes 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 (when relevant) embeds ESG/CER as a specific attention point in the audit scope and approach taken for specific business activity, support process and control function reviews. This to, as the multi-year audit plan progresses, incrementally provide assurance that ESG/CER policies and procedures are adhered to and that related residual risks are appropriately addressed. Subsequent internal audit report observations and conclusions are made available to the Group Head of Sustainability who, in turn, facilitates discussion or disclosure on the level of the ESG Committee, Boards of Directors, and relevant Management Committees. This focused information complements the control and monitoring reporting provided by the first and second lines of defence.

The Group ESG Strategy - On the path to sustainability for 2022-2024/25 - is based on the following four pillars:

1. Governance
2. Employees
3. Environment
4. Society

This strategy was approved by the Group Board and ESG Committee. For each strategic pillar, several specific sustainability-driven objectives were identified, each objective translating into a firm commitment on the part of the Group. As part of its pursuit of sustainability objectives, MeDirect endeavours to make ESG factors a key component of its decision-making processes and internal organisation. The Group implements its ESG Strategy through a wide range of measures such as strengthening its corporate governance framework, including ESG, in its main business processes, applying climate-risk resilience initiatives, with regular interactions with stakeholders.

The ESG Strategy highlights a number of key objectives to be attained:

Under the governance pillar, the Group is committed to:

- adhering to sound corporate values and best business practices;
- conducting its business in a responsible way and with a focus on longer-term sustainable growth; and
- adopting an institutional approach to ESG by integrating ESG factors into its corporate governance framework.

With respect to employees, the Group is committed to:

- provide and foster an attractive and productive working environment;
- promote diversity, equality and inclusion in the workplace; and
- support employees in their professional development.

With respect to the environment, the Group is committed to:

- shifting to a less carbon intensive business model;

- offering its clients greener and/or more sustainable financial products; and
- transitioning to a more climate-risk resilient business model.

Under the society pillar, the Group recognises the importance of:

- engaging with its stakeholders and the wider community;
- encouraging greater social inclusion; and
- fostering the development of society and its support.

MeDirect monitors evolving ESG trends and performs a materiality assessment 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 sustainability agenda and the selection of topics reported in its Non-Financial Report. The report follows the Global Reporting Initiative standard and applies the concept of double materiality (i.e., considering the potential impacts of the Group on ESG matters and the potential financial impacts of ESG risks on the Group).

Starting in 2022, the Group has incorporated into its Remuneration Policy sustainability objectives in determining variable remuneration, and the Group has defined ESG/CER performance objectives for all senior managers to motivate them to participate actively in the ESG/CER transformation and to support ESG strategy implementation, as described in the 2022 Non-Financial report and Remuneration Report presented in the main section of the MeDirect Group Annual Report and Financial Statements. Sustainability objectives are employee-specific and are designed to discourage excessive risk-taking in relation to sustainability risks.

For further details related to ESG/CER qualitative information please refer to section 2 - Qualitative information on environmental, social and governance risks - of this report and the 2022 MeDirect Group Non-Financial Report, ESG Strategy and Sustainability Risk Policy.

2. Qualitative information on environmental, social and governance risks

2.1. Qualitative information on environmental risks

2.1.1. Business strategy and processes

Financial institutions might be exposed to climate and environment-related 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.

MeDirect monitors this risk and works on mitigating it. 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 is aiming to achieve 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 by 2024 (1-3Y)
 - Reduce its own carbon emissions by 5% vs. 2022 by 2026 (3-5Y)
 - Achieve carbon neutral operation by 2032 (5-10Y)
 - 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% of Group assets relate to sectors highly contributing to climate change by 2024/25 (based on direct borrower NACE codes)
- Minimum 5% share of eco-friendly home loan new sales in Malta and Belgium by 2024/2025
- Minimum 45% share of green mutual fund and ETFs offered by MeDirect Group by 2024/2025
- Minimum 10% share of fixed income Treasury assets invested in green bonds
- Measure financed portfolio carbon emissions by 2024 (1-3Y)

The Group plans to integrate climate risks further into its risk management framework and business processes to develop a more resilient business model (e.g., 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 large 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 disclosure of its corporate clients does not permit such measurement. Most of its corporate clients do not report under the Non-Financial Reporting Directive.

In 2022, MeDirect conducted an initial CER materiality assessment to analyse the main CER factors that may affect the Group.

The materiality assessment concluded that the Group's exposure to CER is limited, nonetheless, 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 Group has integrated CER in its Risk Management Framework in order to track current and emerging CER to be able to analyse their impact on MeDirect Group.

The Group's customer 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 it obtains from ongoing dialogue between its relationship managers and clients, as well as the public disclosures of its clients.

MeDirect has implemented in its business procedures an ESG questionnaire used during loan origination for Maltese corporate clients and for post-transaction analysis for the international corporate lending portfolio. MeDirect requires its clients to share information on the client's approach to ESG (e.g., ESG/CSR/Sustainability policy, strategy and principles, non-financial reporting and sustainability risks, including environmental risk). CER/ESG factors are also analysed during annual corporate portfolio reviews and screening. Most of the Group's corporate clients are small to medium-sized unlisted companies from the EU, and therefore, are not subject to non-financial reporting requirements on ESG matters, without official strategies to mitigate and reduce environmental risks.

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 conducts 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 to evaluate whether the service provider has in place ethical standards and codes of conduct, including environmental matters.

2.1.2. Governance

CER management was integrated in the Group's corporate governance framework as described in Section 1. "General overview" of this report. The framework covers the involvement of the Boards, ESG Committee and three lines of defence in relation to CER oversight.

The Board approves the Group risk policies and the ESG Strategy that incorporate CER procedures and commitments. The Board also oversees their implementation. Moreover, the Board validates the CER Materiality Assessment that analyses the sensitivity of the Group's business to physical and transition risks using a forward-looking approach. The Group's risk policies and CER Materiality Assessment are reviewed and updated on an annual basis, while ESG Strategy is a medium-term horizon plan with a number of long-term objectives.

The Group's ESG Committee has overall responsibility for CER risk matters and oversees the MeDirect ESG strategy and agenda implementation, including CER matters. The existing ESG strategy was approved by the Committee, taking into account climate and environment-related elements in the Pillar 3 "Environment" of the strategy.

The Risk Management Framework and Group Sustainability Risk Policy allocate responsibilities related to CER across the three lines of defence.

Business functions are responsible for identifying, assessing and managing CER within their respective operational areas, incorporating those risks in the various stages of their business processes and applying internal requirements in their day-to-day business operations.

Risk functions are responsible for developing and tracking a dashboard of relevant CER principles within the existing risk reporting frameworks of the Group and updating on an annual basis the Group CER Materiality Assessment. The Compliance function prepares an annual compliance plan that may consider CER if appropriate and assists the business units and other internal functions to ensure that operations are in line with regulations.

The Internal Audit function are responsible for periodically executed audit reviews (global or targeted) providing assurance on the integration and proper implementation of CER principles across the governance, internal control, operational and business processes of the Group.

The Board receives regular ESG/CER updates from the Group Head of Sustainability during the routine Board meetings about the progress of the implementation of ESG objectives, including CER.

The ESG Committee receives regular ESG/CER updates on ESG/CER agenda implementation, including ESG Strategy and CER materiality assessments during quarterly meetings.

In this context, the Risk function provides to the Board quarterly Risk Management reports, including CER KPI monitoring. Breaches of risk appetite are escalated to the Board Risk and Compliance Committee and the Board, in line with the escalation process outlined in the Group Risk Appetite Framework. The Internal Audit function reports into the Audit Committee and when relevant directly to the Board.

The Group defined in its Sustainability Risk Policy the main transmission channels of sustainability risks that should be taken into account by business units and the principles to be followed in designing business and decision making processes, as described in Section 1. General Overview of this report.

As described in Section 1. General Overview of this report, the Group has incorporated into its Remuneration Policy sustainability objectives in determining variable remuneration, and the Group has defined ESG/CER performance objectives for all senior managers.

2.1.3. Risk management

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.

Section 1. General Overview of this report 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 functions.

The Group integrates CER factors into its risk framework by updating its internal regulations, implementing dedicated ESG Strategy objectives and commitments and incorporating CER factors into its daily operations.

During this process, the Group took into consideration the rules defined in Section 1. General Overview of this report with the aim of identifying the counterparties and transactions that might cause exposure to environmental issues, and mitigating their impact.

The Group has updated a number of policies and procedures, in particular its Risk Management Framework, credit frameworks, risk appetite statements, lending guidelines and the Stress Testing Framework to ensure that CER risks are properly identified, measured, monitored and mitigated.

During this process, the Group took into account its business profile and strategic direction as well as regulatory requirements as stipulated in the European Central Bank Guide to climate-related and environmental risks, United Nations Sustainable Development Goals principles, Task Force on Climate-related Financial Disclosure recommendations, Taxonomy, SFRD and MIFID II, among other regulations. Group CER policies and the ESG Strategy were approved by the Board or relevant Committees in line with the Group's Policy Standards.

Moreover, the Group incorporates CER principles in its principal business processes, as outlined in the Risk Sustainability Policy, with the aim of managing CER risks and raising CER awareness within the organisation and amongst its clients and counterparties.

The Group's sustainability policy and CER materiality assessment are reviewed and updated on an annual basis. The Group's materiality assessment assesses the impact of CER in the short- (1-3Y), medium- (3-10Y) and long-term (>10Y). Most of the objectives defined in the Group's ESG Strategy are short- to medium-term (to 2025), but some of the environmental commitments are longer-term (to 2050).

As describe in Section 2.1.2. Governance, the three lines of defence are responsible for identifying, assessing and managing CER 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. Moreover, as part of its ESG Strategy, MeDirect has committed to start measuring its financed portfolio emissions (Scope 3) within the next three years.

The Group does not have direct exposure to coal mining, electricity, gas, steam, air conditioning supply and water supply due to its low risk appetite in those sectors.

The Group evaluates environmental factors in its corporate lending process using sectoral heatmaps. The Risk Appetite Statement applies some non-prescriptive quantitative risk appetite thresholds, depending on underlying sector risk (no appetite, reduced appetite, within appetite).

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.

The questionnaire requires clients of the Group to share information relating to, amongst other things, the client's approach to ESG (e.g. ESG/CSR/Sustainability policy, strategy, principles, non-financial reporting, and sustainability risks, including environmental risks). CER/ESG factors are also analysed during annual corporate portfolio reviews and screening.

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) 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.

MeDirect applies in the Risk Appetite Framework for Dutch professional residential Buy-To-Let mortgages risk appetite thresholds (% of the outstanding loan balances) linked to high flood risk regions and to yearly energy efficiency of the mortgaged properties.

MeDirect Belgium's Risk Appetite Statement includes green and red flags relating to yearly energy efficiency of the properties and provides flexibility on loan-to-value ("LTV") levels if the proceeds of the mortgage are spent on improving energy efficiency of the mortgaged building.

In its retail lending process, MeDirect has launched eco-friendly residential home loans in Malta and Belgium to promote energy-efficient homes, which support decarbonisation of buildings in an effort to reduce global warming. The Group also requests an EPC certificate from its retail borrowers.

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 has started to integrate 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 match the sustainability preferences of its clients with appropriate products.

The Group actively invests in green bonds and has committed to have invested 10% of its Treasury portfolio into green bonds by 2024/2025, in line with the ESG Strategy.

The Group has integrated adverse climate-related and environmental events into business continuity and incident management procedures, including relevant communication plans in the occurrence of an event of adverse physical and transition risks.

The Group incorporates ESG/CER principles in its procurement process as described in Section 2.1.1. Business strategy and processes of this report.

The Group analyses its corporate lending portfolio from a CER perspective and collects from corporate clients the CER data required for current and future regulatory reporting (e.g., client information required under the Non-Financial Reporting Directive (NFRD), Taxonomy eligible or aligned business activities and customers' financed emissions). Available client information is limited as most of the Group's corporate clients do not meet NFRD reporting criteria as they are private, small-to-medium sized and unlisted enterprises.

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 not specific regulations or requirements on a local level. In addition to the limited available client disclosure, publicly available statistics also do not include necessary data to calculate proxy information required to estimate client data.

Since 2022, the Group has conducted CER materiality assessments of its business analysing the main CER risks that may affect its strategy, business model, asset portfolios, funding sources, treasury assets and hedging strategies, wealth management services and operating centres.

The assessment includes on and-off-balance sheet assets and contingencies and covers physical risks (Floods/Fluvial, Sea Level Risk, Drought/Extreme Heat, Forest Fire/Wildfire, Biodiversity Loss, Water Stress) and transition risks (Policy/Regulations, Stranded Asset Risk, Market Sentiment, Technology Change), including high-level impact horizons (short-, medium- and long-

term). 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 materiality assessment is led by the Risk function in collaboration with the various business units and is presented to the ESG Committee and the Group Board.

The 2023 materiality assessment concluded that the overall strategic Group exposure to CER risk is limited given the Group's business profile and its strategy, but the Group will continue to monitor and reassess the evolution of its CER risks regularly and update its assessments accordingly.

The assessment indicated that the Group's exposure to CER risk derives 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 indicates that based on its current CER/ESG risk profile, no additional capital or liquidity buffer is required to cover potential impact of CER risk.

Moreover, CER risk has been also assessed from both the normative and economic perspectives of the internal capital adequacy assessment process (ICAAP), which assesses its impact on P&L, capital requirements and solvency (PD, LGD). The Group has incorporated climate-related scenarios into its stress testing processes, which encompass both physical and transition risks over various time horizons.

During 2023, the capital stress test scenarios have been updated to include transition risk triggered by new CER regulations that impose the requirement on homeowners with energy-inefficient properties to renovate their houses. This results in an impact on capital and capital ratios, and climate change **risk** leading to significant physical operational impact on Maltese operation for three days.

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.

In 2022, the Group participated in the ECB Climate thematic review, including ECB CER stress tests and questionnaires required to meet supervisory requirements and implemented ECB Climate thematic review action plan to address regulatory expectations and shortcomings.

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 during the preparation of the 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 volunteer and charitable activities

- Support of 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 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.

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% by 2025
- 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 40% representation of the under-represented gender by 2025
- Maintain a gender-neutral recruitment process
- Ensure gender diversity in the succession programme for managerial positions with the goal of achieving a minimum 40% representation of the under-represented gender by 2025
- Increase number of training/development hours per employee by 25% by 2025

Society:

- Increase the number of Group-sponsored volunteer events to two person days annually by 2025
- Increase attendance at Group-sponsored volunteer events to a minimum of 75 employees by 2025
- Minimum five volunteer initiatives per year, focused on community, environment and other areas
- Maintain regular participation in charitable donations and sponsor
- Minimum five CSR initiatives conducted each year
- Quarterly training for seniors to eliminate financial/digital illiteracy
- Regular training/events for students (programme to be launched)
- 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

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 appropriate human rights clauses in new contracts with suppliers and corporate lending clients by 2025
- Ensure that a minimum of 50% of key suppliers (representing approximately 90% of Group expenditures) have ESG verification by 2024/25 (determined using questionnaires, vendors' statements and other techniques)
- Ensure that close to 100% of corporate lending clients have ESG/CER verification by 2024/25 (determined using questionnaires, review of annual reports, corporate websites and media news flow where available and other methods)

The Group's Sustainability Risk Policy summarises the standards followed by the Group when onboarding/engaging with its clients, suppliers and business partners. The procedures followed by the Group are documented in various policies and procedures namely, the Group Client Acceptance Policy, Risk Appetite Statements, Business procedures, Codes of Conduct and Ethics, Reputational Risk Management Policy, Procurement Policy and Group Outsourcing Framework.

MeDirect restricts and/or prohibits the establishment of a banking relationships with the clients from sanctioned countries or controversial industries or industries applying questionable business practices, such as businesses involved in forced/harmful

child labour activities, production or trade in weapons and munitions or spare parts for war-related vehicles or adult entertainment. 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 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 including, among other things, the client's approach to ESG and sustainability risks (including social aspects such as impact on society, employee-related issues and respect for human rights). ESG factors are also analysed during annual corporate portfolio reviews and screening where data is publicly available. Most of the Group's corporate clients are small- to medium-sized unlisted companies from EU jurisdictions, which are not subject to non-financial reporting requirements on ESG matters and often do not have ESG strategies.

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. In addition, the Group conducts pre-qualification checks in relation to ethical practices and CER/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 are carried out to evaluate whether the service provider has in place ethical standards and codes of conduct, including ethical, social responsibility, child labour prohibition considerations.

2.2.2. Governance

Social risk management was integrated in MeDirect corporate governance framework as described in Section 1. "General overview" of this report. The Board, the ESG Committee and the three lines of defence oversee this risk.

The Board approves the main risk policies and the ESG Strategy that incorporates ESG risk procedures and commitments, including social risk, and oversees its implementation. Internal policies and procedures address the Group's exposure to social risk in relation to its employees, clients, suppliers and business partners as described in Section 2.2.3 Risk management. In addition, the Group monitors the exposure of its counterparties to social risks as described in Section 2.2.1. Business strategy and processes.

The Board receives regular ESG updates a by the Group Head of Sustainability as a standing agenda item in Board meetings, including updates on the management of social risk.

The ESG Committee receives quarterly updates on the implementation of the ESG agenda, including social aspects.

Business units and internal control functions provide periodic updates to the appropriate Committees on social risk issues. Updates might include information about management of employee and counterparty relations, 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 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, client and supplier relations, regulatory or community affairs matters and compliance with codes of conduct and other internal policies and procedures.

The Group Remuneration Policy provides for 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 might include social aspects. Moreover, the Group has established ESG/CER performance objectives for all senior managers as described in Section 1. General overview of this report.

2.2.3. Risk management

MeDirect defines sustainability risks to include social risk in its Group Sustainability Risk Policy. Special attention is paid 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.

The Section 1. General overview of this report describes the main transition channels between sustainability 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 2.2.2. Governance, the three lines of defence are responsible for identifying, assessing and managing social risk across the organisation in accordance with relevant policies and procedures.

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 has aimed to identify areas in which it might be exposed to potential social issues and to mitigate the impact of such issues.

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, as set forth in 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. Moreover, 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. Such policies and procedures include the Group Code of Conduct and Ethics, Clients Acceptance Policy, Business guidelines, Risk Appetite Statements, Anti-Money Laundering and Countering of Terrorism Policy, Reputation Risk Management Policy, Procurement Policy and the Group Outsourcing framework.

Moreover, Pillar 4 - Society of the ESG Strategy establishes primary objectives in respect of society:

- 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

The Group mitigates social risk related to its clients, suppliers and business partners by excluding certain industries or geographic locations, conducting due diligence in respect of counterparties, including (ESG) questionnaires, and adopting sectoral heatmaps taking into account social risk and reputational risk alerts as described in Section 2.2.1. Business strategy and

processes. The Group conducts due diligence related to Bribery and Corruption risk when establishing and maintaining relationships with clients or third parties.

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
<ul style="list-style-type: none"> • Illegal or fraudulent activities by individuals • Employee behaviour and conduct • Misuse of client information • Doing business in an unethical manner 	<ul style="list-style-type: none"> • 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 	<ul style="list-style-type: none"> • Poor customer relations • Non-performance of core infrastructure and controls • Business disruption and inadequate continuity plans 	<ul style="list-style-type: none"> • Incorrect or unfounded rumours • Negative public remarks by politicians/public institutions • Industry, market or jurisdictional contagion risk

In order to analyse employees and customer satisfaction, MeDirect conducts periodic surveys.

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.

The Group designs products that are easy to understand and simple to use and 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 aims to treat its clients fairly and transparently. Staff members may 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.

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.

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.

Each year, the Group prepares a plan for voluntary and charitable activities and for 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.

The policies are reviewed and updated on an annual basis. The ESG Strategy objectives relating to social matters focus on the short- to medium-term (to 2025).

Most policies have escalation procedures to be applied in the event of identification of breaches or potential breaches of the relevant policies.

2.3. Qualitative information on governance risks

2.3.1. Business strategy and processes

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

The Group defined in its ESG Strategy 2024/2025 (pillar 1) its commitments related to the 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 by 2024/25
- Minimum one ESG training per year
- ESG/CER integrated into annual compliance plans and the multi-year internal audit cycle
- Minimum of three independent members in the Board
- Maintain a high NPS (customer recommendation factor) score with a minimum score of 30 by 2024/25

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

- ESG verification of at least 50% of key suppliers by 2024/25 (by means of questionnaires, vendors’ statements and other methods)
- ESG/CER verification of close to 100% corporate lending clients by 2024/25 (determined using questionnaires, review of annual reports, corporate websites, media news flow, where available and other methods)

2.3.2. Governance

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

MeDirect has integrated governance risk management into its corporate governance framework as described in Section 1. General overview of this report. The Board, ESG Committee and three lines of defence oversee and manage this risk.

The Board approves main risk policies and the ESG Strategy that outline MeDirect’s corporate governance framework as described in Section 2.3.3. Risk Management of this report. In addition, the Board approves the Group Non-financial report that describes key sustainability commitments, policies and rules for the Group.

In its business guidelines, the Group incorporates requirements related to its counterparties' exposure to ESG risk as described in the previous sections (including ESG questionnaires).

2.3.3. 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 2.3.2. Governance, the three lines of defence are responsible for identifying, assessing and managing governance risk across the organisation, in accordance with relevant policies and procedures.

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

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, Countering of Terrorism Policy. Moreover, Pillar 1 Governance of the ESG Strategy sets forth the Group's primary objectives in this area, including:

- Sound corporate values
- Responsible and sustainable business
- Institutional approach to ESG

During the credit process in relation to corporate lending clients, the Group considers counterpartys' 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 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 EU, not subject to non-financial reporting requirements on ESG matters, and without official ESG strategies.

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

MeDirect has started to disclose quantitative information on transition risk and physical risk related to climate change from 2022 Group Pillar III Report in line with Pillar 3 ESG implementing technical standards and instructions on prudential disclosures on ESG risks defined by the EBA for this purpose as presented in the tables 1 to 5 below. The ESG information disclosed in this Pillar 3 reporting is not necessarily aligned with MeDirect Group's Non-Financial Report as it follows EBA detail 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 Group applies transition periods for some tables and data as required by EBA regulations as follows:

Template 1 - Banking book- Climate Change transition risk: Credit quality of exposures by sector, emissions and residual maturity - column C to be reported in 2023 Group Pillar III Report, column I/J/K - to be reported in the H1 2024 Group Pillar III Report

Template 3 - Banking book - Climate change transition risk: Alignment metrics- to be reported in the H1 2024 Group Pillar III Report

Template 6 - Summary of GAR KPIs - to be reported in the 2023 Group Pillar III Report

Template 7 - Mitigating actions: Assets for the calculation of GAR - to be reported in the 2023 Group Pillar III Report

Template 8 - GAR (%) - to be reported in 2023 Group Pillar III Report

Template 9 - Mitigating actions: BTAR- to be reported in the H1 2024 Group Pillar III Report

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 underlying business activity. Approximately 46% 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 an international syndicated loans and Maltese corporate loans.

Exposure to NACE sectors less than 100 ths EUR was rounded-up to zero.

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 14% 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. MeDirect therefore decided to limit its direct exposure to sectors highly contributing to climate change and decided not to finance sectors that might be associated with potentially negative effects on the environment.

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. Moreover, 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.

ESG disclosure in Pillar 3 follows the implementing technical standards on prudential disclosures on ESG risks defined by the EBA.

The Group will start disclosing the information relating to environmentally sustainable exposures and the GHG financed emissions (as defined in the Pillar 3 ESG implementing technical standards), starting in the 2023 Pillar III Report and the H1 2024 Pillar III Report, respectively. The Group started 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 has analysed 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 private small- and medium-sized unlisted with little ESG-related publicly available information.

Table 1. IH 2023 Reporting Year

Sectors	Gross carrying amount (Mln EUR)				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions (Mln EUR)			<= 5 years	> 5 year <= 10 years	> 10 year <= 20 years	> 20 years	Average weighted maturity
	Of which exposures towards companies excl. from EU Paris-aligned Benchmarks ¹	Of which stage 2 exposures	Of which non-performing exposures									
Exposures towards sectors that highly contribute to climate change*	396	0	34	21	-5	-1	-2	336	19	42	0	3
A - Agriculture, forestry and fishing	0.2	0	0	0	0	0	0	0.2	0	0		2
B - Mining and quarrying	0.0	0	0	0	0	0	0	0	0	0		
C - Manufacturing	123	0	0	5	-2.2	0	-1.4	123	0	0		2
C.17 - Manufacture of pulp, paper and paperboard	10	0	0	0	-0.1	0	0	10	0	0		2
C.20 - Production of chemicals	14	0	0	0	-0.1	0	0	14	0	0		0
C.21 - Manufacture of pharmaceutical preparations	21	0	0	0	-0.2	0	0	21	0	0		3
C.22 - Manufacture of rubber products	17	0	0	0	-0.8	0	-0.8	17	0	0		0
C.23 - Manufacture of other non-metallic mineral products	8	0	0	0	-0.1	0	0	8	0	0		3
C.25 - Manufacture of fabricated metal products, except machinery and equipment	8	0	0	0	0.0	0	0	8	0	0		2
C.27 - Manufacture of electrical equipment	5	0	0	5	-0.6	0	-0.6	5	0	0		2
C.28 - Manufacture of machinery and equipment n.e.c.	19	0	0	0	-0.1	0	0	19	0	0		3
C.32 - Other manufacturing	21	0	0	0	-0.2	0	0	21	0	0		3
D - Electricity, gas, steam and air conditioning supply	0.02	0	0	0	0	0	0	0.02	0	0		1
D.35.1 - Electric power generation, transmission and distribution	0.02	0	0	0	0	0	0	0.02	0	0		1
E - Water supply; sewerage, waste management and remediation activities	0	0	0	0	0	0	0	0	0	0		
F - Construction	64	0	2	1	-0.2	0	0	56	8	0		2
F.41 - Construction of buildings	34	0	2	1	0	0	0	26	8	0		0
F.42 - Civil engineering	26	0	0	0	-0.2	0	0	26	0	0		1
F.43 - Specialised construction activities	3	0	0	0	0	0	0	3	0	0		2
G - Wholesale and retail trade; repair of motor vehicles and motorcycles	63	0	13	0	-1.2	-0.5	-0.1	63	0	0		3
H - Transportation and storage	9	0	0	0	0.0	0	0	9	0	0		1
H.52 - Warehousing and support activities for transportation	9	0	0	0	0.0	0	0	9	0	0		1
I - Accommodation and food service activities	36	0	18	0	-1.0	-1.0	0	23	3	10		5
L - Real estate activities	102	0	1	15	0.0	0	0	62	7	32		6
Exposures towards sectors other than those that highly contribute to climate change*	219	0	5	1	-6	0	-4	213	4	2		2
K - Financial and insurance activities	45	0	0	0	-0.3	0	0	42	1	2		2
Exposures to other sectors (NACE codes J, M - U)	174	0	5	1	-5	0	-4	171	3	0		2
TOTAL	615	0	39	22	-10	-1.50	-6	548	23	44		3

Out of which Buy to let loans (BTL) offered to corporate clients (legal entities) to finance purchase of residential immovable property

L - Real estate activities	28	0	0	0	0	0	0	0	0	28	0	15
Exposures towards sectors that highly contribute to climate change excluding BTL	368	0	34	21	-5	-1	-2	336	19	14	0	2

2022 Reporting Year

Sectors	Gross carrying amount (Mln EUR)			Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions (Mln EUR)		<= 5 years	> 5 year <= 10 years	> 10 year <= 20 years	> 20 years	Average weighted maturity		
	Of which exposures towards companies excl. from EU Paris-aligned Benchmarks ¹	Of which stage 2 exposures	Of which non-performing exposures	Of which Stage 2 exposures	Of which non-performing exposures							
Exposures towards sectors that highly contribute to climate change*	430	0	34	48	-7	-2	-2	328	75	28	0	4
A - Agriculture, forestry and fishing	0.3	0	0	0	0	0	0	0.3	0	0		3
B - Mining and quarrying	0.0	0	0	0	0	0	0	0	0	0		
C - Manufacturing	152	0	0	29	-3.2	0	-2.0	105	47	0		3
C.17 - Manufacture of pulp, paper and paperboard	10	0	0	0	-0.2	0	0	10	0	0		4
C.20 - Production of chemicals	24	0	0	0	-0.1	0	0	24	0	0		2
C.21 - Manufacture of pharmaceutical preparations	35	0	0	0	-0.3	0	0	23	12	0		4
C.22 - Manufacture of rubber products	17	0	0	17	-0.9	0	-0.9	17	0	0		1
C.23 - Manufacture of other non-metallic mineral products	8	0	0	0	-0.1	0	0	0	8	0		6
C.25 - Manufacture of fabricated metal products, except machinery and equipment	8	0	0	0	-0.1	0	0	8	0	0		3
C.27 - Manufacture of electrical equipment	11	0	0	12	-1.2	0	-1.2	11	0	0		3
C.28 - Manufacture of machinery and equipment n.e.c.	19	0	0	0	-0.1	0	0	9	10	0		4
C.32 - Other manufacturing	21	0	0	0	-0.3	0	0	4	17	0		5
D - Electricity, gas, steam and air conditioning supply	0.02	0	0	0	0	0	0	0.02	0	0		2
D.35.1 - Electric power generation, transmission and distribution	0.02	0	0	0	0	0	0	0.02	0	0		2
E - Water supply; sewerage, waste management and remediation activities	0	0	0	0	0	0	0	0	0	0		
F - Construction	65	0	0	1	-0.2	0	0	56	9	0		3
F.41 - Construction of buildings	30	0	0	1	0	0	0	21	9	0		4
F.42 - Civil engineering	25	0	0	0	-0.2	0	0	25	0	0		3
F.43 - Specialised construction activities	10	0	0	0	0	0	0	10	0	0		1
G - Wholesale and retail trade; repair of motor vehicles and motorcycles	73	0	12	3	-1.8	-0.9	-0.1	65	8	0		3
H - Transportation and storage	9	0	0	0	-0.1	0	0	9	0	0		4
H.52 - Warehousing and support activities for transportation	9	0	0	0	-0.1	0	0	9	0	0		4
I - Accommodation and food service activities	44	0	22	0	-1.4	-1.3	0	31	4	10		5
L - Real estate activities	86	0	0	15	-0.2	0	0	62	7	18		4
Exposures towards sectors other than those that highly contribute to climate change*	241	0	13	15	-7	0	-4	191	50	0		3
K - Financial and insurance activities	49	0	0	0	-0.3	0	0	36	13	0		3
Exposures to other sectors (NACE codes J, M - U)	192	0	13	15	-6	0	-4	155	37	0		3
TOTAL	671	0	47	63	-13	-2	-6	519	125	28		3

Out of which Buy to let loans (BTL) offered to corporate clients (legal entities) to finance purchase of residential immovable property

L - Real estate activities	12	0	0	0	0	0	0	0	0	12	0	15
Exposures towards sectors that highly contribute to climate change excluding BTL	418	0	34	48	-7	-2	-2	328	75	16	0	3

¹In 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 underlying business activity (indirect exposure). NACE exposure of corporate lending includes allocation of the activities of holding companies (K.64.2) based on the underlying 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 in 2023 by respective units' clients' NACE classification.

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

MeDirect did not identify any exposure to undertakings meeting the above criteria.

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/m² 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 has access to this certificate, 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 following assumptions:

- Malta mortgage portfolio – due to the lack of an official EPC label classification in Malta, the EPC label was assigned using Belgian classifications (Brussels Region) and yearly energy requirements from the EPC certificate. Usually, information is available in the EPC Certificate in relation to the level of energy efficiency, even though an EPC label is not available.
- Netherlands mortgage portfolio – due to lack of official yearly energy requirements 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 us not available based on EPC Certificates but is usually available using the EPC label
- Belgian mortgage portfolio – due to lack of EPC label data, the EPC label was assigned using Belgian EPC classifications (Flanders Region) and yearly energy requirements from the EPC certificate. Brackets for the level of energy efficiency were assigned using yearly energy requirements set forth in the EPC certificates. Usually, information is available in the EPC Certificate in relation to the level of energy efficiency, even though an EPC label is not available.

Gross carrying amount of loan was allocated to the collateral using the weighted value of the collateral.

Table 2.
IH 2023 Reporting Year

Counterparty sector	Total gross carrying amount amount (in MEUR)														
	Level of energy efficiency (EP score in kWh/m ² of collateral)						Level of energy efficiency (EPC label of collateral)						Without EPC label or EPC score 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/m ² of collateral) estimated	
Total EU area	2,372	61	569	872	350	152	42	312	284	659	283	197	189	122	326
Of which Loans collateralised by commercial immovable property	62	0	0	0	0	0	0	0	0	0	0	0	0	0	62
Of which Loans collateralised by residential immovable property	2,310	61	569	872	350	152	42	312	284	659	283	197	189	122	264
Of which Collateral obtained by taking possession: residential and commercial immovable properties	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/m ² of collateral) estimated	2,372	9	493	826	310	122	0	26	68	68	49	33	44	0	326
Total non-EU area	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
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 immovable properties															
Of which Level of energy efficiency (EP score in kWh/m ² of collateral) estimated															

2022 Reporting Year

Counterparty sector	Total gross carrying amount amount (in MEUR)														
	Level of energy efficiency (EP score in kWh/m ² of collateral)						Level of energy efficiency (EPC label of collateral)						Without EPC label or EPC score 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/m ² of collateral) estimated
Total EU area	2,150	42	514	821	317	135	26	274	250	617	252	178	166	117	295
Of which Loans collateralised by commercial immovable property	73	0	0	0	0	0	0	0	0	0	0	0	0	0	73
Of which Loans collateralised by residential immovable property	2,077	42	514	821	317	135	26	274	250	617	252	178	166	117	222
Of which Collateral obtained by taking possession: residential and commercial immovable properties	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/m ² of collateral) estimated	2,150	0	459	794	297	117	0	17	48	47	28	20	27	0	295
Total non-EU area	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
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 immovable properties															
Of which Level of energy efficiency (EP score in kWh/m ² of collateral) estimated															

NOTE: Table includes in the line related to loans collateralised by property the Malta mortgages, Belgian mortgage receivables, Dutch NHG mortgage receivables, Dutch Buy-To-Let mortgage portfolio and domestic corporate loans. The row “of which Level energy efficiency estimated” includes the sum of estimated level of energy efficiency brackets based on eg. EPC label or estimated EPC label based on eg. the level of energy efficiency from the EPC certificate and loans collateralised with properties without estimated EPC label or level of energy efficiency from the EPC certificate. The table was updated based on verified and revisited data.

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 will start disclosing the information relating to environmentally sustainable exposures starting in 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 July 2017. The list was prepared based on 1988-2015 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 in any of its portfolio’s exposure to any of the top 20 carbon intensive firms.

Table 3.

	Gross carrying amount (aggregate)	Gross carrying amount towards the counterparties compared to total gross carrying amount (aggregate)*	Weighted average maturity	Number of top 20 polluting firms included
Total exposure to top 20 carbon-intensive firms in the world	0	0%	n/a	0

IH 2023 and 2022 Reporting Year

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 and having 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 approximately 46% of the Group's assets, at the end of June 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

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

IH 2023 Reporting Year

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													Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions
	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	Of which Stage 2 exposures	Of which non-performing exposures	of which Stage 2 exposures	Of which non-performing exposures		
	<= 5 years	> 5 year <= 10 years	> 10 year <= 20 years	> 20 years	Average weighted maturity									
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	0
C - Manufacturing	123	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	0
F - Construction	64	0	0	0	0	0	0	0	0	0	0	0	0	0
G - Wholesale and retail trade, repair of motor vehicles and motorcycles	63	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
L - Real estate activities	102	0	0	0	0	0	0	0	0	0	0	0	0	0
Loans collateralised by residential immovable property	2,310	1	1	19	466	26	392	94	0	3	0.33	-0.20	-0.06	-0.03
Loans collateralised by commercial immovable property	62	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

2022 Reporting Year

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													Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions
	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	Of which Stage 2 exposures	Of which non-performing exposures	of which Stage 2 exposures	Of which non-performing exposures		
	<= 5 years	> 5 year <= 10 years	> 10 year <= 20 years	> 20 years	Average weighted maturity									
A - Agriculture, forestry and fishing	0.3	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	152	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
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	65	0	0	0	0	0	0	0	0	0	0	0	0	0
G - Wholesale and retail trade, repair of motor vehicles and motorcycles	73	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
L - Real estate activities	86	0	0	0	0	0	0	0	0	0	0	0	0	0
Loans collateralised by residential immovable property	2,077	0	0	12	423	27	352	84	0	2.1	0	-0.07	-0.02	0
Loans collateralised by commercial immovable property	73	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 in the line 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 domestic corporate loans. NACE exposure of corporate lending includes allocation of the activities of holding companies (K.64) based on the underlying business activity prepared using expert approach following Pillar 3 implementing technical standards on prudential disclosures on ESG risks (indirect exposure). Exposure to NACE sectors less than 100 ths EUR was rounded-up to zero. The table was updated based on verified and revisited data.

Table 4.1. Exposures subject to physical risk – Netherland market

IH 2023 Reporting Year

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													Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions
	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	Of which Stage 2 exposures	Of which non-performing exposures	of which Stage 2 exposures	Of which non-performing exposures		
	<= 5 years	> 5 year <= 10 years	> 10 year <= 20 years	> 20 years	Average weighted maturity									
Loans collateralised by residential immovable property	1,931	1	1	9	406	27	337	78	0	2	0	-0.06	-0.03	0.00
Loans collateralised by commercial immovable property	0.3	0	0	0	0	0	0	1	0	0	0	0	0	0
Repossessed colaterals	0	0	0	0	0	0	0	0	0	0	0	0	0	0

2022 Reporting Year

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												Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions	
	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	Of which Stage 2 exposures	Of which non-performing exposures	of which Stage 2 exposures	Of which non-performing exposures		
	<= 5 years	> 5 year <= 10 years	> 10 year <= 20 years	> 20 years	Average weighted maturity									
Loans collateralised by residential immovable property	1,821	0.4	0.2	6.6	386.2	27	319	74	0.0	160	0.00	-0.03	-0.01	0.00
Loans collateralised by commercial immovable property	0.0	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 Dutch NHG mortgage receivables and Dutch Buy-To-Let mortgage portfolio

For Dutch NHG mortgage receivables loans were collateralised with residential properties and for Buy-To-Let mortgages, loans were collateralised with residential and commercial properties, although majority were residential. Buy-To-Let mortgages are usually collateralised by more than one property and the estimation of exposure to physical risk was based on collateral level. Regions where collateral is located in the Dutch mortgage portfolio were not exposed to high or very high extreme heat, drought or landslide hazard scenarios, while in the Dutch Buy-To-Let portfolio collateral properties were not exposed to high or very high flood, extreme heat, drought, fire or landslide hazard scenarios.

Table 4.2. Exposures subject to physical risk – Belgium market

IH 2023 Reporting Year

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												Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions	
	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	of which exposures sensitive to impact both from chronic and acute climate	Of which Stage 2 exposures	Of which non-performing exposures	of which Stage 2 exposures	Of which non-performing exposures		
	<= 5 years	> 5 year <= 10 years	> 10 year <= 20 years	> 20 years	Average weighted maturity									
Loans collateralised by residential immovable property	229	0	0	9	59	24	55	15	0	145	0.33	-0.15	-0.03	-0.03
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

2022 Reporting Year

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												Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions	
	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	Of which Stage 2 exposures	Of which non-performing exposures	of which Stage 2 exposures	Of which non-performing exposures		
	<= 5 years	> 5 year <= 10 years	> 10 year <= 20 years	> 20 years	Average weighted maturity									
Loans collateralised by residential immovable property	132	0	0	5	37	22	33	9	0	0.54	0.00	-0.03	0.00	0.00
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 Belgium mortgage portfolio, loans were collateralised only by residential properties. The mortgages are collateralised by more than one property and the estimation of physical risk was based on collateral level. Regions where collateral is located in the Belgian mortgage portfolio were not exposed to high or very high flood, extreme heat, drought, fire or landslide hazard scenarios.

Table 4.3. Exposures subject to physical risk – Malta market

IH 2023 Reporting Year

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													Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions
	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	of which			
	<= 5 years	> 5 year <= 10 years	> 10 year <= 20 years	> 20 years	Average weighted maturity						Stage 2 exposures	non-performing exposures		
Loans collateralised by residential immovable property	150	0	0	0	0	0	0	0	0	0	0	0	0	0
Loans collateralised by commercial immovable property	61	0	0	0	0	0	0	0	0	0	0	0	0	0
Reposessed colaterals	0	0	0	0	0	0	0	0	0	0	0	0	0	0

2022 Reporting Year

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													Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions
	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	of which			
	<= 5 years	> 5 year <= 10 years	> 10 year <= 20 years	> 20 years	Average weighted maturity						Stage 2 exposures	non-performing exposures		
Loans collateralised by residential immovable property	123	0	0	0	0	0	0	0	0	0	0	0	0	0
Loans collateralised by commercial immovable property	73	0	0	0	0	0	0	0	0	0	0	0	0	0
Reposessed colaterals	0	0	0	0	0	0	0	0	0	0	0	0	0	0

NOTE: Table includes Malta retail mortgage portfolio and 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 9.1% 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 26% of the Group's assets) and concentrated, with 77% 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.

ESG disclosure in Pillar 3 follows the implementing technical standards on prudential disclosures of ESG risks as defined by the EBA.

Table 5. 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 eco-friendly residential home loans in Malta (April 2022) and Belgium (December 2022) to promote energy-efficient homes which contribute to the decarbonisation 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.

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 a potential EU Green Bond Standard.

Table 5.

IH 2023 and 2022 Reporting Year

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	IH'2023: 85 2022: 70	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	IH'2023: 1.2 2022: 0.317	Yes	Yes	Eco-friendly residential home loans
	Of which Loans collateralised by residential immovable property	IH'2023: 1.2 2022: 0.317	Yes	Yes	Eco-friendly residential home loans
	Of which building renovation loans	0			