Pillar 3 disclosures – Annual report
31 December 2020

Contents

1 Introduction

These Pillar 3 Disclosures ("the Disclosures") are aimed at providing the stakeholders of MeDirect Bank S.A./N.V. ("MeDirect Belgium" or "the Bank") further insight to its capital structure, adequacy and risk management practices.

As a significant subsidiary of MDB Group Limited (together "the Group"), MeDirect Belgium is subject to mandatory, though limited, Pillar 3 Disclosures (Market Discipline) by the local regulatory supervisor, whereas Pillar 3 is being implemented in full at the Group level. Pillar 3 is a complement to Pillar 1 (Minimum Capital Requirements) and Pillar 2 (Supervisory Review Process) by allowing market participants to assess the capital adequacy of a bank by using key pieces of information. MeDirect Belgium is exempt from full disclosure requirements as laid down in Part Eight of the Capital Requirements Regulation ("CRR"), but only limited to disclosure requirements in terms of Article 13 of the CRR, on the basis that such disclosures are required at an MDB Group Limited consolidated level. MDB Group Limited publishes full Pillar 3 Disclosures Annual Report that is appended to the annual report and financial statements that are available on the Group's Investor Relations website.

The Group's Pillar 3 Disclosures Annual Report presents information about the Group's exposure to risks and the Group's objectives, policies and processes for measuring and managing risks and the Group's management of capital. These risks principally relate to the MDB Group and are managed by the Board of directors of MeDirect Bank (Malta) plc ("MeDirect Malta"). As a result, the Group's Pillar 3 Disclosures Annual Report provide information about the financial risk management of MeDirect Malta and its principal subsidiary MeDirect Belgium.

The disclosure requirements emanating from Articles 435, 436, 439, 441, 443 to 449, 452, 454 and 455 of the CRR are not required for disclosure by MeDirect Belgium, in terms of Article 13(1) of the CRR but the Bank still meets the disclosure requirements applicable to significant subsidiaries emanating from the EBA guidelines on disclosure requirements under Part Eight of Regulation (EU) no 575/2013 (EBA-GL-2016-11).

1.1 Pillar 3 Disclosure Policy

The Group maintains a Pillar 3 Disclosures Policy in order to comply with the requirements laid down in Part Eight of the CRR and any associated European Banking Authority ("EBA") guidelines, National Bank of Belgium ("NBB") circulars and technical standards.

Basis of preparation

This Pillar 3 Disclosures Annual Report (the "Disclosures") has been prepared in accordance with the Group's Pillar 3 Disclosures Policy, which requires that this report be prepared in accordance with requirements of Part Eight of the CRR and other associated EBA guidelines and technical standards, including circular NBB_2017_25, which introduced EBA guidance EBA/GL/2016/11 ('Guidelines on disclosure requirements under Part Eight of the Regulation (EU) No 575/2013') onto the Belgian regulatory framework. The latter guidelines provide detailed disclosure requirements for credit risk, counterparty credit risk, market risk and capital requirements.

In all tables where the term 'capital requirements' is used, this represents the minimum total capital charge set at 8% of risk weighted assets ('RWAs') by article 92 of the Capital Requirements Regulation. Table name references and row numbering in tables identify those prescribed in the relevant EBA guidelines where applicable and where there is a value.

Scope of application

These disclosures are in respect of MeDirect Bank S.A./N.V., which is supervised by the NBB. The Bank also falls within the supervision of the European Central Bank ("ECB"), given that it is a subsidiary of MeDirect Malta, the latter a subsidiary of MDB Group Limited, and the Group is supervised by the ECB on a fully consolidated basis. MeDirect Belgium carries out the Group's activities in Belgium.

Frequency, media and location

Disclosures are updated on an annual basis as part of the annual closing process. Moreover, as required by the CRR and also through newly published EBA guidelines, the Bank is required to assess whether more frequent than annual disclosure is necessary. In this respect, the Bank is not required to publish disclosures more frequently than annual. However, MDB Group Limited issues separate Semi-annual Pillar 3 disclosure reports.

As required by the CRR, the Bank will continue to make available its Pillar 3 disclosure reports on its website (https://www.medirect.be/about-medirect/facts-and-figures).

New regulation to be implemented

In December 2020, EBA published the final Implementing Technical Standards (ITS) on institutions' public disclosures as per its mandate under Article 434 of the CRR2 to introduce uniform formats and associated instructions for disclosure requirements in order to optimise the Pillar 3 policy framework.

The new ITS aims to reinforce market discipline, by increasing consistency and comparability of institutions' public disclosures, and to implement the CRR2 regulatory changes in alignment with the revised Basel Pillar 3 standards. These requirements will introduce a comprehensive set of disclosure templates, tables and related instructions in order to ensure alignment and consistency with the Basel Committee's updated Pillar 3 framework.

In December 2020, the EBA has updated the mapping of quantitative disclosure data and supervisory reporting, which aims at facilitating institutions' compliance and improving the consistency and quality of the information disclosed. The EBA also published a file summarising the frequency at which each type of institution should disclose each template and table, in accordance with the CRR2.

New disclosure requirements will be effective as per end of June 2021. Based on the amended Pillar 3 publications as per December 2020, MeDirect is currently in the process of building and mapping the new/amended templates, in order to be able to include them in the 2021 Pillar 3 report.

COVID-19

In June 2020, EBA published the "Guidelines on reporting and disclosure of exposures subject to measures applied in response to the Covid-19 crisis". These additional reporting and disclosure requirements were introduced, on a temporary basis (until 31 December 2021), to introduce standardised reporting on exposures with a specific Covid-19 classification. In scope of these templates are the loans and advances that are subject to legislative and non-legislative moratoria (also referred to as subject to 'EBA compliant moratoria') and the (newly originated) loans and advances that are subject to public guarantee schemes introduced in response to the Covid-19 crisis. These three templates were not included in thus Pillar 3 report as they were not applicable for the Bank.

Governance process – verification and sign-off

Consistent with the banking regulations, these Disclosures are not subject to external audit except where they are included within the Financial Statements. However, these Disclosures have been appropriately verified and approved internally by the Bank's management and by the Bank's Internal audit function as required by the Group's Pillar 3 Disclosures Policy, including the review and approval of these disclosures by the Board of Directors of the Bank.

1.2 Attestation by the Directors

We confirm that this Pillar 3 Disclosures Annual Report, to the best of our knowledge, complies with Part Eight of the CRR, including, where relevant, any associated NBB circulars, EBA guidelines and technical standards, and has been prepared in compliance with the Group's internal governance process.

On behalf of the Board of Directors

Tim Rooney
Director and Chief Executive Officer

Marcel Berkhout
Director and Chief Financial Officer

2 Own funds

2.1 Total available capital

2.1.1 Common Equity Tier 1 capital – composition

Common Equity Tier 1 capital includes:

- Ordinary share capital;
- Retained earnings;
- Reserves; and
- Other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes.

2.1.2 Common Equity Tier 1 capital – terms and conditions

i. Ordinary share capital includes equity instruments which fall under the definition of Article 28(1) of the CRR, *Common Equity Tier 1 instruments*. The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of MeDirect Bank. The Bank did not issue multiple classes of shares, but only issued ordinary shares of equal value with equal voting rights and equal profit rights.

ii. Retained earnings are part of the distributable items as per the CRR Article (4)(1)(128) definition, which are amounts of the profits at the end of the last financial year plus any profits brought forward and reserves available for that purpose before distributions to holders of own funds instruments less any losses brought forward, profits which are non-distributable pursuant to provisions in legislation or the institution's bye-laws and sums placed to non-distributable reserves in accordance with applicable national law or the statutes of the Bank. The balance in this reserve is net of tax.

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

iii. Legal reserve – in accordance with article 616 of the Belgium Company Code a company must assign at least 5% of its net retained profits to the legal reserve until such legal reserve amounts to 10% of the share capital.

2.1.3 Tier 2 capital

Tier 2 capital consists of the contribution to the internal security fund. This fund is specific to credit risk and it mainly represents an amount on the international corporate lending, and to a lesser extent on the Dutch Mortgage portfolio and the Treasury portfolio, that the directors on a voluntary basis provide for.

2.2 Own funds – other disclosures

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

Below is a table showing the composition of the own funds of the Bank in accordance with the CRR and the related captions within the Statement of Financial Position.

At 31 December 2020	**€000**
Common Equity Tier 1 (CET1) capital	
Common Equity Tier 1 (CET1) capital: instruments and reserves	
Capital instruments	225,000
Retained earnings	(25,064)
Previous year retained earnings	*3,070*
Profit for the financial year	*(28,134)*
Transfer to the Legal Reserve	-
Reserves	209
Common Equity Tier 1 (CET1) capital before regulatory adjustments	200,145
Common Equity Tier 1 (CET1) capital: regulatory adjustments	
Additional value adjustments	(1)
Intangible assets (net of related tax liability)	(2,048)
Total regulatory adjustments to Common Equity Tier 1 (CET1)	(2,049)
Common Equity Tier 1 (CET1) capital	**198,096**
Tier 1 capital	**198,096**
Tier 2 (T2) capital: instruments and provisions	
Capital instruments and the related share premium accounts (Internal security fund)	1,921
Tier 2 capital	**1,921**
Total capital	**200,017**
Total risk weighted assets	**549,631**

Capital ratios and buffers	**%**
Common Equity Tier 1 ratio	36.04
Tier 1 ratio	36.04
Total capital ratio	36.39
Institution specific buffer requirement	7.51
of which: Capital conservation buffer requirement	2.50
of which: Countercyclical buffer requirement	0.01
Common Equity Tier 1 available to meet buffers in excess of the CRR 4.5% minimum requirement	31.54

In line with Article 2 in the Commission Implementing Regulation (EU) No 1423/2013 and Part Eight Article 437 (1) of the CRR, the following is a full reconciliation of the Bank's Own Funds items to the audited Scheme B as at 31 December 2020.

Capital Base	**€000**
Shareholders' equity according to the Bank's balance sheet	200,160
Intangible assets	(2,048)
Additional value adjustments	(16)
Common Equity Tier 1 capital / Total Tier 1 capital	**198,096**
Internal security fund	1,921
Total Tier 2 capital	**1,921**
Total capital base	**200,017**

In line with Part Eight Article 437 of the CRR the following table discloses the main features and the terms and conditions of Tier 1 instruments.

Capital instruments' main features

	Instruments	**MeDirect Bank S.A./N.V. Ordinary shares**
1	Issuer	MeDirect Bank S.A./N.V.
2	Unique identifier	N/A
3	Governing law(s) of the instrument	Belgian Law
4	Transitional CRR rules	Common Equity Tier 1
5	Post-transitional CRR rules	Common Equity Tier 1
6	Eligible at solo/(sub-) consolidated/solo & (sub-) consolidated	Solo
7	Instrument type	Tier 1 as published in Regulation (EU) No 575/2013 articles 26 and 28
8	Amount recognised in regulatory capital	EUR225 million
9	Nominal amount of instrument	EUR225 million
9a	Issue price	EUR1 per share
9b	Redemption price	N/A
10	Accounting classification	Share capital (*Geplaatst kapitaal/Capital souscrit*)
11	Original date of issuance	13 June 2014
12	Perpetual or dated	Perpetual
13	Original maturity date	N/A
14	Issuer call subject to prior supervisory approval	No
15	Optional call date, contingent call dates, and redemption amount	No
16	Subsequent call dates, if applicable	No
17	Fixed or floating dividend/coupon	Floating
18	Coupon rate and any related index	N/A
19	Existence of a dividend stopper	No
20a	Fully discretionary, partially discretionary or mandatory - in terms of timing	Fully discretionary
20b	Fully discretionary, partially discretionary or mandatory - in terms of amount	Fully discretionary
21	Existence of step up or other incentive to redeem	N/A
22	Noncumulative or cumulative	Non-cumulative
23	Convertible or non-convertible	Non-convertible
30	Write-down features	No
35	Position in subordination hierarchy in liquidation	N/A
36	Non-compliant transitioned features	No

3 Capital requirements

Capital requirements represent the amount of capital resources that a bank must hold as required by the regulator. In line with the CRR, the Bank is placing much of its emphasis and monitoring on Common Equity Tier 1 capital.

The scope of permissible CRR approaches and those adopted by the Bank are described below:

- Credit risk – The Bank calculates its risk weighted credit risk exposure in accordance with the Standardised Approach (“SA”), described in Chapter 2 of Title II of Part Three of the CRR. To calculate the risk-weighted exposure amounts, risk weights are applied based on the exposure class and the related credit quality. Credit quality may be determined by reference to the credit assessments of External Credit Assessment Institutions (“ECAIs”) that have been determined as eligible by the EBA. In the Bank’s calculations, Senior Secured Loans and other corporate credit exposures and for the remainder of its securities investment portfolio the Bank has nominated well-known risk rating agencies such as Fitch, Standard & Poor’s and Moody’s. Accordingly, the Bank complies with the standard association of the external ratings of ECAIs with the credit quality steps prescribed in the CRR.

  The Bank invests in mortgage lending in the Netherlands under the NHG mortgage criteria under the standardised approach to credit risk. When applying a risk weighting to mortgage loans, the Bank should take into account the terms and conditions that govern the National Mortgage Guarantee (NHG) scheme and, hence, the credit protection it provides.

  The Dutch mortgages were risk weighted in accordance with the Standardised Approach (“SA”), described in Chapter 2 of Title II of Part Three of the CRR, using the risk weightings applicable to exposures secured by mortgages on immovable property, exposures fully and completely secured by mortgages on residential property and retail exposures in line with Articles 123 to 125 of the Capital Requirements Regulation (CRR). Thus, the risk weighting applied to such exposures would depend on the valuation of the collateral that would determine the portion of the exposure that would be treated as secured by property and the portion that would be treated as a retail exposure.

  Changes to the NHG guarantee for mortgage loans have been announced in March 2020 that led to its recognition as a guarantee in line with the conditions specified in Articles 213 to 215 under Capital Requirements Regulation for banks. Thus, as from 31 March 2020, in the case of residential mortgage loans that are guaranteed by a Dutch National Mortgage Guarantee (NHG), the risk-weights for such exposures are amended in accordance with the credit risk mitigation framework of Part Three, Title II, Chapter 4 of the CRR. Thus, as from this date, with respect to NHG-mortgages, the actual coverage of the guarantee will be taken into account. Thus, the amortisation of the NHG coverage value, as well as the 10% own risk factor, are taken into account in the establishment of the protected amount (the factor GA as laid out in Article 235 of the CRR).

- Operational risk – The Bank calculates its capital requirement using the Basic Indicator Approach, in terms of Article 315 of the CRR. The own funds requirement amounts to 15% of the average three years of the relevant indicator, as defined in Article 316 of the CRR. Elements within the relevant indicator include interest receivable and similar income, interest payable and similar charges and other variable/fixed-yield securities, commissions and fees receivable/payable, net profit or net loss on financial operations and other operating income, adjusted for, amongst others stipulated in the CRR, profits on sale of non-trading book items and extraordinary or irregular items.

- Counterparty credit risk – The Bank adopted the Mark-to-Market Method in order to determine the potential future credit exposure, in line with Article 274 of the CRR, primarily on its derivative exposures.

- Foreign exchange risk – The Bank has adopted the Basic Method to determine its foreign exchange risk requirement in accordance with Article 351 of the CRR. In terms of this Article, the Bank does not calculate the capital requirement for foreign exchange risk as its net foreign exchange position is less than 2% of its own funds.

- Credit Valuation Adjustment risk – The Bank uses the Standardised Approach, as per Article 384 of the CRR.

The following table provides an overview of the total Risk Weighted Assets (“RWAs”) and the capital requirement for credit risk split by the different exposure classes as well as capital for securitisation positions, operational risk and credit valuation adjustment risk. No capital is allocated to foreign exchange risk, as mentioned before, and to market risk as the Bank does not operate a trading book. The risk weighted assets values are calculated on the basis of the exposure value of such items that is equal to the total on balance sheet and off-balance sheet net of value adjustments and provisions and post Credit Conversion Factor (“CCF”).

	EU OV1 – Overview of RWAs	**31 December 2020**	**30 September 2019**	**31 December 2020**
	Exposure Class	**Risk weighted assets €000**	**Risk weighted assets €000**	**Minimum capital requirements €000**
1	**Credit risk (excluding CCR)**	**262,218**	**282,125**	**20,977**
2	of which the standardised approach	**262,218**	**282,125**	**20,977**
	Institutions	66,053	79,669	5,284
	Corporates	84,545	93,432	6,764
	Covered bonds	36,893	35,518	2,951
	Retail	32,619	22,701	2,609
	Secured by mortgages on immovable property	9,807	7,404	785
	Exposures in default	26,977	39,078	2,158
	Other items	5,324	4,323	427
6	**CCR**	**14,662**	**16,777**	**1,173**
7	of which mark to market	13,965	15,568	1,117
12	of which CVA	697	1,209	56
14	**Securitisation exposures in the banking book (after the cap)**	**238,214**	**226,855**	**19,056**
18	of which standardised approach[1]	238,214	226,855	19,056
23	**Operational risk**	**34,537**	**37,399**	**2,764**
24	of which the basic indicator approach	34,537	37,399	2,764
29	**Total**	**549,631**	**563,156**	**43,970**

The Bank’s total capital ratio computation is as follows:

	€000
Own funds	
Common Equity Tier 1 capital	198,096
Tier 2 capital	1,921
Total own funds	**200,017**
Total capital ratio as at 31 December 2020	**36.39%**

Despite the total assets of the Bank increased from €1.9 billion as at 31 December 2019 to €2.1 billion as at 31 December 2020, the total risk weighted assets decreased from €1.2 billion to €549 million.

[1] On 1 January 2019, a new securitisation framework came into force in the EU for new transactions. Existing positions as at 1 January 2019 are subject to ‘grandfathering’ provisions and were transferred to the new framework on 1 January 2020.

This decrease is attributable to mainly two factors; lower risk weightings on the Dutch mortgages portfolio due to the changes in the NHG guarantee that led to its re-recognition as a guarantee in line with the conditions specified in Articles 213 to 215 under CRR; and lower risk weighting applicable to all securitisations positions, since from 1 January 2020 all securitisation positions fell under the new securitisation framework. The latter was combined with lower Senior Note exposure to Grand Harbour I B.V. due to the run off of the said note.

The Bank is required to maintain a capital conservation buffer of 2.5%, made up of CET1 capital, on its risk weighted exposures.

CRD IV also contemplates a countercyclical buffer in line with Basel III, in the form of an institution-specific countercyclical buffer and the application of increased requirements to address macro-prudential or systemic risk. This is expected to be set in the range of 0 - 2.5% of relevant credit exposure RWAs, whereby the rate shall consist of the weighted average of the 'countercyclical buffer' rates that apply in the jurisdiction where the relevant exposures are located. The following table represents the Bank's geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer at 31 December 2020.

Table 1: Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer

	General credit exposures	Securitisation exposures	Own funds requirement			Own funds requirement weights	Counter-cyclical capital buffer rate
Country	*Exposure value for SA* €000	*Exposure value for SA* €000	*of which: General credit exposures* €000	*of which: securitisation exposures* €000	*Total* €000		
Austria	47,039	1,294	376	24	400	1.19%	0.00%
Australia	-	11,511	-	388	388	1.16%	0.00%
Belgium	8,072	8,489	646	259	905	2.70%	0.00%
Canada	-	1,079	-	20	20	0.06%	0.00%
Czech Republic	-	337	-	6	6	0.02%	0.50%
Denmark	9,379	2,341	75	44	119	0.36%	0.00%
Finland	15,747	1,002	126	19	145	0.43%	0.00%
France	95,061	83,640	2,361	2,423	4,784	14.25%	0.00%
Germany	91,983	41,824	855	1,191	2,046	6.09%	0.00%
Ireland	-	1,824	-	33	33	0.10%	0.00%
Israel	-	7,377	-	256	256	0.76%	0.00%
Italy	21,220	43,307	1,106	1,392	2,497	7.44%	0.00%
Japan	-	226	-	4	4	0.01%	0.00%
Luxembourg	12,585	19,855	101	618	718	2.13%	0.25%
Malta	-	1,196	-	22	22	0.07%	0.00%
Netherlands	600,061	91,414	4,777	4,422	9,200	27.40%	0.00%
Norway	26,412	1,249	211	24	235	0.70%	1.00%
Poland	8,252	-	66	-	66	0.20%	0.00%
Portugal	-	505	-	9	9	0.03%	0.00%
Spain	6,522	17,659	415	515	931	2.77%	0.00%
Sweden	41,068	10,022	329	309	638	1.90%	0.00%
Switzerland	-	1,080	-	20	20	0.06%	0.00%
United Kingdom	52,889	107,119	3,248	3,433	6,681	19.90%	0.00%
United States	8,484	76,305	1,018	2,431	3,449	10.27%	0.00%
Total	**1,044,774**	**530,655**	**15,710**	**17,862**	**33,572**		

In view of the above exposure values, the following table identifies the Bank's countercyclical capital buffer requirement as at 31 December 2020.

Table 2: Amount of institution-specific countercyclical capital buffer

Total risk exposure amount (€000)	549,631
Institution specific countercyclical buffer rate	0.01%
Institution specific countercyclical buffer requirement (€000)	53

Moreover, in light of the fact that the Group is supervised by the ECB as part of the Single Supervisory Mechanism, MeDirect Belgium is subject to the Supervisory Review and Evaluation Process ("SREP"), which determines the capital requirement by the ECB.

During 2020, the Bank received notification from the ECB on the own funds requirements that it is required to meet as of 1 January 2021, following the results of the SREP of 2020. MeDirect Belgium has been subject to a total SREP capital requirement ("TSCR") of 11%. The TSCR is composed of a 8% minimum own funds requirement in line with Article 92(1) of the CRR, and a 3% Pillar II requirement ("P2R"), which is to be made up of CET1 capital. Thus, the total CET1 capital minimum requirement applicable as from 1 January 2021 amounts to 7.5%, composed of a minimum Pillar I requirement of 4.5% and the P2R of 3%.

In addition, the Bank is required to comply with the capital buffer requirements, consisting of a capital conservation buffer of 2.5%. Thus, this results in a total CET1 capital requirement, excluding the countercyclical buffer, of 10% for 2020.

In view of the current COVID-19 pandemic, on the 12 March, the ECB announced that as part of the extraordinary measures banks are allowed to partially use capital instruments that do not qualify as CET1, to meet the P2R. This brings forward a measure which was initially scheduled to come into effect in January 2021 as part of the revision of the Capital Requirements Directive, implying that institutions shall meet the additional own funds requirements imposed by the ECB with own funds that satisfy the following conditions: i) at least 75% shall be met with Tier 1 capital; and ii) at least 56.25% with CET1 capital. The Group is also subject to the Overall Capital Requirement (OCR), in addition to TSCR, which includes the Combined Buffer Requirement.

With a CET1 capital ratio of 36.04% at 31 December 2020, MeDirect Belgium comfortably meets its requirements for 2020 and is expected to continue meeting the relative requirements in the coming years.

Also, the ECB communicated to the Bank an individual expectation to hold a further Pillar 2 CET 1 capital add-on, commonly referred to as the Pillar 2 guidance. The capital add-on pursuant to the Pillar 2 guidance is separate from and in addition to the Pillar 2 requirement. As from 1 January 2020 the Pillar 2 guidance is in addition to the total overall capital requirement. The ECB has stated that it expects banks to meet the Pillar 2 guidance although it is not legally binding, and failure to meet the Pillar 2 guidance does not lead to automatic restrictions of capital distributions.

As at 31 December 2020 the countercyclical buffer rate was equivalent to 0.10%. In light of the COVID-19 developments during 2020, most of the countries, including United Kingdom, France, Norway and Sweden have announced the full release of the countercyclical capital buffers in a bid to encourage lending throughout the coronavirus crisis. As at 31 December 2020, Norway had set a countercyclical buffer rate of 1%, Luxembourg had set a rate of 0.25%, while both Bulgaria and Czech Republic had a rate of 0.50%. The rest of the countries had set the rates at 0%.

MeDirect Belgium also conducts an ICAAP to determine a forward-looking assessment of the capital requirements given its business strategy, risk profile, risk appetite and capital plan. This process incorporates the risk management processes and governance framework. A range of stress tests are applied to the base capital plan.

The ICAAP ensures that:

- risks faced by the Bank are appropriately identified, measured, aggregated and monitored;
- the capital coverage determined by internal calculations is sufficient for the fundamental risks the Bank is exposed to; and
- the Bank has an adequate risk management framework in place, which it continuously develops in accordance with the risk factors identified.

The Bank covers Pillar II capital requirements through stress testing processes to forecast the Bank's projected capital requirements. Stress testing is a technique used by financial firms to gauge their potential vulnerability to severe but plausible events. This testing process contributes to the strategic planning of the Bank by guaranteeing that it can meet its minimum regulatory capital requirements under a stressed environment.

Under the supervision of a dedicated working team consisting of the Bank's senior management, the preparation of the ICAAP is carried out by the relevant teams that include: Risk, Finance and Credit and Investments. After the completion of an iterative process of review and feedback, the senior management team present their observations to the Board of Directors for their consideration. The non-executive Directors play a crucial role in providing the Bank with an independent evaluation of the document, assisted by the Bank' Internal Audit function.

4 Credit risk and credit risk mitigation ("CRM")

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

Table EU CRB-B shows the net exposure values of on-balance sheet and off-balance sheet items as at 31 December 2020 by exposure classes and the average net exposure value of this financial year, based on the last 4 end of quarter observations.

4.1 Credit risk exposure – analysis by exposure class

EU CRB-B Total and average net amount of exposures

	Net value of exposures[2] at end of year €000	**Average net exposures over the year €000**
15 **Total IRB approach**	**-**	**-**
16 Central governments or central banks	330,705	273,511
17 Regional governments or local authorities	45,594	50,649
18 Public sector entities	25,709	25,738
19 Multilateral development banks ("MDB")	30,661	30,719
21 Institutions	321,869	266,394
22 Corporates	87,375	94,299
24 Retail	102,554	81,741
26 Secured by mortgages on immovable property	703,378	541,251
28 Exposures in default	27,033	27,705
30 Covered bonds	365,400	360,292
34 Other items	5,325	4,607
35 **Total Standardised Approach**	**2,045,603**	**1,756,906**
36 **Total**	**2,045,603**	**1,756,906**

Note: Securitisation positions are not included in this table.

[2] **Net value of exposures**: For on-balance-sheet items, the net value is the gross carrying value of the exposure less allowances/impairments. For off-balance-sheet items, the net value is the gross carrying value of exposure less provisions.

4.2 *Credit risk exposure – analysis by geographical distribution*

The following table shows the distribution of the exposures (net values of on-balance sheet and off-balance sheet items) as at 31 December 2020 by geographical distribution broken down by exposure classes.

EU CRB-C: Geographical breakdown of exposures

		Net value of exposures												
		Malta €000	Belgium €000	United Kingdom €000	Germany €000	Italy €000	France €000	Netherlands €000	Austria €000	Luxembourg €000	United States €000	Sweden €000	Other countries €000	Total €000
6	**Total IRB approach**	-	-	-	-	-	-	-	-	-	-	-	-	-
7	Central Government or Central Banks	-	311,919	-	-	18,786	-	-	-	-	-	-	-	**330,705**
8	Regional governments or local authorities	-	-	-	45,594	-	-	-	-	-	-	-	-	**45,594**
9	Public sector entities	-	-	-	6,772	-	11,214	-	3,702	-	-	-	4,021	**25,709**
10	Multilateral development banks	-	-	-	-	-	-	-	-	-	-	-	30,661	**30,661**
12	Institutions	194,804	17,437	5	9,372	-	-	71,969	28,248	34	-	-	-	**321,869**
13	Corporates	-	312	31,553	-	-	23,136	17,051	-	-	12,332	-	2,991	**87,375**
14	Retail	-	-	-	-	-	-	102,554	-	-	-	-	-	**102,554**
15	Secured by mortgages on immovable property	-	-	-	-	-	-	703,378	-	-	-	-	-	**703,378**
16	Exposures in default	-	-	12,750	1,204	13,000	-	79	-	-	-	-	-	**27,033**
18	Covered bonds	-	-	13,660	90,322	8,220	73,966	15,219	47,039	12,585	-	41,068	63,321	**365,400**
22	Other items	-	5,325	-	-	-	-	-	-	-	-	-	-	**5,325**
23	**Total standardised approach**	**194,804**	**334,993**	**57,968**	**153,264**	**40,006**	**108,316**	**910,250**	**78,989**	**12,619**	**12,332**	**41,068**	**100,994**	**2,045,603**
24	**Total**	**194,804**	**334,993**	**57,968**	**153,264**	**40,006**	**108,316**	**910,250**	**78,989**	**12,619**	**12,332**	**41,068**	**100,994**	**2,045,603**

Note: Securitisation positions are not included in this table.

The launch of the new Dutch mortgages business led to a significant increase in the net value of exposures located in the Netherlands as the Dutch mortgage exposures are reflected in the “Retail” and “Secured by mortgages on immovable property” categories.

As shown in table EU CRB-C, the Bank’s defaulted exposures amount to €27.0 million, are mainly located in the United Kingdom and Italy. As at 31 December 2020, the corresponding specific credit risk adjustments amounted to €7.2 million, as represented in table EU CR2-A in Section 4.5.

4.3 Credit risk exposure – analysis by industry distribution

The following table shows the distribution of the exposures (net values of on-balance sheet and off-balance sheet items) as at 31 December 2020 by industry broken down by exposure classes.

EU CRB-D – Concentration of exposures by industry or counterparty types

		Net value of exposures					
		Financial and insurance activities (K) €000	**Professional, scientific and technical activities (M) €000**	**Administrative and support service activities (N) €000**	**Accommodation and food service activities (I) €000**	**Others €000**	**Total €000**
6	**Total IRB approach**	**-**	**-**	**-**	**-**	**-**	**-**
7	Central Government or Central Banks	311,919	-	-	-	18,786	**330,705**
8	Regional governments or local authorities	-	-	-	-	45,594	**45,594**
9	Public sector entities	10,793	-	-	-	14,916	**25,709**
10	Multilateral development banks	30,661	-	-	-	-	**30,661**
12	Institutions	321,869	-	-	-	-	**321,869**
13	Corporates	58,447	20,132	7,095	1,701	-	**87,375**
14	Retail	-	-	-	-	102,554	**102,554**
15	Secured by mortgages on immovable property	-	-	-	-	703,378	**703,378**
16	Exposures in default	4,972	-	13,000	8,982	79	**27,033**
18	Covered bonds	365,400	-	-	-	-	**365,400**
22	Other items	5,325	-	-	-	-	**5,325**
23	**Total standardised approach**	**1,109,386**	**20,132**	**20,095**	**10,683**	**885,307**	**2,045,603**
24	**Total**	**1,109,386**	**20,132**	**20,095**	**10,683**	**885,307**	**2,045,603**

Note: Securitisation positions are not included in this table.

As shown in table EU CRB-D above, the Bank's defaulted exposures amount to €27.0 million, mainly relating to the financial and insurance activities sector, administrative and support service activities and accommodation and food service activities. The corresponding specific credit risk adjustments as at 31 December 2020 amounted to €7.2 million. The specific credit risk adjustments are represented in table EU CR2-A in Section 4.5.

MeDirect has achieved further balance sheet diversification by further expanding the Dutch mortgage portfolio under the NHG mortgage criteria, where we managed to surpass our target of a €1.1 billion portfolio by the end of 2020. Thus, at present the Bank is subject to concentration in such type of exposures but following the dynamic ramp-up of its Dutch mortgage business line, MeDirect Belgium is also exploring new opportunities in the attractive Belgian residential mortgage market.

4.4 Credit risk exposure – analysis by residual maturity

The following table shows the distribution of the exposures (net values of on-balance sheet items) as at 31 December 2020 by residual maturity broken down by exposure classes.

EU CRB-E: Maturity of Exposures

		Net value of exposures					
		On demand €000	**Less than one year €000**	**Over one but less than five years €000**	**Over 5 years €000**	**No stated maturity €000**	**Total €000**
6	**Total IRB approach**	**-**	**-**	**-**	**-**	**-**	**-**
7	Central Government or Central Banks	311,919	-	-	18,786	-	**330,705**
8	Regional governments or local authorities	-	10,007	25,297	10,290	-	**45,594**
9	Public sector entities	-	-	4,021	21,688	-	**25,709**
10	Multilateral development banks	-	-	-	30,661	-	**30,661**
12	Institutions	76,284	1,603	190,000	53,982	-	**321,869**
13	Corporates	4,571	2,853	79,951	-	-	**87,375**
14	Retail	-	48,620	9,460	44,474	-	**102,554**
15	Secured by mortgages on immovable property	-	278,079	54,618	370,681	-	**703,378**
16	Exposures in default	-	13,001	13,956	76	-	**27,033**
18	Covered bonds	-	10,003	20,625	334,772	-	**365,400**
22	Other exposures	5,325	-	-	-	-	**5,325**
23	**Total standardised approach**	**398,099**	**364,166**	**397,928**	**885,410**	**-**	**2,045,603**
24	**Total**	**398,099**	**364,166**	**397,928**	**885,410**	**-**	**2,045,603**

Note: Securitisation positions are not included in this table.

4.5 Impairment loss measurement guidelines

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

An exposure is “past due” when any amount of principal, interest or fee has not been paid at the date it was due. Past due but not impaired loans are those loans and advances for which contractual interest or principal payments are past due but the Bank believes that individual impairment is not appropriate on the basis of the stage of collection of amounts owed to the Bank.

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

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

COVID-19 global pandemic outbreak

The Bank's provisioning approach is forward looking with a view of capturing current and future difficulties of borrowers. The outbreak of the COVID-19 pandemic during the financial year ended 31 December 2020 has induced a significant level of economic uncertainty automatically increasing the level of credit risk across global markets. This has had an unprecedented impact on the Bank's International Lending portfolio which comprises exposures particularly susceptible to overall deterioration in global economic conditions, primarily due to the nature and size of the borrowers categorised within this portfolio. In particular, the leveraged funding structure as well as the scale of operations, typically across different countries, characterising such loans increase the level of exposure of such borrowers' financial performance to systemic risk. As a result, the observed impact of the pandemic on the business models, income levels and cash flow generation abilities of customers classified within the International Lending portfolio has been more pronounced compared to the Bank's other portfolios.

The Bank carried out an intensive and comprehensive review of the resilience of its international corporate lending portfolio under various economic scenarios, taking into consideration both direct and indirect risks.

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

In view of the above, the Bank adapted its credit risk management processes for the purposes of identifying deterioration in credit risk within the International Lending portfolio as early as possible and for measuring credit loss allowances using all information available to the Bank, which involved significant judgement. Specifically, in response to the outbreak of the pandemic, the Bank performed an ad hoc comprehensive credit risk assessment in respect of all the exposures classified within the International Lending portfolio. As a result, the Bank segmented the portfolio into four distinct "COVID-19 classifications" reflecting the perceived severity of the impact of the pandemic on each borrower's financial performance and going concern, driven primarily through a review of borrower-specific financial information available to the Bank, including an assessment of the industry and country in which each borrower operates, thereby facilitating a more holistic assessment of the expected impact of the pandemic on borrower performance going forward. This assessment was utilised in order to identify those borrowers which are deemed to be more susceptible to the impact of the pandemic and apply adjustments to their modelled PDs / Implied Ratings to reflect possible credit deterioration which might not have been captured through the model, which principally relies on lagging information.

With the exception of the monitoring of macroeconomic forecasts, which influences the PD and LGD parameters used to calculate ECL, no material changes were made to credit risk management activities in respect of exposures within the Dutch Mortgage portfolio, primarily due to the fact that 90% of expected losses attributable to such exposures are absorbed by the NHG, as well as exposures within the Treasury Investment and Securitisation Investment portfolios, since exposures within the latter portfolios typically comprise publicly rated investment-grade securities.

In addition to the above, the Bank increased its monitoring and rigour in respect of its evaluation of the reasonableness and plausibility of the macroeconomic scenarios used within the Bank's ECL calculation, which are developed by an external vendor. This has been driven by the fact that the outbreak of the pandemic has translated into a significant level of estimation uncertainty in respect of the determination of multiple forward-looking macroeconomic scenarios utilised in the measurement of credit loss allowances in respect of the Bank's lending portfolios, particularly since expectations in respect of the economic outlook across all countries remain highly volatile in view of the possibility of further waves of infections (or the proliferation of new variants), the efficiency of vaccine roll-outs at national levels, as well as the effectiveness and efficacy of government support schemes and regulatory relief measures in dampening the severity of the economic impact of the pandemic and in speeding the economic recovery.

The Bank will continue to monitor the evolution of COVID-19 and its impact on the macroeconomic environment and the Bank's borrowers.

The following table provides an analysis of the change in stock of specific credit risk adjustment and general credit risk adjustment (through the internal security fund) for the financial period ended 31 December 2020.

EU CR2–A – Changes in the stock of specific and general credit risk adjustments

		Accumulated specific credit risk adjustment €000	Accumulated general credit risk adjustment €000
1	Opening balance at 1 January 2020	1,058	952
2	Increases due to amounts set aside for estimated loan losses during the period	6,154	1,658
3	Decreases due to amounts reversed for estimated loan losses during the period	-	(685)
6	Impact of exchange rate differences	-	(4)
9	**Closing balance at 31 December 2020**	**7,212**	**1,921**

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

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

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

4.6 Credit risk mitigation

(Qualitative disclosure requirements related to CRM techniques according to EU CRC)

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

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

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

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

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

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

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

The Bank did not enter into any credit derivative hedges and did not receive any guarantees to cover part of its exposures.

4.6.1 Capital allocation and capital buffers for credit risk

The Bank adopts the Standardised Approach to calculate its capital requirement for credit risk.

Besides allocating capital against its Pillar I risks that are based on the Bank's accounting records, the Bank also carries an assessment of the extra capital proportionate to Pillar II risks as part of its annual ICAAP. The ICAAP chapter on credit risk describes the Bank's approach for allocating capital for this risk.

Since the Bank is not rated, it is not required to allocate internal capital or allocate collateral in the eventuality of downgrade in its credit rating.

4.7 Settlement risk

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

Mitigation of settlement risk

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

5 Interest rate risk in non-trading book

The following table, which has been extracted from the Bank's IFRS financial statements, discloses the mismatch of the dates on which interest on financial assets and financial liabilities are next reset to market rates on a contractual basis or the dates on which the instruments mature, with the exception of debt securities in issue which reflect expected maturities. Actual reset dates may differ from contractual dates owing to prepayments and the exercise of options. In addition, contractual terms may not be representative of the behaviour in respect of financial assets and liabilities.

		Repricing in:				
	Carrying amount €000	Not more than 3 months €000	Between 3 months to 1 year €000	Between 1 and 3 years €000	Between 3 and 5 years €000	More than 5 years €000
As at 31 December 2020						
Balances with central banks	311,672	311,672	-	-	-	-
Loans and advances to financial institutions	111,121	111,121	-	-	-	-
Loans and advances to customers	1,170,468	49,714	44,185	107	426	1,076,036
- International Lending portfolio	92,060	48,630	43,430	-	-	-
- Dutch Mortgage portfolio	1,067,866	1,084	755	107	426	1,065,494
- IFRS basis adjustment: Dutch Mortgage portfolio	10,542	-	-	-	-	10,542
Investments	639,022	156,864	88,849	270,580	58,706	64,023
– Treasury portfolio	513,070	30,912	88,849	270,580	58,706	64,023
– Securitisation portfolio	125,952	125,952	-	-	-	-
	2,232,283	629,371	133,034	270,687	59,132	1,140,059
Amounts owed to financial institutions:	330	330	-	-	-	-
- Due to other banks	330	330	-	-	-	-
Amounts owed to customers	1,881,960	1,282,268	379,645	150,269	69,587	191
Debt securities in issue	553,849	109,740	122,195	-	321,914	-
	2,436,139	1,392,338	501,840	150,269	391,501	191
Interest rate repricing gap		(762,967)	(368,806)	120,418	(332,369)	1,139,868
Impact of hedging interest rate derivatives – notional amounts	682	863,036	-	(80,677)	(114,416)	(667,943)
Net interest rate repricing gap		100,069	(368,806)	39,741	(446,785)	471,925

6 Securitisation

The CRR defines a securitisation as a transaction or scheme where the credit risk of an exposure or pool of exposures is tranched, where the payments arising from the transaction or scheme are dependent upon the performance of the underlying exposure(s) and where the subordination of tranches determines the distribution of losses during the ongoing life of the transaction or scheme.

Investment in tranches within a publicly rated CLO SE originated and managed by a third party, with a public investment grade rating assigned by reputable agency

MeDirect Belgium also holds investments in external securitisation structures, being investments in CLO transactions managed by third-party entities. Similar to the Treasury Portfolio criteria, investment grade rating is an example of a financial instrument that may be considered as having low credit risk; therefore, the Group only needs to measure 12-month expected credit losses for publicly rated investment grade tranches of CLOs.

The Bank conducts a semi-annual portfolio review for all third-party CLO bonds. The Bank only invests in AAA CLO rated bonds and thus High-quality assets (HQA) with pricing monitored monthly together with ratings. The group uses the Moody's Structured Finance portal to extract all the relevant monitoring data, such as underlying loans as well as information on defaults, in order to work out the risk weighting and consequently closely monitor for any changes. As part of the ICAAP process, the portfolio is stress tested with risk weights increasing as stress scenario would assume increased defaults in the underlying loan book. The AAA CLO book has its own risk appetite limits and as from 2021 a matrix has been developed as part of the selection process.

Investment in a controlled special purpose entity originated by the Group

The Group includes Grand Harbour 1 B.V. ("GH 1"), a controlled special purpose entity, established in The Netherlands, as part of the Group's funding strategy.

MeDirect Malta has retained substantially all risks and rewards pertaining to the activities of GH I and hence all assets, liabilities and related income and expenditure attributable to GH I have been reflected within MeDirect Malta's financial statements.

As at 31 December 2020, MeDirect Belgium and MeDirect Malta invested in GH I on a 56% - 44% basis respectively, with the tranche bought by MeDirect Belgium (the "Senior Loan") amounting to €327.2 million having a senior ranking vis-à-vis the tranche acquired by MeDirect Malta (the "Junior Loan") amounting to €176.3 million.

Therefore, MeDirect Belgium acts as a liquidity provider to the Group's securitisation GH 1. The Group's strategy is to use securitisation to meet its needs for aggregate funding or capital management, to the extent that market, regulatory treatments and other conditions are suitable. Following an extensive restructuring in 2020, it was agreed that no new assets will be purchased by GH I and that repayments of principal on the collateral pool will be applied first to the repayment of the senior loan provided by MeDirect Belgium and second to the repayment of the junior loan provided by MeDirect Malta.

The credit risk of the GH I securitisation is controlled by actively monitoring and managing the underlying assets. The credit risk profile of the underlying exposures individually and in aggregate is monitored by MeDirect Belgium and compared to the eligibility and portfolio criteria applicable to GH I.

Investment in Dutch Mortgage special purpose securitisation vehicle originated by the Bank

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

The Bank retained materially all the risk and rewards of the underlying assets. As at 31 December 2020, the Bank had €32.2 million as Class B junior notes and Class C notes.

In September 2020, the Bank established a €350 million warehouse funding facility provided by a major Dutch bank through Cavalier 2020, a special purpose vehicle established in the Netherlands, which is controlled by MeDirect Belgium. The warehouse facility provides bridge financing enabling MeDirect Belgium to build up a Dutch Mortgage portfolio large enough to be securitised through a RMBS transaction. The Bank retained materially all the risk and rewards of the underlying assets. As at 31 December 2020, the Bank had €18.6 million as Class B junior notes and Class C notes.

Monitoring of securitisation exposures

Monitoring of investment in tranches within a publicly rated CLO SE originated and managed by a third party, with a public investment grade rating assigned by reputable agency

AAA CLO risks are monitored on an ongoing basis and in a timely manner, including performance information, exposures type, the percentage of loans at each rating level in particular proportion of CCC assets, default rates, prepayment rates, collateral quality tests (such as WARF and Diversity Score), portfolio profile tests and coverage tests.

On a monthly basis the Group monitors market prices provided by the arranger banks. Also, on a quarterly basis as part of risk weight calculation the Treasury team obtains from the Moody's structured finance portal the default percentage as well as the attachment and detachment points. Furthermore, bi-annually as part of the credit review, the AAA CLO portfolio is reviewed. In order to further strengthen risk monitoring as from May 2021 monthly risk threshold metrics will be distributed by the Treasury team to the Risk team and also distributed in the monthly risk report to senior management. Finally, the CLO manager of each securitisation position would appoint a third-party trustee that would provide a compliance report monthly. This would consist of a very comprehensive report on the underlying portfolio of the securitisation including compliance tests (e.g. par value tests, interest coverage tests and collateral quality tests), portfolio profile, list of all invested names, list of all trades and concentrations (e.g. by credit ratings. by industry and by distribution of countries).

Monitoring of Investment in a controlled special purpose entity originated by the Group and Dutch Mortgage special purpose securitisation vehicle originated by the Bank

The monitoring process in relation to the underlying assets of these securitisation vehicles, that is the internal corporate lending portfolio and Dutch mortgage portfolio is described in the MDB Group Pillar 3 report.

The Bank does not provide support, directly or indirectly, with a view to reducing potential or actual losses to the investors of the special purpose securitisation vehicles originated by the Bank, beyond its contractual obligations.

During the year under review the Bank did not dispose any of its securitisation positions

The following table shows the expected credit losses recognised and whether any of the securitisations owned by the Bank are credit impaired:

	Exposure Value €000	Expected Credit Losses €000
Bank acts as originator	410,975	-
Bank acts as originator	28,054	83
Bank acts as investor	125,987	13
Total	565,016	96

None of the above exposures are past due.

From a regulatory point of view the investment in securitisations is risk weighted by looking through to the underlying assets of the securitisation structure. As per standardised approach the Bank uses ratings from three External Credit Assessment Institutions, Moody's, Standard & Poor's and Fitch.

The Securitisation Standardised Approach (SEC-SA) is used to calculate all of the risk-weighted exposure amounts and none of the securitisation positions of the Group are deducted from Own Funds or risk weighted at 1250%.

The following tables provide an analysis of the securitisation exposures by looking through to the underlying exposures.

SEC 1: Securitisation exposures in the banking book

	As at 31 December 2020	Bank acts as investor Traditional €000
6	Wholesale (total) – of which	**565,016**
7	Loans to corporates	**565,016**

SEC 3: Securitisation exposures in the banking book and associated capital requirements
Bank acting as an originator

	As at 31 December 2020	Exposure values (by RW bands) ≤20% RW €000	>20% to 50% RW €000	>50% to 100% RW €000	>100% to <250% RW €000	Exposure values Standardised approach €000	RWA Standardised approach €000	Capital charge Standardised approach €000
1	**Total exposures**	**-**	**383,152**	**55,878**	**-**	**439,030**	**208,741**	**16,700**
2	Traditional securitisation	-	383,152	55,878	-	439,030	208,741	16,700
3	Of which securitisation	-	383,152	55,878	-	439,030	208.741	16,700
4	Of which retail underlying	-	-	55,878	-	55,878	42,809	3,425
5	Of which wholesale	-	383,152	-	-	383,151	165,932	13,275

SEC 4: Securitisation exposures in the banking book and associated capital requirements
Bank acting as an investor

	As at 31 December 2020	Exposure values (by RW bands) ≤20% RW €000	>20% to 50% RW €000	>50% to 100% RW €000	>100% to <250% RW €000	Exposure values Standardised approach €000	RWA Standardised approach €000	Capital charge Standardised approach €000
1	**Total exposures**	**-**	**125,986**	**-**	**-**	**125,986**	**29,473**	**2,358**
2	Traditional securitisation	-	125,986	-	-	125,986	29,473	2,358
3	Of which securitisation	-	125,986	-	-	125,986	29,473	2,358
5	Of which wholesale	-	125,986	-	-	125,986	29,473	2,358

SEC 5: Exposures securitised by the institution - Exposures in default and specific credit risk adjustments

		Exposures securitised by the institution - Institution acts as originator		
		Total outstanding nominal amount	Of which Defaulted	Total amount of specific credit risk adjustments made during the period
		€000	€000	€000
1	**Total exposures**	**439,030**	**-**	**0**
7	Retail (total) – of which	55,878	-	0
8	*Residential mortgages*	*55,878*	-	0
7	Wholesale (total) – of which	383,152	-	0
8	*Loans to corporates*	*383,152*	-	*0*

7 Leverage

The CRR requires financial institutions to calculate a non-risk-based leverage ratio, to supplement risk-based capital requirements. The leverage ratio measures the relationship between the capital resources of the organisation and its total assets. The leverage ratio is a regulatory supervisory tool for the Regulator, to constrain the build-up of excessive leverage – one of the drivers of the banking crisis – previously not captured within Basel II. As at 31 December 2020, the leverage ratio was a non-binding requirement (Pillar 1) measure.

The leverage ratio is calculated by taking capital as a proportion of total exposures at the end of each quarter. Capital is defined as Tier 1 capital in line with Article 25 of the CRR, whilst total exposure relates to the total on and off-balance sheet exposures, less deductions applied to Tier 1 capital.

The CRD V package will introduce a binding 3% leverage ratio. CRR 2 broadly reflects the Basel leverage ratio. It sets the Tier 1 capital-based leverage ratio requirement at 3% for all EU banks as per the EBA's recommendation. The final framework confirms that firms are allowed to use any Common Equity Tier 1 (CET1) capital that they use to meet their leverage ratio requirements to also meet their Pillar 1 and Pillar 2 capital requirements.

The following table provides a summary of the Group's leverage ratio calculation as at 31 December 2020, determined in accordance with the requirements stipulated by Implementing Regulation (EU) 2016/200.

LRCom: Leverage ratio common disclosure

		€000
	On-balance sheet exposures (excluding derivatives and SFTs)	
1	On-balance sheet items (excluding derivatives and SFTs)	2,062,682
2	Asset amounts deducted in determining Tier 1 capital	(2,049)
3	**Total on-balance sheet exposures (excluding derivatives and SFTs)**	**2,060,633**
	Derivative exposures	
4	Replacement cost associated with all derivatives transactions	169
5	Add-on amounts for Potential Future Exposure ("PFE") associated with all derivatives transactions	9,844
11	**Total derivative exposures**	**10,013**
	Other off-balance sheet exposures	
17	Off-balance sheet exposures at gross notional amount	530,549
18	Adjustments for conversion to credit equivalent amounts	(359,624)
19	**Other off-balance sheet exposures**	**170,925**
	Capital and total exposure measure	
20	**Tier 1 capital**	**198,096**
21	**Leverage ratio total exposure measure (sum of lines 3,11 and 19)**	**2,241,571**
	Leverage ratio	
22	**Leverage ratio**	**8.84%**

EU23 - Choice on transitional arrangements for the definition of the capital measure

The Bank has not applied any transitional provisions and therefore the disclosed leverage ratio represents the fully phased in ratio.

The following table provides a reconciliation of accounting assets and leverage ratio exposures.

LRSum: Summary reconciliation of accounting assets and leverage ratio exposures

	As at 31 December 2020	**€000**
1	Total assets as per published financial statements	2,099,110
4	Adjustments for derivative instruments	9,844
6	Adjustments for off balance sheet items	170,925
7	Other adjustments	
	Deduction for intangible assets	*(2,048)*
	Additional value adjustments	*(1)*
	Other adjustments	*(36,259)*
8	**Leverage ratio exposure**	**2,241,571**

The following table provides a split of the on-balance sheet exposures as at 31 December 2020 in relation to the calculation of the leverage ratio.

LRSpl: Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)

As at 31 December 2020		**€000**
EU-1	**Total on-balance sheet exposures (excluding derivatives, SFTs and exempted exposures)**	**2,062,682**
EU-2	Trading book exposures	-
EU-3	Banking book exposures, of which:	2,062,682
EU-4	*Covered bonds*	*365,400*
EU-5	*Exposures treated as sovereign*	*330,705*
EU-6	*Exposures to regional government, MDB, international organisations and PSE not treated as sovereigns*	*101,964*
EU-7	*Institutions*	*119,662*
EU-8	*Secured by mortgages of immovable properties*	*423,656*
EU-9	*Retail exposures*	*50,826*
EU-10	*Corporate*	*71,048*
EU-11	*Exposures in default*	*27,033*
EU-12	*Other exposures (incl. securitisations)*	*572,388*

LRQua: Leverage ratio disclosure of qualitative items

The leverage ratio has decreased by 2.64% during the financial period ended 31 December 2020, when compared to 31 December 2019. This decrease is partly attributed to a lower capital base, and partly due to a higher asset base as a result of continued investment in the Dutch Mortgage portfolio and higher amounts due from other financial institutions. The total increase in the asset base was partly set off by lower investments international lending. The main drivers for the overall change were therefore the diversification and re-balancing of the credit portfolio which had an indirect impact on the leverage ratio, and a reduced capital base due to higher COVID-related impairment charges recognised at the end of the financial year.

The Bank's leverage is managed as part of its risk appetite framework and monitored using a leverage ratio metric within the risk appetite statement. The risk appetite statement stipulates the level and types of risk that the Bank is willing to accept in its business activities, whereby the risk appetite metrics are set at twice the regulatory minimums to avoid excessive leverage. The leverage ratio is reported to the Bank's Board on a regular basis.

8 Asset encumbrance

The disclosure on asset encumbrance is a requirement introduced in the provisions of the EBA Guidelines on Disclosure of Encumbered and Unencumbered Assets (EBA/GL/2014/03).

The objective of this disclosure is to facilitate an understanding of available and unrestricted assets that could be used to support potential future funding and collateral needs. An asset is defined as encumbered if it has been pledged as collateral against an existing liability, and as a result is no longer available to the Bank to secure funding, satisfy collateral needs or be sold to reduce the funding requirement.

The disclosure is not designed to identify assets which would be available to meet the claims of creditors or to predict assets that would be available to creditors in the event of a resolution or bankruptcy.

Template A: Encumbered and unencumbered assets

		Carrying amount of encumbered assets	of which notionally eligible EQLA & HQLA	Fair value of encumbered assets	of which notionally eligible EQLA & HQLA
		2020	2020	2020	2020
		€000	€000	€000	€000
010	Assets of the reporting institution[3]	**352,167**	**292,527**		
030	Equity instruments	-	-	-	-
040	Debt securities	298,541	292,527	296,305	290,337
050	*of which: covered bonds*	*246,501*	*246,501*	*244,988*	*244,988*
060	*of which: asset backed securities*	-			
070	*of which: issued by general governments*	*24,512*	*24,512*	*24,010*	*24,010*
080	*of which: issued by financial corporations*	*274,029*	*261,182*	*272,295*	*259,549*
120	Other assets	53,627	-		
121	*of which: Loans on demand*	*39,670*	-		
122	*of which: Loans and advances other than loans on demand*	*10,088*	-		

		Carrying amount of unencumbered assets	of which EQLA & HQLA	Fair value of encumbered assets	of which EQLA & HQLA
		2020	2020	2020	2020
		€000	€000	€000	€000
010	Assets of the reporting institution[4]	**1,705,407**	**334,155**		
030	Equity instruments	-	-	-	-
040	Debt securities	334,155	334,155	291,336	146,833
050	*of which: covered bonds*	*79,214*	*79,214*	*78,884*	*78,884*
060	*of which: asset backed securities*	*126,091*	-	*91,378*	-
070	*of which: issued by general governments*	*55,665*	*55,665*	*55,362*	*55,362*
080	*of which: issued by financial corporations*	*298,932*	*133,833*	*251,198*	*111,793*
120	Other assets	1,337,297	-		
121	*of which: Loans on demand*	*261,431*	-		
122	*of which: Loans and advances other than loans on demand*	*1,000,088*	-		

The encumbered assets consist of investments used for repo funding and pledged securities. There are no encumbered assets held between entities of the Group and no over-collateralisation. Reponed transactions are covered by a Global Repurchase Master Agreement (“GRMA”) and involve the sale of financial assets with a simultaneous agreement to repurchase at a pre-determined price at a future date. The pledged securities transactions are pledged in favour of the ECB for the purposes of existing and potential long term re-financing operations and also in favour of the depositor compensation scheme.

The unencumbered assets disclosed in the preceding table under item ‘Other assets’ include Loans and advances, cash and short-term funds, property, plant and equipment, intangible assets, tax assets and other assets.

The Bank continues to recognise encumbered assets since all the risks and rewards of the assets will be substantially retained in a manner that does not result in the encumbered assets being derecognised for accounting purposes.

[3] The terminology “reporting institution” is referring to MeDirect Bank SA/NV.
[4] The terminology “reporting institution” is referring to MeDirect Bank SA/NV.

Template C: Sources of Encumbrance

		Matching liabilities, contingent liabilities or securities lent 2020 €000	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered 2020 €000
010	Carrying amount of selected financial liabilities	14,191	48,694
011	*of which:*		
020	*Derivatives*	*721*	*33,346*
040	*Repurchase agreements*	*12,500*	*6,014*
160	Other Sources of encumbrance	300,141	300,141
170	Total sources of encumbrance	337,938	352,167

The amounts disclosed in the above tables represent the median values, being the rolling quarterly medians over the previous twelve months, determined by interpolation, in accordance with the Commission Delegated Regulation (EU) 2017/2295, issued on 4 September 2017, supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards for disclosure of encumbered and unencumbered assets.

9 Environmental, Social and Governance (“ESG”) risk

As risk profiles in the banking industry are expanding, the Bank is taking the necessary steps to carry out an assessment of the ESG risks. In fact ESG risks can be highly complicated and mission-critical, requiring diligent and informed board oversight. The Bank will be developing a structured framework to be used to manage and mitigate the ESG risks. The Bank will be narrowing in on ESG risks in order to determines which ESG risks are most relevant to the Bank’s operations and stakeholders and which ones are most impactful in terms of cost, risk and growth are critical for the Bank boards of directors.

Not only does the Bank consume resources and have an environmental footprint like any business, but also provides financing to infrastructure, building and other projects that impact the environment. The Bank is aware that a responsible banking approach and skilful management of ESG can improve risk-adjusted returns, enhance reputation, spark commercial opportunities, mitigate portfolio risks, and improve market positions and value.

MeDirect is very much aware of the significant risk that climate change poses to our environment, our economies and our communities and consequently, we are working on developing our response to address this emerging risk, by supporting the transition to a low-carbon, greener economy in line with the Paris Agreement goal of net zero emissions by 2050.

We also remain dedicated to continue working in the right direction to ensure diversity, with several EU and other country nationals working with MeDirect, and gender equality across the Group.

The Bank is committed to uphold high standards of corporate governance and aims at implementing all recommendations raised by regulators in order to strengthen further its corporate governance framework.

The Bank is developing the overall internal governance framework in relation to ESG risks that would involve the allocation of responsibilities to the Board and the committees in relation to ESG factors and ESG risks, consideration for ESG-related aspects when setting the risk appetite, the incorporation of

ESG related aspects in the existing policies and the consistency in the implementation of ESG risk-related objectives and/or limits among the three lines of defence.

The governance framework would be complemented by a risk management framework that would entail the implementation of an identification process for newly relevant ESG factors, the incorporation of ESG risks in the ICAAP and ILAAP frameworks, ensuring stress testing capabilities of the Bank to evaluate ESG risks and ensuring that the Bank has the necessary expertise within the risk management function in evaluating ESG risks.

10 Intragroup Interconnectedness

The principal activities of the MeDirect Group comprise lending to international corporates, investing in Dutch mortgages and the provision of banking services primarily to the mass affluent sector in Malta and Belgium, focusing primarily on deposit savings products and wealth management, as well as local corporate banking and lending in Malta.

Throughout the financial year, management continued to execute on a series of initiatives to diversify the Group's business lines from its historic core competencies and grow the Group's financial position. These being the Dutch mortgages and the related management of securitisation structures business lines.

The Group is made up as follows:

- MDB Group Limited – the holding company.
- MeDirect Bank (Malta) plc, that includes Grand Harbour I B.V. ("GH I") - a controlled special purpose entity, established in The Netherlands, as part of the Group's funding strategy.
- MeDirect Bank SA - a wholly owned subsidiary that handles the Group's operations in Belgium.
- Medifin Estates - a property leasing partnership.

MeDirect Belgium's principal activity being that of providing a highly competitive online offering for the Belgian market and its operations are based on:

- Taking of deposits in Belgium, denominated in euro and other major currencies, by offering attractive and innovative savings products. An example is the regulated savings accounts such as Monthly Savings Max and Dynamic Savings, which are very popular with Belgian households.
- Offering customers an easy-to-use wealth platform with a wide range of investment products, giving them an attractive alternative to savings for managing their wealth.
- MeDirect's suite of savings and wealth products are available to customers digitally through a best-in-class mobile app and online banking platform.
- Financing the business of European corporates through senior secured loans and revolving credit facilities.

This section provides a detailed description of the legal and financial structures of the Group entities, including an explanation of main intra-group interconnectedness with respect to all existing material intra-group exposures and funding relationships, legal interconnectedness covering material legally binding agreements; operational interconnectedness, including centralised operational agreements.

10.1 Intragroup Funding Arrangements

As at 31 December 2020, MeDirect Bank SA had outstanding the following material intra-group financial support agreements:

Intra Group Revolving Credit Facility

In 2020, the Group implemented an extensive restructuring of intragroup funding arrangements between MeDirect Belgium and MeDirect Malta. As part this restructuring, a new revolving credit facility was set up with a limit of €190 million. As at 31 December 2020, the Bank had drawn commitments of €4.4 million under this revolving credit facility and undrawn commitments of €185.6 million.

Revolving loan agreement

The Revolving Loan Agreement is a €70 million unsecured revolving credit facility made available by MeDirect Malta for drawdown in one or more tranches by MeDirect Belgium. The purpose of the loan facility is to provide liquidity to finance the day-to-day business operations of MeDirect Belgium if such financing is required. This agreement has never been utilised so far. In September 2020, the Bank agreed to suspend operation of the facility (including the commitment fee and the ability of MeDirect Belgium to draw under the facility) for 12 months.

Deposit of Funds agreement

Under the Deposit of Funds Agreement, MeDirect Belgium may deposit funds with MeDirect Malta. A portion of the excess liquidity of MeDirect Belgium is placed with MeDirect Malta in the form of inter-company deposits and margins. As at 31 December 2020 the Bank had amounts receivable from MeDirect Malta amounting to €4.6 million, which represents 4% of the Bank's total nostro positions at that moment.

Grand Harbour I B.V. ("GH I")

Grand Harbour I B.V. ("GH I") - a controlled special purpose entity, established in The Netherlands, is used as part of the Group's funding strategy. It is funded through two intragroup loan facilities subscribed to by the Bank's parent company MeDirect Bank (Malta) plc and the Bank itself. As at 31 December 2020, MeDirect Belgium and MeDirect Malta invested in GH I on a 56% - 44% basis respectively, with the tranche bought by MeDirect Belgium (the "Senior Loan") amounting to €327.2 million having a senior ranking vis-à-vis the tranche acquired by MeDirect Malta (the "Junior Loan") amounting to €176.3 million.

From a regulatory point of view the investment in GH I is risk weighted by looking through to the underlying assets of the securitisation structure including the deposits held by GH I with MeDirect Malta amounting to €548 million as at 31 December 2020.

Throughout the financial period GH I paid interest amounting to €16.6 million on the senior loan facility provided by MeDirect Belgium.

10.2 Operational interconnectedness

Operationally, MeDirect Belgium is provided with resources, technology and personnel by MeDirect Malta pursuant in accordance with various cost sharing arrangements. MeDirect Malta employees are made available to act for MeDirect Belgium under a staff sharing agreement. Moreover, infrastructure is made available to support MeDirect's operations under leasing agreements.

Staff sharing agreement

Through a staff sharing agreement MeDirect Malta agrees to make available to MeDirect Belgium such employees as are needed in order to enable MeDirect Belgium to operate. Under this agreement, MeDirect Belgium reimburses MeDirect Malta an agreed percentage of the remuneration and social security paid by it in relation to such employees. Throughout the financial period MeDirect Malta recharged employee compensation and benefits to MeDirect Belgium amounting to €3.5 million.

Leasing agreements

The leasing structure through Medifin Leasing ensures that the IT infrastructure (hardware, software and systems) is made available for use by MeDirect Malta and MeDirect Belgium. Each of MeDirect Malta and MeDirect Belgium have entered into a lease agreement with Medifin Leasing, whereby Medifin Leasing leases to MeDirect Malta and MeDirect Belgium certain assets mainly IT equipment/hardware, and provides them with the use, maintenance and third-party support services under any software licences and other products and/or services. Throughout the financial period, MeDirect Belgium incurred IT support charges and lease charges equivalent to €3.8 million.

Recharging of Expenses Agreement

MeDirect Malta and MeDirect Belgium have also entered into a Recharging of Expenses Agreement, pursuant to which certain fees, costs and expenses relating both to recurring as well as ad hoc operational services which are used by both MeDirect Malta and MeDirect Belgium in the course of their respective business activities are initially incurred and paid for by MeDirect Malta. These costs relate, by way of example, to payment systems maintenance and licence fees, credit advisory fees, legal advisory fees, custodian fees and management fees. Under the Recharging of Expenses Agreement, MeDirect Belgium has agreed to reimburse MeDirect Malta for the portion of such fees and expenses which are paid by MeDirect Malta, but which relate to or otherwise benefit MeDirect Belgium.

11 Risk monitoring and reporting

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

The monitoring of each risk pillar falls under the responsibility of specific teams within the Risk Management Function. Currently each risk team reviews and updates policies and associated risk frameworks that include information on internal processes and risk reporting responsibilities.

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

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

Board oversight

All relevant risks faced by the Bank are reviewed by the Bank's Board Risk and Compliance Committee to assess whether they are consistent with the Bank's risk appetite, and for reviewing management's proposed course of action if not. It is also responsible for assessing the Bank's high-level controls, limits, and risk aggregation and reporting framework to ensure that these are sufficient to maintain the level of risk within its appetite.

The Board ensures proper oversight of the risks that the Bank may be exposed to. A key role of the Board is to approve the Bank's strategy and business plan, to ensure that the key goals in that strategy are and remain within the agreed risk appetite and to oversee the Executive Committee implementing it.

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

Reporting to the Board and Risk and Compliance Committee

The Board and Board Risk and Compliance Committee receive a comprehensive risk report for each month, compiled by the Risk Management Function with an executive summary written by the CRO. The CRO's executive summary is qualitative in nature and covers each of the Bank's material risks. This commentary is also supported by a much more detailed report, the Group risk management report. The risk management reports are mainly divided into two sections: Risk shaping matters that includes; risk appetite limits, recovery plan indicators, an internal heat map, and external top and emerging risks, and: Risk oversight, which includes a comprehensive overview of each of the main financial and non-financial risks of the Group.

The Risk Shaping Matters report includes the CRO Executive Summary and key risk report, as well as a dashboard for risk appetite and recovery plan wherein actual performance is tracked against pre-set risk appetite limits and recovery plan indicators. The Bank has an internal risk appetite heat map that provides an overview of risk performance against each of the key risk appetite themes with additional focus on those areas that are close to or breaching risk appetite thresholds.

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

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

Non-Financial Risks

1) **Operational risk:** includes details about operational risk event including volume by causal categories and by impact categories, as well as gross operational losses month on month. This section includes an action log or commentary on the status of high-risk impact IT incidents split by entity.

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

Special papers are also presented to the Risk and Compliance Committee when needed. These special papers cover emerging and top risks and other thematic risk reviews or regulatory announcements that could result in material impact to the Bank. Any key correspondence from the regulator is also brought to the attention of senior management and the Board members. Items requiring specific attention by the Risk and Compliance Committee or deeper dives on risk themes are included within such special papers, with actions and decisions taken as necessary as a result.

Other regular reports

Alongside the monthly risk management report, the EXCO members also receive a risk report on a weekly basis outlining the status of key risks against the approved risk appetite of the Bank, including changes from the previous week.

Daily liquidity and capital reports are also shared with the ALCO members and senior management. These reports include details of the liquidity position of the Group such as net cash and liquidity ratios, assets and liabilities, and capital ratios.

Aside from internal reporting requirements, the Bank is also subject to regulatory reporting such as Common Reporting ("CoRep") and Financial Reporting ("FinRep") as well as public disclosure requirements as stipulated in Part Eight of the CRR[5].

12 Recruitment and diversity policy statement

The Bank recognises that a robust and professional approach to recruitment and selection helps it to attract and appoint individuals with the necessary skills and attributes to support its business goals. All prospective staff members are subject to a rigorous selection process, taking into account the key activities, tasks and skills required for the position. Multiple interviews are conducted, and the candidate's knowledge, experience, skills, temperament and competency are evaluated against other candidates.

[5] (EU) No 575/2013

The Bank's aim is to develop an effective and efficient recruitment process that recruits the best talent, helps employees identify their potential, promotes a transparent, merit-based selection process that is cost effective. The Bank endeavours to ensure that all appointments (at any level) are made based on the actual knowledge, skills, expertise and merit of the individual involved, in compliance with local legislation and in adherence to the Group Diversity Policy.

The Group's Diversity Policy states that its objectives are to ensure that the Group:

- has a workforce profile that delivers competitive advantage through the ability to garner a deep understanding of customer needs;
- has an inclusive workplace where every individual can succeed regardless of gender, cultural identity, age, physical ability, religious beliefs, family status and sexual orientation; and
- leverages the value of diversity for all the Group's stakeholders to deliver the best customer experience, improved financial performance and a stronger corporate reputation.

To achieve these objectives the Group Board also:

- assessed annually both the objectives and progress in achieving them;
- assessed pay equity on an annual basis;
- encourages and support the application of diversity into practice across the business; and
- endeavours to provide employment opportunities for people with disabilities.

With these goals in mind, the Bank aims to promote equal opportunities for all employees and to ensure that they are treated fairly and consistently. All candidates are assessed against various selection criteria designed to match the requirements of the position to the skills and experience of an applicant, including professional qualifications and expertise, any past work experience in relation to the requirements of the job, key capabilities, adaptability and flexibility, cultural fit, open mindedness, level of self-motivation and proactivity are also taken into consideration. The Bank is committed to attracting, developing and retaining diverse leaders. Diversity of thought provides tangible business benefits, including innovation, risk mitigation, better problem solving and improved customer service. To ensure that the Bank can foster these talents in an inclusive culture, it continues to recruit and develop the best person for the job, regardless of gender, age, race, family or caring responsibilities, disability and sexual orientation, identity or preference.

Board diversity

The Bank recognises and embraces the benefits of building a diverse and inclusive Board and sees diversity as an essential component in maintaining competitive advantage. A diverse Board will include and make good use of differences in the skills, industry experience, background, and other distinctions between Directors. The differences will be considered in determining the optimum composition of the Board and when possible, should be balanced appropriately.

All Board appointments shall be made based on merit, in the context of the skills, experience, independence and knowledge, which the Board as a whole requires to be effective. In 2020 Marcia de Wachter was appointed as Chair of the Board and Franca Vossen was also appointed on the Board.

For an overview of the directors and other key officers of the Bank, their expertise, actual knowledge and skills, kindly refer to the following link:

https://www.medirect.be/about-medirect/our-team

13 Remuneration policy and practices

Remuneration governance

The primary purpose of the Nominations and Remuneration Committee ("NRC") of the Bank is to review remuneration levels in the Bank and to consider whether to approve performance-related bonus awards. As at present, the members of the NRC are Marcia DeWachter, Michael Bussey and Bart Bronselaer with the Group Head of Human Resources in attendance. Throughout the financial period the NRC met five times.

The Bank's NRC is charged with aligning the Bank's remuneration policy and in particular performance-related elements of remuneration, with the Bank's business strategy and risk tolerance, objectives, values and long-term interests. The key objectives of the NRC in this regard are the following:

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

One of the NRC's primary functions is to ensure that the Bank is able to attract and retain suitable employees at all levels at an acceptable cost. It may request market-related information from time to time, to verify the recommendations made by management.

Remuneration policy statement

The purpose of the remuneration policy is to set out the overall principles that the Bank, whether direct or indirect, must follow when determining the remuneration and compensation of its management and staff members. This policy establishes an effective framework for determining role descriptions, performance measurement, risk adjustment of compensation and the linkages to reward. The Bank's Board is responsible for ensuring that this statement and its contents adhere to all laws, rules and regulations incorporated in the Capital Requirement Directive, and to ensure that the remuneration practices are based on sound governance processes that take the Bank's risk strategy and profile into account.

The policy was developed in conjunction with the Group's principal shareholder and the NRC of the Bank and its parent company. Together with the Boards these worked closely to ensure that the remuneration policy is consistent with and promotes sound and effective risk management.

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

Material Risk Takers, that consist of members of staff whose actions have a material impact on the risk profile of the Bank, are identified on the basis of the qualitative and quantitative criteria set out in the Regulatory Technical Standard EU 604/2014. Material Risk Takers are also identified on the basis of additional criteria developed internally.

Material Risk Takers include:

- Non-executive directors that are responsible for providing a monitoring role;
- Executive directors that are also responsible for certain business units;
- Heads of a material business unit and key personnel in control functions;
- Staff members authorised to take, approve or veto discussions on material credit risk exposures or is a member of a committee which has authority to take decisions on material credit risk exposures;
- Staff members responsible for initiating credit proposals or structuring credit products which relate to material credit risk exposures;
- Staff members authorised to approve or veto the introduction of new products; and
- Senior management responsible for business units/business lines or Finance, Administration and Human Resources, as well as those responsible for Internal Audit, Compliance and Risk management functions.

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

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

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

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

The Internal Audit team carries out an independent review of the design, implementation and effects of the remuneration policy on the Bank's risk profiles and the way these effects are managed.

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

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

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

The Bank's reward strategy

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

The fixed remuneration, that also includes benefits (of a fixed nature as they are pre-determined), reflects the individual's role, experience and responsibility. It comprises the base salary and in some cases a pay allowance. Base salaries are expected to comprise the majority of the Bank's overall compensation cost, are benchmarked on an annual basis, and are paid by direct credit to an employee's personal account on a monthly basis. Allowances are also paid by direct credit on a monthly basis.

Benefits take account of market practice and include the provision of pension contributions, medical insurance and life assurance and others.

Variable remuneration may consist of performance bonuses and where applicable exceptional retention bonuses awarded in cash.

Performance bonuses represents additional remuneration payable to employees as a reward for achieving specific goals or hitting predetermined targets.

Retention bonus is an exceptional variable remuneration awarded on the condition that staff stays at the Bank for a predefined period of time. Retention bonuses have been awarded by the Bank in the financial year ended 31 December 2020. This is targeted to ensure best performance, by securing the retention of critical employees who are key to success of the realisation of the strategic plan of the Bank.

13.1 Determination of the performance bonus variable remuneration pools

A performance bonus pool is established for the Bank as a whole and is calculated at Bank level based on the success of the Bank in meeting its business objectives. These objectives relate, amongst other things, to profitability, sustainability of performance, risk management, building of business lines and creation of long-term shareholder value.

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

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

The pool would be further adjusted to the extent required to ensure that all relevant identified current and future risks are reflected or in light of the Bank's capital position.

13.2 Measures of performance as basis for awarding of bonuses

All personnel are compensated out of the variable remuneration bonus pool based on their contribution to the achievement of the Bank's business objectives as well as personal objectives. Such individual criteria depend on the role of the individual in the Bank. The allocations of individual variable remuneration awards are correlated to the staff member's formalised annual individual appraisal, that takes into consideration quantitative and qualitative objectives known to the employee, as well as risk management considerations. Individuals are compensated out of that bonus pool based on their contribution to the achievement of the Bank's business objectives. Throughout the financial year, one of the Bank's employees was entitled to guaranteed variable remuneration.

Such individual criteria will depend on the role of the individual in the Bank. The amount of variable remuneration will vary depending on the performance of the staff member, as well as of the staff member's business unit and the institution as a whole. Depending on performance, variable remuneration can be reduced to zero. Variable remuneration will be significantly reduced or nullified in the case of any kind of unethical or non-compliant behaviour.

13.3 Individual allocation of the variable remuneration

i. All staff (including material risk takers)

The NRC considers a variety of factors in determining compensation tailored to the role of the individual concerned and takes into account factors such as risk management, development of systems, monitoring of risk and creation of long-term value for the Bank.

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

In accordance with Article 450 of the CRR we confirm that there are no employees within the Bank that received a total remuneration equal to or greater than €1 million.

<u>Internal control functions</u>

Whilst the general bonus pool of the Bank will be based on the Bank's financial results, compensation of control functions is not directly tied to the results of any business unit but should provide incentives for such staff to deliver the best performance in their role. Thus, control functions are judged on success in developing appropriate policies, developing effective risk management controls and procedures, monitoring risk and building control systems.

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

Other matters on variable remuneration

The ratio between the variable components of remuneration and the fixed components is limited to 50%.

Without prejudice to the de-minimis carve-out of variable remuneration not exceeding €75,000 provided in the NBB Circular NBB_2016_44 of 10 November 2016, when the annual remuneration of a Material Risk Taker employed by the Credit Institution exceeds €200,000, at least 60% of variable remuneration awards granted to such Material Risk Taker shall be deferred.

Variable remuneration awarded in cash and is normally paid out in the first quarter of the subsequent financial year as determined by the NRC. Variable remuneration paid to Material Risk Takers is subject to malus and clawback provisions. The clawback provisions state that the bonus may have to be repaid to the Bank in certain circumstances that would have led to significant losses to the Bank, or in case of failure to meet appropriate standards of fitness and propriety, including cases of fraud, dishonesty or gross negligence.

As per Article 450 of the CRR we confirm that there were no sign on payments and no severance payment throughout this financial year.

ii. Material risk takers

Recommendations as to the fixed and variable remuneration of members of senior management and control functions are made by the Bank's Chief Executive Officer and seconded by the Group Head of Administration and Human Resources. Such recommendations are reviewed and approved or rejected by the NRC.

• Supervisory function

The supervisory function consists of non-executive directors of any board in the scope of consolidation. They are responsible for providing a monitoring role and thus their remuneration is not performance based and is not linked to the Group's results. Non-executive directors are non-employees and receive a fee for their services as directors.

The remuneration of non-executive directors is not performance based and is not linked to the Bank's results. It is determined based on remuneration levels for directors of similar financial companies, and takes into account factors such as time invested and responsibilities.

• Management function

The management function consists of members of the board of directors who have executive functions and may be responsible for certain business units, heads of material business units and senior management.

Total emoluments earned by the Bank's employees (including executive directors but excluding non-executive directors) during the year ended 31 December 2020, are reported below:

	€000
Total remuneration	
Fixed remuneration	3,283
Variable remuneration	310
Employee emoluments recharged by parent company	3,482
	7,075

Total emoluments earned by the Bank's material risk takers during the year ended 31 December 2020, are reported below:

	Supervisory functions €	Management function €
Senior management		
Number of Material Risk Takers	4	8
Total fixed remuneration (€)	142,959	1,283,295
Total variable remuneration (€) - delivered in cash	-	97,750
	142,959	1,381,045

No members of staff were deemed to be material risk takers.

Throughout the financial year variable remuneration in the form of retention bonuses amounting to €49 thousand were awarded and deferred by 12 months as these are payable in 2021. The total expense recognised during the financial year ended 31 December 2020 amounted to €33 thousand.

14 Other directorships

The number of other directorships held by members of the MeDirect Bank S.A./N.V. Board members (excluding the functions exercised in group companies, in personal patrimony/management companies, and in non-profit associations) are listed in the table below. A full list of the external functions exercised by the directors of the Bank is available in the Annual Report for the financial period ending 31 December 2020 that can be found in the following website https://www.medirect.be/about-medirect/facts-and-figures.

Directors as at 31 December 2020		Number of other directorships held
Marcia De Wachter	Independent Non-Executive Chairman	1 NED
Michael Bussey	Independent Non-Executive Director	1 NED *
Franca Vossen	Independent Non-Executive Director	1 NED **
John Zarb	Independent Non-Executive Director	3 NED
Tim Rooney	Executive Director	-
Marcel Berkhout	Executive Director	-
Hassan Dajani	Executive Director	-

* Directorship approved by the UK Prudential Regulation Authority.
**Directorship approved by De Nederlandsche Bank (DNB).

NED stands for non-executive director.
ED stands for executive director.

Appendix 1: Pillar 3 disclosure compliance checklist

Capital Requirements Regulations

According to Article 13 of the CRR significant subsidiaries of EU parent institutions shall disclose the information specified in Articles 437, 438, 440, 442, 450, 451 and 453, on an individual basis.

CRR references	High-level summary	Compliance reference
Scope of disclosure requirements		
Own funds		
437 (1)	Requirements regarding capital resources table :	
437 (1) (a)	Full reconciliation	Section 2.2 Own funds – other disclosures
437 (1) (b)	Description of capital resources	Section 2.1 Own funds – Total available capital
437 (1) (c)	Full terms and conditions of all Common Equity Tier 1, Additional Tier 1 and Tier 2 instruments	
437 (1) (d) (i)	Disclosure of the nature and amounts for each prudential filter	
437 (1) (d) (ii)	Disclosure of the nature and amounts for each deduction made	Section 2.2 Own funds – other disclosures
437 (1) (d) (iii)	Disclosure of the nature and amounts for items not deducted	Section 2.2 Own funds – other disclosures
437 (1) (e)	Description of all restrictions applied to the calculation of own funds	Section 2.2 Own funds – other disclosures
437 (1) (f)	Basis on which capital ratios are calculated	Section 2.1 Own funds – Total available capital
437 (2)	EBA to publish implementation standards for points above.	The Bank follows the implementation standards.
Capital requirements		
438 (a)	Summary of institution's approach to assessing adequacy of capital levels.	Disclosure of approach on assessing adequacy capital requirements are contained in Section 3 - Capital requirements
438 (b)	Result of ICAAP on demand from authorities.	Section 3 - Capital requirements
438 (c)	Capital requirement amounts for credit risk for each Standardised Approach exposure class.	The Bank uses the Standardised Approach - Refer to Section 3 - Capital requirements
438 (d)	Capital requirements amounts for credit risk for each Internal Ratings Based Approach exposure class.	N/A - IRB is not applied.
438 (d) (i)		
438 (d) (ii)		
438 (d) (iii)		
438 (d) (iv)		
438 (e)	Capital requirements amounts for market risk or settlement risk, or large exposures where they exceed limits.	N/A as limits are not exceeded.
438 (f)	Capital requirement amounts for operational risk, separately for the basic indicator approach, the standardised approach, and the advanced measurement approaches as applicable.	The Bank uses the Standardised Approach - Refer to Section 3 - Capital requirements

Capital buffers		
440 (1) (a)	Geographical distribution of relevant credit exposures.	Section 3 - Capital requirements
440 (1) (b)	Amount of the institution specific countercyclical capital buffer.	
440 (2)	EBA will issue technical implementation standards related to 440 (1)	The Bank follows the implementation standards.
Credit risk adjustments		
442 (a)	Disclosure of bank's definitions of past due and impaired.	Section 4.5 Impairment loss measurement guidelines This section provide a complete description of the Impairment loss measurement guidelines, definitions and approaches adopted.
442 (b)	Approaches for calculating credit risk adjustments.	
442 (c)	Disclosure of pre-CRM EAD by exposure class.	Section 4.1 – Credit risk exposure – analysis by exposure class
442 (d)	Disclosures of pre-CRM EAD by geography and exposure class.	Section 4.2 - Credit risk exposure – analysis by geographical distribution
442 (e)	Disclosures of pre-CRM EAD by industry and exposure	Section 4.3 - Credit risk exposure – analysis by industry distribution
442 (f)	Disclosures of pre-CRM EAD by residual maturity	Section 4.4 - Credit risk exposure – analysis by residual maturity
442 (g)	Breakdown by significant industry or CCP amount of:	Section 4.3 – Credit risk exposure – analysis by industry distribution
442 (g) (i)	Impairment and past due exposures	
442 (g) (ii)	Specific and general credit risk adjustments	
442 (g) (iii)	Impairment charges for the period, by exposure class or counterparty type.	
442 (h)	Impaired, past due exposures, by geographical area, and amounts of specific and general impairment for each geography.	Section 4.2 – Credit risk exposure – analysis by geographical distribution
442 (i)	Reconciliation of changes in specific and general credit risk adjustments compromising of:	Section 4.5 - Impairment loss measurement guidelines. This section provides an analysis of the Bank's specific and general credit risk adjustments.
442 (i) (i)	Description of the type of specific and general credit risk adjustments	
442 (i) (ii)	The opening balances	
442 (i) (iii)	Amounts taken against the credit risk adjustments during the reporting period	
442 (i) (iv)	Any other adjustments including those determined by exchange rate differences, business combinations, acquisitions and disposals of subsidiaries, and transfers between credit risk adjustments	
442 (i) (v)	The closing balance	
442 endnote	Specific credit risk adjustments recorded to income statement are disclosed separately.	

Remuneration disclosures		
450 (1) (a)	Information concerning the decision-making process used for determining the remuneration policy	Section 13 – Remuneration policy and practices
450 (1) (b)	Information on link between pay and performance	
450 (1) (c)	Information on the criteria used for performance measurement	
450 (1) (d)	The ratios between fixed and variable remuneration	
450 (1) (e)	Information on the performance criteria on which the entitlement to variable remuneration is based.	
450 (1) (f)	The main parameters and rationale for any variable component scheme and any other non-cash benefits	
450 (1) (g)	Aggregate quantitative information on remuneration, broken down by business area	
450 (1) (h)	Aggregate quantitative information on remuneration, broke down by senior management and members of staff whose actions have a material impact	
450 (1) (i)	The number of individuals being remunerated EUR 1 million	Not applicable
450 (1) (j)	Upon demand from the Member State or competent authority, the total remuneration for each member of the management body or senior management	Not applicable
450 (2)	Quantitative information at the level of members of the management body of the institution.	Section 13 – Remuneration policy and practices
Leverage		
451 (1) (a)	The Leverage ratio and its application	Section 7 - Leverage
451 (1) (b)	Leverage ratio breakdown of total exposure measure, including reconciliation to financial statements	
451 (1) (c)	Where applicable amount of derecognised fiduciary items	
451 (1) (d)	Description of the risk management approach to mitigate excessive leverage, and factors that impacted the leverage ratio during the year.	Section 7 - Leverage
451 (1) (e)	Description of the factors that had an impact on the leverage ratio	
451 (2)	EBA to publish implementation standards for points above.	The Bank follows the implementation standards
Use of credit risk mitigation techniques		
453 (a)	Use of on- and off-balance sheet netting	Section 4.6 -Credit risk mitigation
453 (b)	How collateral valuation is managed	
453 (c)	Description of types of collateral used	Section 4.6 - Credit risk mitigation
453 (d)	Types of guarantor and credit derivative counterparty, and their creditworthiness	The Bank did not enter into any credit derivative hedges and did not receive any guarantees to cover part of its exposures.
453 (e)	Disclosure of market or credit risk concentrations within risk mitigation exposures	Section 4.6 - Credit risk mitigation
453 (f)	For exposures under either the Standardised or Foundation IRB approach, disclose the exposure value covered by eligible collateral	Loans secured by any type of eligible collateral is considered immaterial in terms of the total exposure of the Bank. Refer to Section 4.6 Credit risk mitigation

453 (g)	Exposures covered by guarantees or credit derivatives	The Bank did not enter into any credit derivative hedges and did not receive any guarantees to cover part of its exposures.

Guidelines on disclosure requirements under Part Eight of Regulation (EU) No 575/2013 – EBA/GL/2016/11

According to these guidelines the following considerations should apply to all institutions required to comply with some or all disclosure requirements in Part Eight of the CRR, including significant subsidiaries.

Guidelines references	High-level summary	Compliance reference
Section 4.3 – Section C (information on governance arrangements)		
Disclosure of the number of directorships held by members of the management body.		Section 14 - Other directorships
Disclosure of information regarding the recruitment policy for the selection of members of the management body.		Section 12 - Recruitment and diversity policy statement
Section 4.5 – Own funds		
The disclosures required by Article 437(1) of the CRR are specified in the Commission Implementing Regulation (EU) No 1423/2013 of 20 December 2013.		Refer to the Own Funds section in the CRR disclosure checklist above.
Section 4.7 – Macro-prudential supervisory measures		
The disclosures required by Article 440 of the CRR are specified in the Commission Delegated Regulation (EU) No 2015/1555 of 28 May 2015.		Refer to the Capital Buffers section in the CRR disclosure checklist above.
Section 4.14 – Remuneration		
The disclosure requirements in Article 450 of the CRR are specified in the EBA Guidelines on sound remuneration policies under Articles 74(3) and 75(2) of Directive 2013/36/EU and disclosures under Article 450 of Regulation (EU) No 575/2013 (the EBA Guidelines 2015/22).		Section 13 - Remuneration policy and practices.
Section 4.15 – Leverage		
The disclosure requirements in Article 451 of the CRR are specified in the Commission Implementing Regulation (EU) No 2016/200 of 15 February 2016.		Section 7 - Leverage

Revised Pillar 3 disclosure requirements – BCBS 309

According to this standard, the following considerations should apply to comply with disclosure requirements in respect of Securitisation positions.

Guidelines references	**High-level summary**	**Compliance reference**
Part 6 – Securitisation		
Disclosure requirements on securitisation in Article 449 of the CRR including: - Table SEC A, for information on risk management due to securitisation positions; - Templates SEC 1 or and SEC 2, for the outstanding securitisation exposures (retained originated and sponsored exposures, and purchased exposures); - Templates SEC 3 and SEC 4, for the risk-weighting of exposures and the associated RWAs and capital requirements.		Section 6 - Securitisation