



MeDirect Bank SA/NV

Annual Report and Financial Statements

2024

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Annual Report of the Board of Directors

We hereby present the annual report of MeDirect BANK SA/NV (the “Bank” or “MeDirect Belgium”)¹, that forms part of the MDB Group (the “Group” or “MeDirect Group”), for the year ended 31 December 2024².



Marcia de Wachter
Chair

Alain Moreau
CEO

A year of change ...

The year 2024 was an important year of transition for the MeDirect Group. The controlling shareholder, AnaCap Financial Partners II LP (“AnaCap”), identified a new prospective controlling shareholder for the Group which is committed to facilitating the growth plans of both MeDirect Belgium and MeDirect Bank (Malta) plc (“MeDirect Malta”). On 28 November 2024, the Group’s immediate parent company, Medifin Finance Limited, entered into a share purchase agreement with Banka CREDITAS a.s. (“Banka CREDITAS”), pursuant to which Banka CREDITAS agreed to purchase 100% of the share capital of MDB Group Limited, subject to receiving all required regulatory approvals.

Banka CREDITAS is a Czech financial institution that is part of CREDITAS Group (“CG”), a privately-owned investment group with investments primarily in financial services, real estate (rental housing and development) and energy (distribution and generation). The financial services arm of CG has investments in banking, investment services, asset management, leasing and other related areas.

Banka CREDITAS is interested in using the MeDirect banks to grow and diversify its financial services business into additional European markets. As such, it plans to retain both MeDirect banks and to invest additional capital to enable them to continue to grow their businesses.

¹ Including all entities where MeDirect Belgium retained substantially all the underlying risks and rewards. These include Bastion 2020-1 NHG B.V., Bastion 2021-1 NHG B.V. and Bastion 2022-1 NHG B.V., each of which is a controlled special purpose entity established in the Netherlands as part of MeDirect’s funding strategy.

² This report is prepared in terms of the Belgian Code of Companies and Associations Art. 3:6, §1, 7° of 23 March 2019.

... in which MeDirect continued to execute its business strategy

Notwithstanding the prospective change in ultimate shareholder, MeDirect Belgium continued to execute its business strategy by growing in Belgium, developing its digital platform, further de-risking its balance sheet, building its capabilities in recently launched asset classes such as Belgian mortgage receivables.

Growing a pan-European client franchise

The Bank continued to enhance its brand awareness throughout 2024. By December 31, the Bank's client base had expanded by 17% reaching 118,000, compared to 101,000 at year-end 2023. Additionally, MeDirect Belgium was honoured with the Best Savings Bank in Belgium award from the Belgian financial comparison platform Spaargids.be.

Clients have grown their financial assets with MeDirect Belgium, reaching an aggregate of €4.2 billion in December 2024, an increase of 22% from year-end 2023. Assets under custody have grown to €1.2 billion, an increase of 27% from year-end 2023.

Developing MeDirect's cutting-edge digital platform

In 2024, MeDirect Belgium solidified its position as a full digital bank. By leveraging technology and maintaining a customer-centric approach, MeDirect Belgium delivered transformative solutions that significantly enhanced its client offerings.

Expansion of payment options: Google Pay and Apple Pay

Another key achievement in 2024 was the rollout of Google Pay and Apple Pay services. These launches followed the introduction of MeDirect Belgium's debit card services, which were successfully implemented just months earlier. By integrating these globally recognised payment platforms, MeDirect Belgium has enabled its clients to make secure, contactless payments effortlessly, aligning with the rapidly growing demand for digital payment solutions.

The addition of digital wallets marks a significant step forward in MeDirect Belgium's commitment to delivering modern, tech-driven financial services. These features have not only enhanced convenience but also strengthened the Bank's value proposition in key markets.

A cutting-edge banking ecosystem

Underpinning these advancements is MeDirect Belgium's internally developed banking ecosystem, designed for rapid innovation and scalability. Built with cutting-edge technologies, the platform leverages distributed micro-frontends and microservices architecture, hosted on expansive Kubernetes clusters. This architecture provides MeDirect Belgium with unparalleled flexibility to scale its services in response to growing customer demands.

The adoption of distributed micro-frontends ensures that different components of the platform can be updated independently, enabling faster feature releases and a smoother user experience. Similarly, the microservices architecture enhances system resilience and reliability, ensuring uninterrupted service delivery even during peak usage.

By investing in such a robust technological foundation, MeDirect Belgium has positioned itself to enrich its offerings continuously and respond dynamically to market needs. This commitment to innovation has not only reinforced client trust but has also set the stage for future advancements.

Newest developments: SEPA instant payments and wealth management

Looking to the future, MeDirect Belgium has an ambitious roadmap aimed at further enhancing its services. One of the most anticipated developments is the introduction of SEPA instant payments, a feature that will enable real-time euro transfers across participating banks. This will serve as an add-on to MeDirect Belgium's internally built payment hub, providing clients with faster and more efficient payment capabilities.

In addition, MeDirect Belgium is exploring an open model that will allow clients to invest in model portfolios tailored to their financial goals. This innovative solution aims to simplify wealth management, making it more accessible and user-friendly for clients seeking to grow their investments.

Financial performance

The Bank delivered net operating profit of €15.0 million in 2024, an increase of 62.7% (2023: €9.2 million). Net operating profit was driven by the following factors:

- Operating income increased by €6.9 million, or 13.1%, to €59.8 million (2023: €52.9 million). This was principally driven by growth across all sectors of mortgage lending, generating higher net interest income, partially offset by increased cost of funding. Growth of €1.0 million or 21.7% was registered in fees from the wealth business and other commissions for a total amount of €5.6 million in 2024.
- Operating costs increased by €1.2 million to €44.8 million (2023: €43.7 million), mainly due to higher personnel costs incurred as the Bank strengthened its resources with new talent in the areas of regulatory compliance, risk management, customer experience and product development. This increase was slightly mitigated by a reduction in operating costs mainly from lower professional services and marketing expenditure.

Expected credit losses ("ECLs") for the financial year 2024 amounted to a €10.8 million net charge (2023: €0.6 million net release), predominantly driven by adverse developments in the ICL portfolio. The net ECL charge impact was due to realised losses as a result of targeted divestments of selected exposures and significant deterioration in a specific lending position. During the comparable period of 2023, the Bank benefited from releases of provisions based on ECL model calculations.

With net operating profit of €15.0 million partly offset by unfavourable ECL impact of €10.8 million, the Bank's net result for financial year 2024 was a profit before tax of €4.2 million (2023: €9.8 million).

Balance Sheet Position

The Bank's balance sheet grew by 3.9% in 2024 and stood at €4.1 billion as of 31 December 2024 (2023: €4.0 billion).

The funding mix shifted moderately further toward customer deposits as the Bank's primary source of funding, mostly through increased retail deposits. At year-end 2024, customer deposits stood at €3.1 billion, an increase of 20.5% from the previous year's €2.5 billion.

After successfully reducing the size of the Bank's ICL portfolio to €166.1 million (net of provisions) by the end of 2023, MeDirect Belgium continued to de-risk its balance sheet. By year-end 2024, the ICL portfolio reduced by a further 50%, to €82.5 million (net of provisions). The Bank proactively reduced the ICL portfolio through non-replacement of repayments and selected loan sales.

Net loans and advances to customers as of 31 December 2024 reached €2.5 billion, an increase of 7.1% when compared with the €2.3 billion of 31 December 2023, driven by increased mortgage lending. Key developments in the mortgage asset class were:

- MeDirect Belgium's Dutch-government guaranteed NHG mortgage activity continued to form the core of its mortgage portfolio, comprising 49% of the Bank's total balance sheet. The partnership with HollandWoont, a leading Dutch NHG origination and servicing platform, enables MeDirect to control the origination of NHG mortgages based on its strategic priorities and market conditions.
- MeDirect Belgium's Dutch buy-to-let mortgage portfolio, established in October 2022 in partnership with Build Finance, more than doubled in size and reached €173.5 million as of 31 December 2024. Using the Build Finance platform, MeDirect is building its Dutch buy-to-let business in a controlled manner and benefits from attractive risk-adjusted returns.
- MeDirect Belgium further expanded its Belgian mortgage lending businesses which registered double-digit growth.

The investment portfolio increased by a net €86.0 million or 9.8%. The effective rate of return on treasury investments improved from 2.5% in 2023 to 3.4% in 2024. One of the key contributing factors was an investment into "AAA" rated notes issued by securitisations of consumer finance, auto loans and mortgage loan receivables originated in the Dutch and German markets.

Capital position of the Bank

MeDirect Belgium's capital and liquidity positions remained adequate, supporting the continuation of its business strategy and further growth. As of 31 December 2024, MeDirect Belgium's Tier 1 capital ratio and total capital ratio stood at 21.3%, both above regulatory requirements, recommendations and management buffers.

Asset Quality

The Bank continued to execute its de-risking strategy and to monitor its asset quality by actively managing its Non-Performing Loan ("NPL") portfolio. As of 31 December 2024, and 2023, the NPL ratio was less than 1%.

ESG and Social responsibility

MeDirect Group continued to integrate Environmental, Social and Governance ("ESG") principles into its business and to raise ESG awareness throughout the organisation. During 2024, MeDirect Belgium expanded its offering of green funds and ETFs and green mortgage loans. Additionally, the Group reported its carbon footprint for the first time in December 2023 and has since continued to monitor its carbon emissions. This effort aligns with MeDirect Belgium's commitment to reducing its own carbon footprint and financed emissions to achieve net-zero by 2050, in line with the Group's ESG Strategy. To reduce its own emissions, the MeDirect Group sources 100% green energy for its offices in the Netherlands and the United Kingdom, while its Malta and Belgium offices are LEED (Leadership in Energy and Environmental Design) and CWaPE (Commission wallonne pour l'énergie) certified.



In 2024, the MeDirect Group continued to improve its EcoVadis rating, earning a prestigious Platinum medal. This recognition places the Group in the top 1% of companies rated by EcoVadis, a leading sustainability rating provider. The Group continues its efforts to increase ESG awareness throughout the organisation.

Diversity and inclusion are two important values for the MeDirect Group. As of December 2024, the Group had employees from over 30 nationalities, with 62% of the workforce being male and 38% female. The Group prides itself on developing its employees and promoting from within. It contributes to the local communities in which it operates by supporting charitable organisations as well as talented individuals in areas such as sports and culture through sponsorships, donations and the voluntary actions of its employees.

Conclusion

In 2024, MeDirect Belgium took an important step toward securing a bright future. On 28 November 2024, Banka CREDITAS agreed to purchase the MeDirect Group, subject to all required regulatory approvals. The prospective acquisition of MeDirect Group by Banka CREDITAS is expected to provide the Group with a strong controlling shareholder, committed to reinforcing the Group's capital base and facilitating its sustainable growth plans in each of the markets in which it competes. Banka CREDITAS has both the financial strength and industry expertise to work in partnership with the MeDirect Group with the aim of continuing to build MeDirect Belgium's client franchise and technology platform and of producing stable and consistent profitability.

During 2024, MeDirect Belgium continued to execute its business strategy. The Bank continued to de-risk its balance sheet and to reduce the size of its ICL portfolio, whilst maintaining adequate prudential ratios, in excess of regulatory requirements, recommendations and management buffers.

At the same time, MeDirect Belgium continued to build its customer-centric platform, adding additional features and functionalities designed to make banking and wealth management as effortless as possible. With the introduction of globally recognised payment solutions, MeDirect Belgium has consistently demonstrated its ability to innovate and adapt. Supported by a cutting-edge technological infrastructure, MeDirect Belgium is well-positioned to continue its trajectory of growth and innovation, shaping the future of digital banking for years to come.

By listening to client feedback and staying ahead of industry trends, MeDirect Belgium intends to continue to deliver solutions that cater to the evolving needs of its retail customer base.

Confirmation of MeDirect Belgium's going concern assessment

In accordance with art. 3:6 of the Belgian Code of Companies and Associations, MeDirect Belgium motivates the application of the going concern despite the losses carried forward from prior years. After due consideration of MeDirect Belgium's business, profitability projections, funding and capital plans, robust risk and internal control processes and taking into account the broader macroeconomic outlook, the Directors declare that MeDirect Belgium is in a position to continue operating as a going concern for the foreseeable future¹. The Board is satisfied that at the time of approving these financial statements, MeDirect Belgium will have sufficient capital to meet not only its regulatory capital and liquidity requirements but also any internal risk buffers and any buffers recommended by its regulators.

Events after the reporting date

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

¹ Statement pursuant to Article 3:6, §1, 6° of the Belgian Code of Companies and Associations.

Pillar 3 disclosures

MeDirect Belgium is required to publish Pillar 3 quantitative and qualitative disclosure requirements.¹ MeDirect Belgium publishes its Pillar 3 disclosures on an annual basis as a separate document that is available on MeDirect Belgium's website. In addition, the Group publishes its full Pillar 3 disclosures annually as a separate document that is available on the Group's website.

Additional disclosures²

Capital increases – report

There have not been share capital increases by the shareholders of MeDirect Belgium in the reporting period.

Own shares

MeDirect Belgium does not hold shares or certificates of shares of the Bank itself.

Bank branches

MeDirect Belgium does not have a branch in other countries in the sense of Art. 86 of the Belgian Banking Law as it does not offer the activities listed under Art. 4 of the same law in any country other than Belgium.

Certain operational activities are performed out of Malta and the United Kingdom.

As regards Malta, the Bank has established a place of business (so-called "Overseas Company") in Malta bearing number OC945 with business address The Centre, Tigne Point, Sliema TPO 0001 Malta. The Overseas Company in Malta prepares financial statements and files a tax return in Malta.

Research and development

MeDirect Belgium is the pioneer in online wealth management in Belgium and continues to strive for innovation at the service of its clients. The client-centric approach of the Bank results in an ongoing focus on potential improvements in the customer experience, the online user experience and user interface, as well as products and services.

In parallel with the numerous IT projects that cater for new regulatory requirements, the Bank will continue to focus on rolling out a number of new products and services to the benefits of its clients.

These IT projects are mainly carried out by MeDirect Malta.

Conflict of interest with a director of the Bank

There were no conflicts of interest within the reporting year that fall under the definition of Article 7:96, 7:115 and 7:117 of the Belgian Code of Companies and Associations.

A property law related ("vermogensrechtelijke") interest of a director of the Bank

No such direct or indirect interest of a director has been communicated to the other directors of MeDirect Belgium.

¹ As governed by the disclosure requirements of EU Regulation No 575/2013 (CRR) of the European Parliament and of the Council of 26 June 2013 and the Commission Implementing Regulation (EU) 2021/637 of 15 March 2021.

² In accordance with the Belgian Code of Companies and Associations Art. 3:6, §1, 7°

Decisions regarding affiliated companies

MeDirect Belgium is not a listed company. Therefore, Article 7:97 of the Belgian Code of Companies and Associations is not applicable to decisions regarding affiliated companies.

Board of Directors

The directors of the Bank who held office during 2024 were:

Mrs Marcia de Wachter	Chair	Appointed on 23 September 2020 with term expiring on 28 May 2026
Mr Alain Moreau	Chief Executive Officer	Appointed on 17 July 2023 with term expiring on 31 May 2029
Mr Jean Marcel Phe Funchal	Chief Financial Officer	Appointed on 14 May 2024 with term expiring on 30 May 2030
Ms Marija Fenech	Chief Risk Officer	Appointed on 1 January 2024 with term expiring on 30 May 2030
Mr Bart Bronselaer	Independent Non-Executive Director	Appointed on 12 January 2021 with term expiring on 27 May 2027
Mr Frederic Hannequart	Independent Non-Executive Director	Appointed on 14 April 2023 with term expiring on 31 May 2029
Mr John Zarb	Independent Non-Executive Director	Appointed on 9 January 2019 with term expiring on 27 May 2025

The directors of the Bank who held office during 2024 and resigned were:

Mr Michael Bussey	Independent Non-Executive Director	Appointed on 25 May 2023 and resigned on 11 December 2024
Mr Jean-Claude Maher	Chief Operating Officer	Appointed on 17 August 2023 and resigned on 1 February 2025

The directors of the Bank appointed in 2025:

Mr Jean Dessain	Independent Non-Executive Director	Appointed on 19 February 2025 with term expiring on 29 May 2031
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MeDirect makes public the external functions exercised by its directors¹ as at 31 December 2024 in the following table:

Directors of MeDirect Belgium	Company	Function	Sector	Country of incorporation	Listed on regulated market	Shares held by MeDirect Bank
DE WACHTER, Marcia – Independent Non-Executive Chair of the Board	TROPICALFRESH	Non-Executive Director	BV active in the import and export of fresh produce with East Africa (fish, fruits and vegetables)	Belgium	No	No
	BRAIN@TRUST BV	Executive Director	Financial advice	Belgium	No	No
BRONSELAER, Bart – Independent Non-Executive Director	UNITED PENSIONS OFP ²	Non-Executive Director	Pension Fund	Belgium	No	No
	COMITÉ VOOR ONDERWIJS ANNUNTIATEN HEVERLEE	Non-Executive Director	Education/School	Belgium	No	No
	MeDirect Bank (Malta) plc ³	Non-Executive Director	Credit institution	Malta	Yes	No
	MDB Group Limited ³	Non-Executive Director	Financial holding	Malta	No	No
DESSAIN, Jean – Independent Non-Executive Director	REACFIN	Executive director through management company	Consulting and service agencies	Belgium	No	No
HANNEQUART, Frederic – Independent Non-Executive Director	AXA Belgium SA ⁴	Non-Executive Director	Insurance	Belgium	No	No
ZARB, John – Independent Non-Executive Director	TUMAS INVESTMENTS PLC	Non-Executive Director	Investment holding company	Malta	Yes	No
	TUMAS GROUP COMPANY LIMITED (MALTA)	Non-Executive Director	Corporate Management Services, Property Development & Management, Hospitality and Leisure, & Transport and Gaming	Malta	No	No
	FOSTER CLARK PRODUCTS LIMITED	Non-Executive Director	Food and Beverage	Malta	No	No
	MeDirect Bank (Malta) plc ³	Non-Executive Director	Credit institution	Malta	Yes	No
	MDB Group Limited ³	Non-Executive Director	Financial holding	Malta	No	No
MOREAU, Alain – Executive Director (CEO)	Dia'bulles	Non-Executive Director	Not-for-profit	Belgium	No	No
FENECH, Marija – Executive Director (CRO)	-	-	-	-	-	-
PHE FUNCHAL, Jean-Marcel – Executive Director (CFO)	-	-	-	-	-	-

¹ In accordance with article 6 of the NBB regulation of 9 November 2021 concerning the exercise of external functions by the directors and effective leaders of regulated companies.

² Directorship approved by the Financial Services and Markets Authority (FSMA).

³ Directorship approved by the European Central Bank.

⁴ Directorship approved by the National Bank of Belgium.

Consolidated accounts – internal controls and risk management applied in the preparation of the consolidated financial accounts

MeDirect has prepared financial statements on a consolidated basis for the financial year ended 31 December 2024 in accordance with International Financial Reporting Standards as adopted by the EU. These financial statements provide an overview of the internal controls and risk management applied in the preparation of the consolidated financial accounts and are available as a separate document on MeDirect's website.

Expertise of the Audit Committee

As of 31 December 2024, and the date of issue of this Annual Report, the members of the Audit Committee are three non-executive directors of the bank, all being independent directors (including the Chair). All of the members have a broad experience in the banking industry, whether with MeDirect Bank or with other financial institutions.

Frederic Hannequart is the Chair of the Audit Committee. He has more than 15 years' executive and board responsibilities experience with wide breadth of expertise with commercial, product, operations, financial and risk responsibilities.

Enhancing risk governance

MeDirect understands the importance of adopting sound enterprise-wide risk management principles. MeDirect's core objective in the management of risk is to protect its customers and counterparties and to ensure its ability to grow sustainably and continue to develop a strong risk culture.

Managing risk effectively, efficiently and sustainably is an integral part of the Bank's business strategy¹. MeDirect's risk management approach focuses on ensuring continued financial soundness and safeguarding the interests of its stakeholders while retaining the ability to pursue value-creating business opportunities in a fast-changing environment. This is achieved through high standards of corporate governance and sound risk management principles embedded in the Enterprise Risk Management Framework ("ERMF"). The ERMF outlines the highest-level principles for risk management by setting out standards, objectives and key responsibilities of different risks and groups across the Bank.

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

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

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

Risks are monitored through regular and timely risk reporting, enabling the proactive identification and management of risks with the aim of reducing or avoiding undue exposure to various specific risk types. The ERMF identifies ten principal risks which are: business model and strategy risk, capital adequacy, liquidity risk, credit risk, market risk,

¹ A detailed review of MeDirect's use of financial instruments, and its exposure to liquidity risk, credit and market risk, non-financial risk and the related risk management framework and policies is included in Note 2 to the financial statements.

operational risk, IT and information security risk, financial crime risk, regulatory risk and reputational risk. For 2025, however, the Bank has also introduced an eleventh risk category: sustainability risk, covering ESG matters.

Risk appetite limits established by the Board set forth the amount and types of risk that MeDirect is prepared to accept or tolerate when delivering its strategy. These risk appetite limits are embedded in policies, management authorities and limits across the Bank. Frequent and close monitoring of all risk appetite limits, combined with comprehensive reporting to management and the Board ensures that risk is maintained within acceptable levels in accordance with the Bank's risk appetite.

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

MeDirect's Board regularly reviews and monitors controls to address any threats or emerging risks that could potentially impact the operations or financial condition of the Bank. These controls include maintaining an adequate and diversified funding base, implementing interest rate hedging to protect its balance sheet, continuing the reduction of credit risk and the diversification of the balance sheet into lower-risk mortgage assets, and robust operational risk controls, particularly in view of the Bank's increasing reliance on technology to enhance operational efficiency.

Additional disclosures Belgian Bank Law Art. 75 §1

The asset yield of the Bank, which is calculated by dividing the net result by balance sheet total, amounts to 0.08%.

Signed by Marcia De Wachter (Chair) and Alain Moreau (Chief Executive Officer) on 27 May 2025.

DocuSigned by:

Marcia De Wachter

5995836B5AB9447
Marcia De Wachter

Chair

Signed by:

Alain Moreau

51F3B6F58DB4242F...
Alain Moreau

CEO

Who we are

Purpose, Mission and Core Values

Our customer proposition is:

Empowering people to manage their wealth with confidence and autonomy.

Delivering on this exciting mission is why we have built a world class mobile app and digital banking platform, giving our clients a one-stop shop for their wealth and banking needs. Our vision for our customers is embodied in our “My Money, My Choices” branding, which speaks to the freedom and flexibility provided to customers in managing their finances.

We aim to meet the needs of the underserved affluent customer segment and to provide the best digital services available in our markets both to people who want to control their finances and to those want to be guided in their investment journeys. Our solution addresses the needs of a large potential universe, ranging from first time to experienced investors. We offer a wide choice of investment products and a highly convenient platform that enables our customers to achieve their financial goals.

Users of our platform may include:

- affluent individual customers unsatisfied with the offline journey provided by their current bank or investment advisors.
- people who do not have the time or expertise to manage their money and want to delegate or be guided.
- tech-savvy investors who want to access a highly functional trading platform with real-time capabilities and rich information; and
- customers who do not qualify for private banking, which typically caters only to customers with significant investible wealth.

MeDirect addresses these needs with cutting-edge technology and customer-centric solutions. We offer, on a single multi-channel platform with open architecture, a broad range of online investment solutions combined with superior user experience and attractive pricing. Our app provides customers with a wide range of services including trading, advisory and discretionary portfolio management, coupled with daily banking facilitated by our physical and virtual card capabilities.

Technology is the backbone of our success. Our internal tech teams have developed the critical components of our platform, allowing us to deploy seamless service aggregation capabilities. Our technology architecture is state-of-the-art, with scalability and modularity at its core. It has been, built by a talented team recruited from advanced technology sectors including iGaming, Financial Services and Telecom.

Our strategic priorities reflect our **core values**:

Autonomy: We empower our customers and give them the tools to manage their money, their way. We encourage our employees to take ownership of their work and grow their skills.

Innovation: We are results driven and constantly review how we go about delivering on our vision and improving our value proposition.

Transparency: The financial world isn't simple, but the MeDirect app is. We communicate clearly with our clients and our colleagues.

Responsibility: We take our responsibilities to all our stakeholders seriously - customers, employees, regulators, investors and the broader community.

How our vision ties into our core strategy

Our core strategy is based on four main pillars:

1. Scaling up our platform

MeDirect focuses on the affluent customer segment (typically with €10,000 - €1,000,000 in wealth) that values convenience, transparency and choice. MeDirect aims to provide a full range of investment services from brokerage to investment guidance to discretionary portfolio management, combined with high-quality daily banking functions, including physical and virtual cards and digital wallets. We bring to market innovative solutions combining our proprietary software with seamlessly aggregated services from selected partners to create intuitive customer journeys.

MeDirect focuses on the affluent customer segment that values convenience, transparency and choice.

2. Growing a low risk and capital efficient mortgage lending platform

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

We have built mortgage offerings in the Netherlands and Belgium and developed a lending platform that is both scalable and competitive.

3. MeDirect Tech Proprietary platform

MeDirect's technology strategy is a testament to the power of modern software architecture in driving business growth and maintaining a competitive edge. MeDirect's cloud-agnostic approach allows for the seamless integration of services from various third-party providers, enhancing its digital offerings. This strategic selection of partners contributes to a robust and flexible modular ecosystem, capable of supporting the platform's scalability.

The transition from a monolithic setup to a containerised platform was a pivotal move in MeDirect's tech strategy. This shift not only facilitated scaling up to accommodate higher volumes and broader geographies but also ensured cost-efficiency. The adoption of a modular microservices architecture underlines MeDirect's commitment to continuous innovation and its ability to adapt to evolving customer needs.

Strategic selection of partners contributes to a robust and flexible modular ecosystem, capable of supporting the platform's scalability.

MeDirect's proprietary platform design revolves around core elements that prioritise user experience and interfaces, client experience management, order orchestration, payment execution, and transaction management. These elements are underpinned by key design principles that ensure a seamless and efficient operation. MeDirect's in-house software development team, recognised for its excellence, plays a crucial role in the ongoing development and refinement of this cutting-edge technology.

Overall, MeDirect's tech architecture is a strategic asset that enables it to offer a comprehensive and multi-channel customer experience while optimising operational efficiency and scalability. This positions MeDirect well to respond swiftly to market demands and to continue its trajectory of innovation and growth.

4. Efficient operating model

MeDirect operates a high-quality service centre in Malta comprising technology, digital channels, operations and other support teams. These teams drive MeDirect's vision to be simpler, better and faster for its customers and workforce. These teams:

- develop software and applications to improve customer experience;
- manage the IT infrastructure and support;
- manage customer operations and change across MeDirect; and
- provide professional services in areas such as finance, risk and treasury.

The Bank has a dedicated marketing and product team, as well as robust control functions. This international set-up means MeDirect can scale up efficiently while remaining flexible and close to local market customer and regulatory requirements.

Bank History

2015	June	Belgian branch obtains banking licence and becomes subsidiary of Maltese bank
2016	January	MDB Group regulated under the Single Supervisory Mechanism
2019	September	Launch of Dutch NHG mortgage business line
2020	May	Successful completion of first Residential Mortgage-Backed Security ("RMBS") Launch of retail mobile app
2022	April	MeDirect launches mortgage products in Belgium in partnership with Allianz
	October	Launch of professional buy-to-let mortgage product in the Netherlands
2023	May	MeDirect Belgium rated 3rd best bank in Belgium by Forbes global survey
	July	Launch of physical and virtual cards contributing to growth in MeDirect customer base
2024	August	MeDirect makes digital wallets accessible for card users through Google Pay and subsequently Apple Pay
	November	Medifin Finance Limited, the direct parent company of MeDirect enters into a share purchase agreement with Banka CREDITAS a.s. subject to regulatory approval
	December	MeDirect Belgium awarded Best Savings Bank award by Spaargids.be Significant milestone with more than €4.2 billion in financial assets held with MeDirect

Board of Directors¹



Marcia De Wachter

Independent Non-Executive Chair of the Board

» Joined the Board of Directors of MeDirect Belgium on 23 September 2020

Former key positions held:

- » Vice-Governor - National Bank of Belgium
- » Economic Advisor - Prime Minister's Office
- » Lecturer in different universities

External appointments:

- » Executive Director - Brain@Trust BV
- » Non-Executive Director - TropicalFresh



Bart Bronselaer

Independent Non-Executive Director

» Joined the Board of Directors of MeDirect Belgium on 12 January 2021

Former key positions held:

- » Head of Debt Markets - Merrill Lynch International (London)
- » Independent expert in financial services
- » Chair of the Board of Directors - Royal Park Investments
- » Chief Executive Officer and Chair of the management committee ad interim of Dexia Holding SA and Director and Chief Executive Officer ad interim of Dexia SA

External appointments:

- » Non-Executive Director - United Pensions OFF
- » Non-Executive Director - Comité voor Onderwijs Annuntiaten Heverlee
- » Non-Executive Director - MeDirect Bank (Malta) plc
- » Non-Executive Director - MDB Group Ltd



John Zarb

Independent Non-Executive Director

» Joined the Board of Directors of MeDirect Belgium on 9 January

Former key positions held:

- » 40 years of experience with PwC in Malta, retiring from his role as Partner in 2014
- » Formerly President of Malta Institute of Accountants and served as Malta's representative on the EU Accounting Regulatory Committee and on the Accountancy Board for several years

External appointments:

- » Non-Executive Director - Tumas Investments plc
- » Non-Executive Director - Tumas Group Company Limited
- » Non-Executive Director - Foster Clark Products Ltd
- » Non-Executive Director - MeDirect Bank (Malta) plc
- » Non-Executive Director - MDB Group Ltd



Jean Dessain

Independent Non-Executive Director

» Joined the Board of Directors of MeDirect Belgium on 19 February 2025 and is the Chair of the Risk Committee

Former key positions held:

- » Former General Manager, Capital & Funding – BNP Paribas Fortis
- » Former Manager, Structured Finance – ABN Amro
- » Former Head of Options Trading – Bank Paribas Belgium
- » Over 30 years' experience in risk management, corporate governance, and quantitative finance

External appointments:

- » Managing Partner at Reacfin

¹ This list reflects the current composition of the Board and does not include former Directors Mr. Mike Bussey and Mr. Jean-Claude Mather who held office during 2024.



Frederic Hannequart

Independent Non-Executive Director

» Joined the Board of Directors of MeDirect Belgium on 14 April 2023 and is the Chair of the Audit Committee

Former key positions held:

- » Chief Business Officer - Euroclear Group
- » Chief Financial Officer/Chief Risk officer - Euroclear Group

External appointments:

- » Non-Executive Director - AXA Belgium SA



Alain Moreau

Executive Director and Chief Executive Officer

» Joined the Board of Directors of MeDirect Belgium on 17 July

Former key positions held:

- » CEO - Deutsche Bank Belgium
- » Global Head of Investment Products & Insurances - Deutsche Bank Group Frankfurt
- » Chief Operating Officer - Deutsche Bank Belgium
- » Chief Investment Officer - Deutsche Bank Belgium



Marija Fenech

Executive Director and Chief Risk Officer

» Joined the Board of Directors of MeDirect Belgium on 1 January 2024

Former key positions held:

- » Chief Risk Officer – MeDirect Bank (Malta) plc



Jean Marcel Phe Funchal

Executive Director and Chief Financial Officer

» Joined the Board of Directors of MeDirect Belgium on 14 May 2024

Former key positions held:

- » Finance Director – Bpost Bank
- » Head of ALM – Bpost Bank
- » Financial Risk Officer – Bpost Bank
- » ALM & Liquidity Roles – BNP Paribas Fortis
- » Risk Consultant – Finalyse
- » Research Fellow – Université Catholique de Louvain
- » Credit Officer – Banco del Café / Central Bank of Guatemala

Financial Statements



Statement of financial position

		2024	2023
	Notes	€000	€000
ASSETS			
Balances with central banks	4	142,252	176,688
Derivative financial instruments	5	174,513	207,438
Loans and advances to financial institutions	6	285,719	317,538
Loans and advances to customers	7	2,513,564	2,346,126
Investments			
- Securities portfolio	8	436,647	426,327
- Securitisation portfolio	8	393,955	449,881
- Asset-Backed Securitisation portfolio	8	131,586	-
Property and equipment	9	996	1,447
Intangible assets	10	888	2,350
Current tax assets		942	-
Deferred tax assets	11	7,602	7,602
Prepayments and accrued income	12	1,125	688
Other assets	13	22,445	21,063
Total assets		4,112,234	3,957,148
EQUITY			
Called up issued share capital	14	225,000	225,000
Other reserves	14	880	716
Accumulated losses	14	(30,703)	(33,945)
Total equity		195,177	191,771
LIABILITIES			
Derivative financial instruments	5	31,849	24,648
Amounts owed to financial institutions	15	179,634	278,689
Amounts owed to customers	16	3,052,409	2,532,103
Debt securities in issue	17	641,673	916,747
Current tax liabilities		3	981
Provisions for liabilities and other charges	18	120	80
Accruals and deferred income	19	5,048	4,849
Other liabilities	20	6,321	7,280
Total liabilities		3,917,057	3,765,377
Total equity and liabilities		4,112,234	3,957,148
Memorandum items			
Commitments to extend credit and other commitments	29	56,251	153,312

The notes on pages 24 to 154 are an integral part of these financial statements. The financial statements on pages 19 to 154 were approved and authorised for issue by the Board of Directors on 27 May 2025. The financial statements were signed on behalf of the Board of Directors by Marcia de Wachter (Chair) and Alain Moreau (Chief Executive Officer).

DocuSigned by:

Marcia De Wachter
 Marcia De Wachter

chair

Signed by:

Alain Moreau
 Alain Moreau

CEO

Statement of comprehensive income

		2024	2023
	Notes	€000	€000
Interest income *		156,655	125,045
Interest expense		(100,238)	(75,272)
Net interest income	21	56,417	49,773
Fee and commission income		5,629	4,625
Fee and commission expense		(2,170)	(1,515)
Net fee and commission income	22	3,459	3,110
Net trading (losses)/income	23	(3)	41
Other operating income			
– Realised gains on disposal of loans and advances		2	-
– Other losses		(59)	(30)
Total operating income		59,816	52,894
Personnel expenses	24	(12,480)	(10,821)
Depreciation and amortisation	9-10	(3,114)	(2,270)
Other administrative expenses	25	(29,245)	(30,597)
Total operating expenses		(44,839)	(43,688)
Net operating profit before changes in expected credit losses		14,977	9,206
Change in expected credit losses and other credit impairment charges	26	(10,751)	616
Profit for the year before tax		4,226	9,822
Tax expense	27	(820)	(2,014)
Profit for the year - Total comprehensive income		3,406	7,808
- Attributable to equity holders of the parent			

* All interest income is calculated using the effective interest rate (EIR) method.

The notes on pages 24 to 154 are an integral part of these financial statements.

Statement of changes in equity

	Share capital	Other reserves	Accumulated losses	Total
	€000	€000	€000	€000
Balance at 1 January 2023	225,000	224	(41,261)	183,963
Total comprehensive income				
Profit for the year	-	-	7,808	7,808
Total comprehensive income, net of tax	-	-	7,808	7,808
Transfer to legal reserve (Note 14)	-	492	(492)	-
Balance at 31 December 2023	225,000	716	(33,945)	191,771
Balance at 1 January 2024	225,000	716	(33,945)	191,771
Total comprehensive income				
Profit for the year	-	-	3,406	3,406
Total comprehensive income, net of tax	-	-	3,406	3,406
Transfer to legal reserve (Note 14)	-	164	(164)	-
Balance at 31 December 2024	225,000	880	(30,703)	195,177

The notes on pages 24 to 154 are an integral part of these financial statements.

Statement of cash flows

		2024	2023
	Notes	€000	€000
Cash flows from operating activities			
Interest and commission receipts		157,700	127,111
Interest and commission payments		(104,649)	(47,256)
Payments to employees and suppliers		(38,769)	(43,325)
Operating cash flows before changes in operating assets/liabilities		14,282	36,530
(Increase)/decrease in operating assets:			
- Reserve deposit with central banks		(6,394)	(1,959)
- Loans and advances to financial institutions and customers		(88,325)	(324,478)
Increase/(decrease) in operating liabilities:			
- Amounts owed to financial institutions and customers		519,219	428,512
- Other payables		(2,489)	1,215
Tax paid		(2,740)	(1,067)
Net cash from operating activities		433,553	138,753
Cash flows from investing activities			
Acquisition of property and equipment	9	(86)	(4)
Acquisition and development of intangible assets	10	(104)	(115)
Acquisition of investments measured at amortised cost	8	(235,771)	(167,850)
Redemption of investments measured at amortised cost	8	149,782	101,369
Redemption of investments measured at fair value through profit and loss	8	-	820
Net cash used in investing activities		(86,179)	(65,780)
Cash flows from financing activities			
Redemption of debt securities	17	(272,049)	(58,688)
Principal element of lease payments	20	(1,010)	(1,174)
Net advances from immediate parent company		2,374	24,574
Net advances from/(to) other group companies		148	(148)
Net cash used in financing activities		(270,537)	(35,436)
Net increase in cash and cash equivalents		76,837	37,537
Cash and cash equivalents at beginning of year		(98,266)	(135,803)
Cash and cash equivalents at end of year	28	(21,429)	(98,266)

The notes on pages 24 to 154 are an integral part of these financial statements.

Notes to the Financial Statements

1. Summary of material accounting policy information

1.1 Reporting entity

MeDirect Bank SA/NV (the “Bank” or the “Company” or “MeDirect Belgium”) is a public limited liability company domiciled and incorporated in Belgium, with its registered address at Keizerinlaan 66 Boulevard de l’Impératrice, 1000 Brussels, Belgium, is in possession of a credit institution licence and has been established for an unlimited term.

The financial statements of the Bank as at and for the financial year ended 31 December 2024 comprise the financial statements of MeDirect Bank SA/NV (“MeDirect Belgium”), Bastion 2020-1 NHG B.V. (“Bastion 2020-1”), Bastion 2021-1 NHG B.V. (“Bastion 2021-1”) and Bastion 2022-1 NHG B.V. (“Bastion 2022-1”), three controlled special purpose entities utilised as part of the Bank’s funding strategy in respect of the Dutch Mortgage business.

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

MeDirect Belgium invests in Dutch residential mortgages via an established third-party mortgage originator in the Netherlands and Belgian residential mortgage loan product in partnership with Allianz Benelux S.A./N.V.. This offering is underpinned by a robust credit risk framework and will continue to diversify the asset base of MeDirect Belgium into the residential mortgage sector. Also, MeDirect Belgium invests in Dutch buy-to-let mortgage business.

The Bank still holds a portfolio of senior secured loans and revolving credit facilities to finance the business of European corporates.

The Bank has retained substantially all risks and rewards pertaining to the activities of Bastion 2020-1, Bastion 2021-1 and Bastion 2022-1 and hence to assets, liabilities and related income and expenditure attributable to these entities, and as such, all assets, liabilities and related income and expenditure have been reflected within the Bank’s financial statements.

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

1.2 Basis of preparation

The Bank’s consolidated financial statements have been prepared in accordance with the requirements of International Financial Reporting Standards as adopted by the European Union and with the legal and regulatory requirements applicable in Belgium.

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

- derivative financial instruments which are measured at fair value; and
- recognised financial assets designated as hedged items in qualifying fair value hedge relationships which are measured at amortised cost adjusted for changes in fair value attributable to the risk being hedged.

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

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

Standards, interpretations and amendments to published standards effective in 2024

During the financial year ended 31 December 2024, the Bank adopted the following amendments to existing standards but the adoption of these revisions to the requirements of IFRSs as adopted by the EU did not result in significant changes to the Bank's accounting policies impacting the Bank's financial performance and position.

- Lease Liability in a Sale and Leaseback - Amendments to IFRS 16;
- Classification of Liabilities as Current or Non-current and Non-current Liabilities with Covenants - Amendments to IAS 1; and
- Disclosures: Supplier Finance Arrangements – Amendments to IAS 7 and IFRS 7.

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

Interest Rate Benchmark Reform

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

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

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

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

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

As a result, the Bank embarked on an IBOR transition programme, under the governance of the Chief Financial Officer, to facilitate an orderly transition from libors to RFRs. During the financial year ended 31 December 2021, the Bank

successfully transitioned its GBP Libor and Eonia exposures to SONIA and ESTR, respectively, and completed its transition of all remaining exposures with USD Libor dependency by June 2023.

In this respect, as at 31 December 2021, leveraged loans to customers with a gross carrying amount of €35.0 million were transitioned from underlying GBP Libor reference rates to SONIA rates. The amendments to all such contracts were deemed to be necessary as a direct consequence of the IBOR reform. In addition, the new basis for each contract was also deemed to be economically equivalent to the previous basis, which was achieved through the inclusion of credit spread adjustments to each contract.

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

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

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

Standards, interpretations and amendments to published standards issued but not yet effective

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

- Amendments to IAS 21: Lack of Exchangeability, effective 1 January 2025;
- Amendments to IFRS 9 and IFRS 7: Disclosures - Classification and Measurement of Financial Instruments, effective 1 January 2026;
- Amendments to IFRS 9 and IFRS 7: Disclosures - Contracts Referencing Nature-dependent Electricity, effective 1 January 2026;
- Annual Improvements to IFRS Accounting Standards - Volume 11, effective 1 January 2026;
- IFRS 18 Presentation and Disclosure in Financial Statements, effective 1 January 2027;
- IFRS 19 Subsidiaries without Public Accountability: Disclosures, effective 1 January 2027; and
- Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture, available for optional adoption/effective date deferred indefinitely.

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

The Bank's business, profitability projections, funding and capital plans under base and stress scenarios, together with a range of other factors such as the economic outlook along with ongoing developments in EU economies indicate that the Bank will have sufficient capital, under both the base and stress scenarios, to meet not only the regulatory capital requirements but also any internal risk buffers and any buffers recommended by the regulators throughout the forthcoming financial period. The projections confirmed that the Bank will have an adequate level of funding and liquidity that will allow the relevant minimum regulatory requirements to be satisfied. Furthermore, these financial projections do not consider the additional capital that may be invested by Banka CREDITAS a.s.

into MDB Group Limited and its subsidiary companies, as stated in the company announcement issued by MeDirect Malta, once the share purchase agreement is approved by the regulatory authorities.

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

1.3 Consolidation

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

1.4 Foreign currency transactions and balances

a) Functional and presentation currency

Items included in the financial statements of each of the Bank's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The functional currency of all Bank entities is the euro. The financial statements are presented in euro, which is also the Bank's presentation currency. The amounts are rounded to the nearest thousand euro, unless otherwise stated.

b) Transactions and balances

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

1.5 Financial assets

1.5.1 Initial recognition and derecognition

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

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

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

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

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

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

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

1.5.2 Modifications of terms

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised.

If the cash flows of the renegotiated asset are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised, and the new financial asset is recognised at fair value.

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

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

1.5.3 Classification and measurement

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

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

- Amortised cost; or
- Fair value through profit or loss ("FVTPL").

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

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

- (i) amortised cost if the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows ('Hold to Collect') and the contractual terms of the financial asset give rise to cash flows that are SPPI; or
- (ii) FVTPL if the financial asset does not pass the business model assessment referred to above and SPPI criteria.

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

- (i) variable interest rates, which typically consider the time value of money, credit risk and other basic lending risks and costs;
- (ii) leverage, which is a contractual cash flow characteristic that results in increased variability in contractual cash flows;
- (iii) modifications of the time value of money; and
- (iv) contractual features that could alter the timing or amount of contractual cash flows of a financial asset, such as contingent events, prepayment and extension options.

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

Financial assets measured at amortised cost

Financial assets that are held to collect the contractual cash flows and which contain contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest are measured at amortised cost. These financial assets are initially measured at fair value, which is generally the cash consideration to originate or purchase the asset including any direct and incremental transaction costs, upon recognition. The Bank's financial assets measured at amortised cost comprise primarily loans and advances to banks, loans and advances to customers, comprising the International Corporate Lending portfolio, the Dutch Mortgage portfolio, the Belgian Mortgage portfolio and a portfolio of debt securities classified under the Securities Investment, Securitisation Investment and Asset-Backed Securitisation Investment portfolio.

Financial instruments at fair value through profit or loss

Financial instruments, other than those held for trading, are classified in this category.

1.5.4 Impairment of financial assets measured at amortised cost

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

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

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

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

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

Three stage expected credit loss approach

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

- Stage 1 - Financial instruments that have not had a significant increase in credit risk (SICR) since initial recognition, or that have "low credit risk" at the reporting date are classified in Stage 1. 12-month ECLs are recorded to measure the expected losses that result from default events that are possible within 12 months after the reporting date;
- Stage 2 - Financial instruments that have experienced a SICR since initial recognition are classified in Stage 2. Lifetime ECLs are recorded to measure the expected losses that result from all possible default events over the expected life of the financial instrument; and
- Stage 3 / POCI - Financial instruments that demonstrate an increase in likelihood of default and which are considered to be in default or credit-impaired (also at origination), are classified in Stage 3, also requiring the measurement of lifetime ECLs. Financial instruments that provide evidence of being credit-impaired at initial recognition, are classified as Purchase-Originated Credit Impaired (POCI), also requiring the measurement of lifetime ECLs.

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

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

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

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

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

Significant increase in credit risk (SICR) or Stage 2

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

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

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

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

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

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

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

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

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

● ***International Corporate Lending portfolio***

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

- Use of qualitative SICR triggers, including for example evidence of past due information, significant changes in the operating or borrowing performance of the borrower;
- Use of quantitative SICR assessment based on a ratings-based approach using lifetime 'Point in Time' (PiT) Probabilities of Default (PDs) (i.e. PD in current economic conditions); and
- Hard trigger (Internal credit classification) - financial asset that has a credit quality classification of "Under surveillance" is Stage 2, classification of "Impaired" is Stage 3.

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

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

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

The quantitative SICR staging decision uses both a relative and an absolute threshold approach. The relative threshold approach involves calculating the magnitude of the difference between the reporting date rating and the origination date rating based on the deterioration in the number of notches between the two ratings. The appropriate stage is determined based on the magnitude of this difference.

Although the Bank has adopted a ratings-based approach (i.e. based on notch deterioration) for its SICR assessment, each implied rating is represented by an underlying PD. A two notch rating downgrade from origination is considered a SICR trigger.

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

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

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

Hard Trigger based on Internal Risk Classifications

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

● *Dutch Mortgage portfolio*

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

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

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

- Change in Probability of Default: lifetime PD of the exposure on the reporting date exceeds its lifetime PD at initial recognition by more than 200%; or
- Absolute level: 12-month PD of the exposure on the reporting date exceeds 20%.

The following are also deemed to give rise to SICR:

1. Forbearance events where exposures are not 30 days past due ("DPD");
2. Where payments in respect of the exposure are 30 DPD or more.

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

● ***Belgian Mortgage and Dutch Buy-to-Let Mortgage portfolio***

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

● ***Securities Investment portfolio***

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

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

● ***Securitisation Investment and Asset-Backed Securitisation Investment portfolios***

Due to the unique characteristics of Collateralised Loan Obligation ("CLO") and Asset-Backed Security ("ABS") vehicles, the definitions for SICR differ from the Bank's Credit Policy.

In respect of tranches (or notes) of CLOs and ABSs to which an investment-grade Implied Rating is assigned, the Bank makes use of the low credit risk exemption. As a result, the Bank assumes that no SICR has occurred since initial recognition as long as the tranche retains an investment-grade Implied Rating. Hence, the Bank assumes that the credit risk attributable to tranches to which the low credit risk exemption is applied has not increased significantly since initial recognition.

Similar to the Securities Investment portfolio criteria, investment-grade rating is an example of a financial instrument that may be considered as having low credit risk. Therefore, the Bank measures 12-month ECL for publicly rated investment-grade tranches of CLOs.

Notwithstanding the above, the following triggers in the Group Credit Policy have been identified as the most relevant to the Bank's investments in both AAA-rated CLO and ABS notes.

1. Quantitative trigger based on a material reduction in the secondary market price of the notes in which MeDirect invested (where feasible). Active trading of the note in which MeDirect is invested at or below 90c in the Euro should trigger consideration of SICR.
2. Quantitative triggers based on CLO / ABS vehicle performance triggers such as cash re-direction and/or outstanding uncleared principal deficiency ledgers (or similar concept) and/or use of liquidity and/or reserve funds to support the interest payment and amortisation of the debt tranche in which MeDirect invested.
3. Hard trigger based on any external rating agency downgrade for the Class A CLO Senior notes (i.e. AAA rated at origination), in which MeDirect has invested, by four or more notches.

Credit impaired (Stage 3)

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

IFRS 9 introduces a rebuttable presumption that default does not occur later than when a contractual repayment relating to a financial asset is 90 days past due, unless reasonable and supportable information is available to demonstrate that a more lagging criterion is more appropriate. This presumption has not been rebutted by the Bank for its lending portfolios, meaning that default is deemed not to have occurred later than when a financial asset is 90 days past due.

Although this presumption is applicable to all lending portfolios managed by the Bank, it is much more relevant for identifying defaulted exposures within the Dutch and Belgian Mortgage portfolios.

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

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

- (i) exposures which are past due by more than 90 days;
- (ii) the debtor is assessed as unlikely to pay its credit obligations in full without realisation of collateral, regardless of the existence of any past-due amount or of the number of days past due.

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

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

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

- Significant financial difficulty of the issuer or borrower;
- A breach of contract, such as default or past due event;
- The lender(s) of the borrower having granted a concession(s) to the borrower for economic or contractual reasons relating to the borrower’s financial difficulty (this would not have otherwise been considered);
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- The disappearance of an active market for that financial asset because of financial difficulties; or
- The purchase or recognition of a financial asset at a deep discount that reflects the incurred credit losses.

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

Write-offs

Financial assets and the associated credit loss allowances are normally written off, either partially or in full, when there is no realistic prospect of recovery. In the case of international corporate loans, the determination is made after considering facts and circumstances relating the borrower’s financial position, typically following a distressed restructure. Where loans are secured, this is generally after receipt of any proceeds from the realisation of security. In circumstances where the net realisable value of any collateral has been determined and there is no reasonable expectation of further recovery, write-off may be earlier (see Note 2.2.5). In this respect, the Bank writes off financial assets when the Management Credit Committee determines that the balance is uncollectible, but this does not constitute that the debt has been cancelled.

Purchased or originated credit-impaired

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

Movement between stages

Financial instruments are transferred out of Stage 2 if their credit risk is no longer considered to be "significantly increased" since initial recognition.

- For IFRS 9 purposes, the Bank has determined the below guideline approach to determine whether movement from Stage 2 to Stage 1 is appropriate:
- Where qualitative triggers were used to determine SICR: Stage transfer from Stage 2 to Stage 1 is subjective. Where implied rating SICR triggers were not a determinant for reclassification in the first instance, it is expected that any qualitative SICR triggers that were observed that derived the SICR event must be fully resolved and evidenced for a 90-day period prior to any reclassification.
- Where quantitative triggers were used to determine SICR, the financial asset must evidence an improvement and return to the external or implied default risk rating at the point of inception (instrument should evidence an implied default rating in line or better than the original inception rating in order to trigger a reclassification from Stage 2 to Stage 1).
- Any instrument that is no longer 30-days past due can only be reclassified to Stage 1 when: (i) all contractual arrears have been remediated (Nil days past due); and (ii) no further non-payment has been observed for a minimum of 90 days. This is subject to regulatory materiality thresholds defined in the Bank Credit Risk policy.

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

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

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

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

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

Measurement of expected credit losses

The Bank first determines whether there is an increased likelihood of default present for an individually assessed financial asset, and then measures credit loss allowances using different models for non credit-impaired and credit-impaired financial assets, as follows:

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

For credit-impaired exposures (Stage 3 assets), the Bank generally models ECLs based on an internally developed methodology to estimate the expected cash flows by reference to borrowers' enterprise values and forecasted operating cash flows for exposures within the International Corporate Lending portfolio.

With respect to the Dutch Mortgages, Securitisation Investment and Securities Investment portfolios, the ECLs on all assets (irrespective of staging) are modelled using statistical models developed by an external vendor. For the Belgian Mortgage Lending portfolio, the ECL for the mortgage portfolio is determined using internally developed statistical models. For the Asset-Backed Securitisation Investment portfolio, ECLs are determined utilising historical information and applying applicable credit enhancements.

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

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

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

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

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

Probability of Default

One of the key risk parameters used by the Bank in its ECL calculation is the probability that the obligor defaults either within the next 12-month period (in case of Stage 1 exposures) or over the lifetime of the exposure (in case of Stage 2/3 exposures).

Since the PD is a probability measure used to capture the likelihood that a customer will default over a defined period of time, this is estimated at a customer level.

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

Loss Given Default

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

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

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

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

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

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

With regards to the Belgian Residential Mortgages portfolio, as the Bank has no internal loss data, LGD parameters are based on external, publicly available sources of loss data for similar assets.

For the Securitisation Investment portfolio, as for PDs, the LGDs are determined by taking a nominal amount of the investment made considering the low credit risk of the investment.

For the Asset-Back Securitisation Investment portfolio, the LGDs are determined by considering the value security within the overall structure considering the low credit risk of the investment.

Exposure at Default

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

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

- ***International Corporate Lending portfolio***

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

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

- ***Dutch Mortgage portfolio***

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

- ***Belgian Mortgage portfolio***

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

- ***Securities Investment portfolio***

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

- ***Securitisation Investment and Asset-Backed Securitisation Investment portfolios***

For the Bank's Securitisation Investment and Asset-Backed Securitisation Investment portfolios, the EAD is based on the outstanding exposure amount as at reporting date.

Credit-Impaired financial assets (Stage 3)

For Stage 3 assets in the International Corporate Lending portfolio, the Bank estimates ECL on an individual basis. When assessing impairment for these assets, the recoverable amount corresponds to the present value of estimated future cash flows.

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

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

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

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

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

Forward-looking information

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

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

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

IFRS 9 does not require forecasts of future conditions to extend over the entire expected life of the financial instrument in question. The Bank uses macroeconomic forecasts from the external vendor for up to 20 quarters to estimate a forward-looking ECL. For maturities that go beyond this 5-year period, the Bank extrapolates projections from available data. For the Asset-Backed Securitisation Investment portfolio, historical information as well as credit enhancements are utilised to determine future ECLs.

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

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

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

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

Modified financial assets

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

- (i) If the modification is not considered to be significant, the modified cash flows are considered to pertain to the original financial asset; or
- (ii) If the modification is considered to be significant, the original asset is considered to be extinguished and accordingly the original asset is derecognised and replaced by a new financial asset.

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

In this regard, when considering a change in the contractual terms, the Bank evaluates how the cash flows under the revised terms compare with the cash flows under the original terms of the loan and also takes into consideration qualitative factors. Qualitative considerations include extension of terms, insertion of credit enhancements, changes in interest rates, etc. When a number of such considerations are present, in conjunction with the assessment of the difference between the original and revised cashflows, a modification could be deemed to be substantial, resulting in the derecognition of the financial instrument.

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

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

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

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

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

1.6 Offsetting financial instruments

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

1.7 Intangible assets

Computer software

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

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

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

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

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

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in profit or loss.

1.8 Property, plant and equipment

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

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

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

- leasehold improvements	4 - 10 years (limited to lease term)
- computer equipment	3 - 5 years
- other equipment	4 years
- fixtures and fittings	10 years
- motor vehicles	5 years

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

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

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

1.9 Impairment of non-financial intangible assets

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

1.10 Non-current assets classified as held for sale

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

1.11 Current and deferred income tax

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

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

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

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

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by

the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

1.12 Share capital

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

1.13 Financial liabilities

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

These comprise principally amounts owed to financial institutions, amounts owed to customers, other payables and other liabilities.

1.14 Derivative financial instruments

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

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

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

1.14.1 Fair value hedges

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

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

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

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

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

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

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

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

1.15 Provisions

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

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

1.16 Interest income and expense

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

When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses.

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

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

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

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

1.17 Fees and commissions

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

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

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

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

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

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

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

1.18 Net trading income

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

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

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

1.20 Leases

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

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

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

1.21 Share-based compensation

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

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

Share-based compensation is recognised as an employee benefit expense from grant date over the relative vesting period, which in the case of retention bonuses occurs through graded vesting. The total amount to be expensed from grant date over the vesting period is determined by reference to the fair value of the awards at the grant date, reflecting

the fair valuation of MDB Group Limited's ordinary shares on award date. Accordingly, the Bank amortises on a straight-line basis the compensation cost arising on the grant of such awards over the nominal vesting period for employees based on the graded vesting of the plan. The resultant liability is re-measured at the end of each reporting period and at the date of settlement, with changes in fair value recognised in profit or loss.

1.22 Loan commitments

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

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

1.23 Cash and cash equivalents

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

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

1.24 Customer assets

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

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

2. Financial Risk Management

2.1 Introduction and overview

The Bank's core business activities include:

- deposit taking;
- the provision of wealth management and investment services; and
- the granting of residential mortgage loans in the Dutch and Belgian markets, the granting of buy-to-let mortgages in the Dutch market and the relative securitisation of sub-portfolios of such Dutch residential mortgage loans through RMBS transactions.

The Bank also provides basic retail services such as money transfer and spot currency exchange and its retail customers may also use the MeDirect debit card that may be used globally, wherever Mastercard is accepted. As from 2024, MeDirect made digital wallets accessible for card users as customers may now connect their debit card to their Apple Pay or Google Pay digital wallets. Currency swaps, foreign exchange forwards and interest rate swaps are also entered into for risk management purposes.

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

The major components within the Bank's asset base are: the Dutch Mortgage portfolio, comprising residential mortgage lending to Dutch customers; the Dutch buy-to-let mortgage portfolio; the Belgian Mortgage portfolio, comprising residential mortgage lending to Belgian customers; the International Corporate Lending portfolio, comprising loans to international corporates; the Securities Investment portfolio principally comprising investment-grade debt securities; the Securitisation Investment portfolio, comprising acquired positions in Collateralised Loan Obligation ("CLO") transactions managed by third parties; and the Asset-Backed Securitisation Investment portfolio, comprising consumer loans, auto loans, and residential mortgage loans to Dutch and German customers.

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

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

2.1.1 Risk management framework

The Bank recognises the need to have an effective and efficient Risk Management Function that is an integral part of the Bank's strategic planning and management processes and has therefore adopted a comprehensive enterprise risk management approach that provides a balance between sustainable growth and maximising long term value while managing the associated risks. The Risk Management Function is actively involved in all material strategic and business as usual risk management decisions, including budgets and change management, and is adequately structured to deliver a holistic view of the whole range of risks faced by the Bank in its strategic decision-making.

The Enterprise Risk Management Framework ("ERMF") provides a comprehensive definition of the Bank's risk management processes to enable informed risk-based decision-making. This framework provides a detailed structure as to how the Bank identifies, manages, measures and monitors material risks, including policies, procedures, risk limits

and risk controls. This ensures adequate, timely and continuous identification, measurement, assessment, monitoring, management, mitigation and reporting of the risks at the business line, institution and consolidated or sub-consolidated levels.

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

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



*On occasions, the Legal team also performs duties within the first line of defence

Figure 1: Three Lines of Defence Model

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

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

2.2 Credit risk

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

2.2.1 Management of credit risk

The Bank's Credit Policy establishes the principles, credit standards, monitoring and reporting requirements and escalation and approval processes that govern the ongoing management of the Bank's credit risk exposure.

The Bank's Board of Directors has defined risk appetite limits based on the Capital Requirements Regulation ("CRR"), Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012, governing large exposures as well as prudential requirements. Exposure limits are monitored on a regular basis by the Risk, Corporate Credit and Treasury teams. Amongst other things, the Credit Policy for each asset class outlines the following specific exposure and trading limits:

- Concentration limits;
- Country limits;
- Portfolio limits; and
- Minimum credit quality within each asset class.

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

The Bank's objective is to manage its credit portfolios, maintaining a sound and prudent credit risk profile, whilst optimising returns for the Bank. To facilitate achieving this target, the Bank invests in a diversified portfolio of financial assets, including both high quality securities with strong ratings stability and a diversified portfolio of loans to corporates, whose higher returns are viewed as justifying a greater level of risk. In accordance with its business strategy, the Bank continued to reduce its exposure to the International Corporate Lending portfolio, with the expectation that the Bank will exit this asset class. The portfolio size has reduced by 50% over the last financial year.

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

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

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

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

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

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

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

The Treasury function is also responsible for managing the AAA-rated CLO and ABS portfolio, with the assistance of Finance and overseen by the risk function, under the oversight of the Management Credit Committee ("MCC").

The following table presents the maximum exposure to credit risk from on-balance sheet and off-balance sheet financial instruments, before taking account of any collateral held or other credit enhancements. For financial assets recognised on balance sheet, the maximum exposure to credit risk equals their carrying amount for on balance sheet exposures. For loan commitments and other credit-related commitments, it is generally the full amount of the committed facilities.

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

	2024	2023
	€000	€000
On balance sheet net exposure:		
Financial assets measured at amortised cost		
Balances with central banks	142,252	176,688
Loans and advances to financial institutions	285,719	317,538
Loans and advances to customers	2,513,564	2,346,126
- International Corporate Lending portfolio	82,500	166,144
- Dutch Mortgage portfolio	2,202,281	2,104,568
- Belgian Mortgage portfolio	365,380	254,937
- IFRS basis adjustment: Mortgage portfolio	(142,246)	(183,180)
- Accrued interest	5,649	3,657
Investments measured at amortised cost	962,188	876,208
- Securities portfolio	436,647	426,327
- Securitisation portfolio	393,955	449,881
- Asset-Backed Securitisation portfolio	131,586	-
Accrued income	959	529
Loans to related parties (included in other assets)	-	1,337
Other receivables (included in other assets)	144	161
Other assets (included in other assets)	21,305	19,042
	3,926,131	3,737,629
Instruments mandatorily measured at fair value through profit or loss	174,513	207,438
- Held for trading derivative financial instruments	-	198
- Held for risk management derivative financial instruments	174,513	207,240
	4,100,644	3,945,067
Off balance sheet at nominal amount:		
Commitments to extend credit and other commitments	56,251	153,312

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

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

	2024		2023	
	Gross carrying/ nominal amount	Credit loss allowance	Gross carrying/ nominal amount	Credit loss allowance
	€000	€000	€000	€000
Financial assets measured at amortised cost				
Balances with central banks	142,253	(1)	176,689	(1)
Loans and advances to financial institutions	285,719	-	317,538	-
Loans and advances to customers	2,523,863	(10,299)	2,348,882	(2,756)
- International Corporate Lending portfolio	91,700	(9,200)	168,240	(2,096)
- Dutch Mortgage portfolio	2,202,532	(251)	2,104,853	(285)
- Belgian Mortgage portfolio	365,934	(554)	255,290	(353)
- IFRS basis adjustment: Mortgage portfolio	(142,246)	-	(183,180)	-
- Accrued interest	5,943	(294)	3,679	(22)
Investments measured at amortised cost	962,368	(180)	876,285	(77)
- Securities portfolio	436,702	(55)	426,359	(32)
- Securitisation portfolio	393,994	(39)	449,926	(45)
- Asset-Backed Securitisation portfolio	131,672	(86)	-	-
Accrued income	959	-	529	-
Loans to related parties (included in other assets)	-	-	1,337	-
Other receivables (included in other assets)	144	-	161	-
Other assets (included in other assets)	21,305	-	19,042	-
	3,936,611	(10,480)	3,740,463	(2,834)
Off balance sheet at nominal amount:				
Commitments to extend credit and other commitments	56,372	(121)	153,392	(80)
Total	3,992,983	(10,601)	3,893,855	(2,914)

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

	2024	2023
	€000	€000
Instruments mandatorily measured at fair value through profit or loss		
- Held for trading derivative financial Instruments	-	198
- Held for risk management derivative financial instruments	174,513	207,240
Total	174,513	207,438

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

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

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

Stage 1 (Performing)

1. Regular - no material credit concerns.
2. Focus - no immediate prospect that a credit loss will ultimately be suffered, but worthy of close credit oversight. (This credit classification rating is not applicable to the International Corporate Lending portfolio).

Stage 2 (Underperforming)

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

Stage 3 (Non-performing)

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

The financial assets recorded in each stage have the following characteristics:

- Stage 1: Non credit-impaired and without significant increase in credit risk on which a 12-month ECL is recognised (Regular and Focus internal classifications)
- Stage 2: A significant increase in credit risk has been experienced since initial recognition on which a lifetime ECL is recognised (Under Surveillance internal classification)
- Stage 3/POCI: An increased likelihood of default and are therefore considered to be in default or otherwise credit-impaired on which a lifetime specific ECL is recognised (Doubtful and Write-off internal classifications)

Deteriorating Credits

The Bank determines that a financial instrument is credit-impaired and in Stage 3 by considering an increased likelihood of default, primarily whether:

- contractual payments of either principal or interest are past due by more than 90 days;
- there are other indications that the borrower is unlikely to pay, such as when a concession has been granted to the borrower for economic or legal reasons relating to the borrower's financial condition; and
- the loan is otherwise considered to be in default.

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

The Bank is required to identify non-performing exposures (“NPEs”) and to assess the recoverability of the recognised exposures.

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

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

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

The impact on borrowers’ financial performance of the macroeconomic impacts of the Ukraine-Russia and Israel-Gaza conflicts as well as tariffs imposed by the U.S. government, seeing increased cost and energy inflation on the financial performance of borrowers within the Bank’s lending portfolios, is captured within the quantitative assessment determined within the Bank’s IFRS 9 model, since it is taken into account within the macro-economic scenarios used to determine the probability weighted ECL, as well as in the lifetime PiT PDs at reporting date used to determine SICR by comparing the magnitude of the difference between the corresponding reporting date implied rating and the origination date implied rating.

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

As described in more detail in section 1.5 of the financial statements, the staging criteria applied in respect of exposures classified within the Dutch Mortgage portfolio are based on credit deterioration indicators such as delinquency levels, forbearance activity and changes in PDs modelled by an external vendor on the basis of forecasted macro-economic scenarios which are revised to reflect the elevated level of economic uncertainty driven by the military conflict between Russia and Ukraine and between Israel and Hamas and the high interest rates as explained in more detail in Note 2.2.7 - ‘Current Conditions and Forward-looking information incorporated in the ECL model’. In this regard, the staging criteria are still deemed to be appropriate, with the impact of these conflicts on the credit risk profile of the Dutch Mortgage portfolio being captured in the modelling of PDs. Through climate-adjusted scenarios and a statistical model sourced from an external vendor the Bank estimates the climate-adjusted credit loss allowances of its exposures classified within Dutch Mortgages portfolio.

Exposures within the Securities Investment and Securitisation Investment portfolios are typically rated. Publicly rated exposures predominantly meet the definition of investment-grade rating and, in this respect, are considered to have low credit risk. A SICR assessment is only performed in respect of exposures to which a sub-investment-grade rating has been attributed.

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

	Performing		Underperforming	Non-performing	Total
	Regular	Focus	Under surveillance	Doubtful	
As at 31 December 2024	€000	€000	€000	€000	€000
On balance sheet at amortised cost:					
Balances with central banks	142,252	-	-	-	142,252
<i>Gross (including accrued interest)</i>	142,253	-	-	-	142,253
<i>Credit loss allowances</i>	(1)	-	-	-	(1)
Loans and advances to financial institutions	285,719	-	-	-	285,719
<i>Gross (including accrued interest)</i>	285,719	-	-	-	285,719
Loans and advances to customers	2,469,814	8,192	20,370	15,188	2,513,564
- International Corporate Lending portfolio	61,573	-	8,217	12,710	82,500
<i>Gross</i>	61,973	-	8,311	21,416	91,700
<i>Credit loss allowances</i>	(400)	-	(94)	(8,706)	(9,200)
- Dutch Mortgage portfolio	2,191,755	4,695	5,086	745	2,202,281
<i>Gross</i>	2,191,869	4,705	5,197	761	2,202,532
<i>Credit loss allowances</i>	(114)	(10)	(111)	(16)	(251)
- Belgian Mortgage portfolio	353,480	3,472	6,881	1,547	365,380
<i>Gross</i>	353,761	3,475	6,967	1,731	365,934
<i>Credit loss allowances</i>	(281)	(3)	(86)	(184)	(554)
- IFRS basis adjustment: Mortgage portfolio	(142,246)	-	-	-	(142,246)
- Accrued interest	5,252	25	186	186	5,649
<i>Gross</i>	5,259	25	186	473	5,943
<i>Credit loss allowances</i>	(7)	-	-	(287)	(294)
Investments measured at amortised cost	962,188	-	-	-	962,188
- Securities portfolio	436,647	-	-	-	436,647
<i>Gross (including accrued interest)</i>	436,702	-	-	-	436,702
<i>Credit loss allowances</i>	(55)	-	-	-	(55)
- Securitisation portfolio	393,955	-	-	-	393,955
<i>Gross (including accrued interest)</i>	393,994	-	-	-	393,994
<i>Credit loss allowances</i>	(39)	-	-	-	(39)
- Asset-Backed Securitisation portfolio	131,586	-	-	-	131,586
<i>Gross (including accrued interest)</i>	131,672	-	-	-	131,672
<i>Credit loss allowances</i>	(86)	-	-	-	(86)
Accrued income	959	-	-	-	959
Other receivables (included in other assets)	144	-	-	-	144
Other assets (included in other assets)	21,305	-	-	-	21,305
	3,882,381	8,192	20,370	15,188	3,926,131
Off balance sheet at nominal amount:					
Commitments to extend credit and other commitments					
<i>Nominal amount</i>	55,282	376	157	557	56,372
<i>Credit loss allowances</i>	(85)	-	-	(36)	(121)
	55,197	376	157	521	56,251

	Performing		Underperforming	Non-performing	
	Regular	Focus	Under surveillance	Doubtful	Total
As at 31 December 2023	€000	€000	€000	€000	€000
On balance sheet at amortised cost:					
Balances with central banks	176,688	-	-	-	176,688
<i>Gross (including accrued interest)</i>	176,689	-	-	-	176,689
<i>Credit loss allowances</i>	(1)	-	-	-	(1)
Loans and advances to financial institutions	317,538	-	-	-	317,538
<i>Gross (including accrued interest)</i>	317,538	-	-	-	317,538
Loans and advances to customers	2,217,311	100,195	25,235	3,385	2,346,126
- International Corporate Lending portfolio	85,184	67,294	11,103	2,563	166,144
<i>Gross</i>	85,986	67,922	11,487	2,845	168,240
<i>Credit loss allowances</i>	(802)	(628)	(384)	(282)	(2,096)
- Dutch Mortgage portfolio	2,091,229	3,080	9,962	297	2,104,568
<i>Gross</i>	2,091,365	3,080	10,107	301	2,104,853
<i>Credit loss allowances</i>	(136)	-	(145)	(4)	(285)
- Belgian Mortgage portfolio	221,539	28,843	4,059	496	254,937
<i>Gross</i>	221,761	28,870	4,105	554	255,290
<i>Credit loss allowances</i>	(222)	(27)	(46)	(58)	(353)
- IFRS basis adjustment: Mortgage portfolio	(183,180)	-	-	-	(183,180)
- Accrued interest	2,539	978	111	29	3,657
<i>Gross</i>	2,549	985	114	31	3,679
<i>Credit loss allowances</i>	(10)	(7)	(3)	(2)	(22)
Investments measured at amortised cost	876,208	-	-	-	876,208
- Securities portfolio	426,327	-	-	-	426,327
<i>Gross (including accrued interest)</i>	426,359	-	-	-	426,359
<i>Credit loss allowances</i>	(32)	-	-	-	(32)
- Securitisation portfolio	449,881	-	-	-	449,881
<i>Gross (including accrued interest)</i>	449,926	-	-	-	449,926
<i>Credit loss allowances</i>	(45)	-	-	-	(45)
Accrued income	529	-	-	-	529
Loans to related parties (included in other assets)	1,337	-	-	-	1,337
Other receivables (included in other assets)	161	-	-	-	161
Other assets (included in other assets)	19,042	-	-	-	19,042
	3,608,814	100,195	25,235	3,385	3,737,629
Off balance sheet at nominal amount:					
Commitments to extend credit and other commitments					
<i>Nominal amount</i>	145,132	8,007	253	-	153,392
<i>Credit loss allowances</i>	(18)	(61)	(1)	-	(80)
	145,114	7,946	252	-	153,312

For securities within the Securities Investment, Securitisation Investment and Asset-Backed Securitisation Investment portfolios, the Bank's credit quality classifications encompass a range of more granular external rating grades attributed by external agencies to debt securities. The following table illustrates this information and the amounts presented in the table below are exclusive of accrued interest income:

	Measured at amortised cost	
	2024	2023
	€000	€000
Securities Investment portfolio		
National and regional government securities, supranationals and agencies		
AAA	24,884	-
AA+ to AA-	30,210	68,000
A- to BBB-	49,718	34,812
Other securities		
AAA	260,213	252,365
AA+ to AA-	67,140	67,739
Securitisation Investment portfolio		
AAA	390,936	445,932
Asset-Backed Securitisation Investment portfolio		
AAA	131,185	-
Total	954,286	868,848

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

As at 31 December 2024 and 2023, all the investments in the Securities Investment portfolio, the Securitisation Investment portfolio and the Asset-Backed Securitisation Investment portfolio are classified as regular.

2.2.3 Detailed information on credit quality of financial assets

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

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

	Gross carrying/nominal amount				Credit loss allowance				ECL coverage %			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	€000	€000	€000	€000	€000	€000	€000	€000	%	%	%	%
As at 31 December 2024												
On balance sheet at amortised cost:												
Balances with central banks (including accrued interest)	142,253	-	-	142,253	(1)	-	-	(1)	-	-	-	-
Loans and advances to financial institutions (including accrued interest)	285,719	-	-	285,719	-	-	-	-	-	-	-	-
Loans and advances to customers												
- International Corporate Lending portfolio	61,973	8,311	21,416	91,700	(400)	(94)	(8,706)	(9,200)	0.6	1.1	40.7	10.0
- Dutch Mortgage portfolio	2,196,574	5,197	761	2,202,532	(124)	(111)	(16)	(251)	-	2.1	2.1	-
- Belgian Mortgage portfolio	357,236	6,967	1,731	365,934	(284)	(86)	(184)	(554)	0.1	1.2	10.6	0.2
- IFRS basis adjustment: Mortgage portfolio	(142,246)	-	-	(142,246)	-	-	-	-	-	-	-	-
- Accrued interest	5,284	186	473	5,943	(7)	-	(287)	(294)	0.1	-	60.7	4.9
Investments												
- Securities portfolio (including accrued interest)	436,702	-	-	436,702	(55)	-	-	(55)	-	-	-	-
- Securitisation portfolio (including accrued interest)	393,994	-	-	393,994	(39)	-	-	(39)	-	-	-	-
- Asset-Backed Securitisation portfolio (including accrued interest)	131,672	-	-	131,672	(86)	-	-	(86)	0.1	-	-	0.1
Accrued income	959	-	-	959	-	-	-	-	-	-	-	-
Other receivables (included in other assets)	144	-	-	144	-	-	-	-	-	-	-	-
Other assets (included in other assets)	21,305	-	-	21,305	-	-	-	-	-	-	-	-
Off balance sheet at nominal amount:												
Commitments to extend credit and other commitments	55,658	157	557	56,372	(85)	-	(36)	(121)	0.2	-	6.5	0.2
	3,947,227	20,818	24,938	3,992,983	(1,081)	(291)	(9,229)	(10,601)	-	1.4	37.0	0.3

	Gross carrying/nominal amount				Credit loss allowance				ECL coverage %			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	€000	€000	€000	€000	€000	€000	€000	€000	%	%	%	%
As at 31 December 2023												
On balance sheet at amortised cost:												
Balances with central banks (including accrued interest)	176,689	-	-	176,689	(1)	-	-	(1)	-	-	-	-
Loans and advances to financial institutions (including accrued interest)	317,538	-	-	317,538	-	-	-	-	-	-	-	-
Loans and advances to customers												
- International Corporate Lending portfolio	153,908	11,487	2,845	168,240	(1,430)	(384)	(282)	(2,096)	0.9	3.3	9.9	1.2
- Dutch Mortgage portfolio	2,094,445	10,107	301	2,104,853	(136)	(145)	(4)	(285)	-	1.4	1.3	-
- Belgian Mortgage portfolio	250,631	4,105	554	255,290	(249)	(46)	(58)	(353)	0.1	1.1	10.5	0.1
- IFRS basis adjustment: International Mortgage portfolio	(183,180)	-	-	(183,180)	-	-	-	-	-	-	-	-
- Accrued interest	3,534	114	31	3,679	(17)	(3)	(2)	(22)	0.5	2.6	6.5	0.6
Investments												
- Securities portfolio (including accrued interest)	426,359	-	-	426,359	(32)	-	-	(32)	-	-	-	-
- Securitisation portfolio (including accrued interest)	449,926	-	-	449,926	(45)	-	-	(45)	-	-	-	-
Accrued income	529	-	-	529	-	-	-	-	-	-	-	-
Loans to related parties (included in other assets)	1,337	-	-	1,337	-	-	-	-	-	-	-	-
Other receivables (included in other assets)	161	-	-	161	-	-	-	-	-	-	-	-
Other assets (included in other assets)	19,042	-	-	19,042	-	-	-	-	-	-	-	-
Off balance sheet at nominal amount:												
Commitments to extend credit and other commitments	153,139	253	-	153,392	(79)	(1)	-	(80)	0.1	0.4	-	0.1
	3,864,058	26,066	3,731	3,893,855	(1,989)	(579)	(346)	(2,914)	0.1	2.2	9.3	0.1

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

The Bank does not have any exposures forming part of the International Corporate Lending, Securities Investment, Securitisation Investment and Asset-Backed Securitisation Investment portfolios which are past due but not credit impaired. Past due but not credit-impaired facilities are attributable to the Dutch Mortgage portfolio, representing residential mortgage exposures to households and individuals domiciled in the Netherlands, as well as the Belgian Mortgage portfolio, representing residential mortgage exposures to households and individuals domiciled in Belgium.

Unless identified at an earlier stage, all financial assets are deemed to have experienced a significant increase in credit risk when they are more than 30 days past due. As at 31 December 2024 and 2023, no exposures within the Securities Investment, Securitisation Investment and Asset-Backed Securitisation Investment portfolios were classified as Stage 2. None of the Stage 2 exposures within the International Corporate Lending portfolio were past due as at 31 December 2024 and 2023.

In this regard, the following disclosure only presents the ageing of Stage 2 financial assets in the Dutch and Belgian Mortgage portfolios. It distinguishes between those assets that are classified as Stage 2 when they are either not past due or up to 30 days past due from those that are classified as Stage 2 due to ageing and are more than 30 days past due (>30 DPD). Past due financial instruments are those loans where customers have failed to make payments in accordance with the contractual terms of their facilities. As at 31 December 2024, Stage 1 exposures with a gross carrying amount of €1.4 million (2023: €3.1 million) and €3.5 million (2023: €28.9 million) classified within the Dutch Mortgage and Belgian Mortgage portfolios respectively, were classified as past due but not credit-impaired.

	Gross exposure			Credit loss allowance		
	Stage 2	Of which up to 30 DPD	Of which more than 30 DPD	Stage 2	Of which up to 30 DPD	Of which more than 30 DPD
	€000	€000	€000	€000	€000	€000
As at 31 December 2024						
Dutch Mortgage portfolio						
- Loans and advances to customers	5,197	3,365	1,832	(111)	(2)	(109)
- Accrued interest	8	5	3	-	-	-
Belgian Mortgage portfolio						
- Loans and advances to customers	6,967	3,040	3,927	(86)	(40)	(46)
- Accrued interest	25	8	17	-	-	-
	12,197	6,418	5,779	(197)	(42)	(155)

	Gross exposure			Credit loss allowance		
	Stage 2	Of which up to 30 DPD	Of which more than 30 DPD	Stage 2	Of which up to 30 DPD	Of which more than 30 DPD
	€000	€000	€000	€000	€000	€000
As at 31 December 2023						
Dutch Mortgage portfolio						
- Loans and advances to customers	10,107	7,387	2,720	(145)	(48)	(97)
- Accrued interest	5	3	2	-	-	-
Belgian Mortgage portfolio						
- Loans and advances to customers	4,105	896	3,209	(46)	(11)	(35)
- Accrued interest	14	2	12	-	-	-
	14,231	8,288	5,943	(191)	(59)	(132)

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

	Gross carrying amount/nominal amount					Credit loss allowance	Net
	Regular	Focus	Under surveillance	Doubtful	Total		
As at 31 December 2024	€000	€000	€000	€000	€000	€000	€000
On balance sheet at amortised cost:							
Balances with central banks (including accrued interest)	142,253	-	-	-	142,253	(1)	142,252
Loans and advances to financial institutions (including accrued interest)	285,719	-	-	-	285,719	-	285,719
Loans and advances to customers							
- International Corporate Lending portfolio							
- Stage 1	61,973	-	-	-	61,973	(400)	61,573
- Stage 2	-	-	8,311	-	8,311	(94)	8,217
- Stage 3	-	-	-	21,416	21,416	(8,706)	12,710
- Dutch Mortgage portfolio							
- Stage 1	2,191,869	4,705	-	-	2,196,574	(124)	2,196,450
- Stage 2	-	-	5,197	-	5,197	(111)	5,086
- Stage 3	-	-	-	761	761	(16)	745
- Belgian Mortgage portfolio							
- Stage 1	353,761	3,475	-	-	357,236	(284)	356,952
- Stage 2	-	-	6,967	-	6,967	(86)	6,881
- Stage 3	-	-	-	1,731	1,731	(184)	1,547
- IFRS basis adjustment: Mortgage portfolio	(142,246)	-	-	-	(142,246)	-	(142,246)
-Accrued interest							
- Stage 1	5,259	25	-	-	5,284	(7)	5,277
- Stage 2	-	-	186	-	186	-	186
- Stage 3	-	-	-	473	473	(287)	186
Investments measured at amortised cost							
- Securities portfolio (including accrued interest)							
- Stage 1	436,702	-	-	-	436,702	(55)	436,647
- Securitisation portfolio (including accrued interest)							
- Stage 1	393,994	-	-	-	393,994	(39)	393,955
- Asset-Backed Securitisation portfolio (including accrued interest)							
- Stage 1	131,672	-	-	-	131,672	(86)	131,586
Accrued income							
- Stage 1	959	-	-	-	959	-	959
Other receivables (included in other assets)							
- Stage 1	144	-	-	-	144	-	144
Other assets (included in other assets)							
- Stage 1	21,305	-	-	-	21,305	-	21,305
Off balance sheet at nominal amount:							
Commitments to extend credit and other commitments							
- Stage 1	55,282	376	-	-	55,658	(85)	55,573
- Stage 2	-	-	157	-	157	-	157
- Stage 3	-	-	-	557	557	(36)	521
	3,938,646	8,581	20,818	24,938	3,992,983	(10,601)	3,982,382

	Gross carrying amount/nominal amount					Credit loss allowance	Net
	Regular	Focus	Under surveillance	Doubtful	Total		
As at 31 December 2023	€000	€000	€000	€000	€000	€000	€000
On balance sheet at amortised cost:							
Balances with central banks (including accrued interest)	176,689	-	-	-	176,689	(1)	176,688
Loans and advances to financial institutions (including accrued interest)	317,538	-	-	-	317,538	-	317,538
Loans and advances to customers							
- International Corporate Lending portfolio							
- Stage 1	85,986	67,922	-	-	153,908	(1,430)	152,478
- Stage 2	-	-	11,487	-	11,487	(384)	11,103
- Stage 3	-	-	-	2,845	2,845	(282)	2,563
- Dutch Mortgage portfolio							
- Stage 1	2,091,365	3,080	-	-	2,094,445	(136)	2,094,309
- Stage 2	-	-	10,107	-	10,107	(145)	9,962
- Stage 3	-	-	-	301	301	(4)	297
- Belgian Mortgage portfolio							
- Stage 1	221,761	28,870	-	-	250,631	(249)	250,382
- Stage 2	-	-	4,105	-	4,105	(46)	4,059
- Stage 3	-	-	-	554	554	(58)	496
- IFRS basis adjustment: Mortgage portfolio	(183,180)	-	-	-	(183,180)	-	(183,180)
- Accrued interest							
- Stage 1	2,549	985	-	-	3,534	(17)	3,517
- Stage 2	-	-	114	-	114	(3)	111
- Stage 3	-	-	-	31	31	(2)	29
Investments measured at amortised cost							
- Securities portfolio (including accrued interest)							
- Stage 1	426,359	-	-	-	426,359	(32)	426,327
- Securitisation portfolio (including accrued interest)							
- Stage 1	449,926	-	-	-	449,926	(45)	449,881
Accrued income							
- Stage 1	529	-	-	-	529	-	529
Loans to related parties (included in other assets)							
- Stage 1	1,337	-	-	-	1,337	-	1,337
Other receivables (included in other assets)							
- Stage 1	161	-	-	-	161	-	161
Other assets (included in other assets)							
- Stage 1	19,042	-	-	-	19,042	-	19,042
Off balance sheet at nominal amount:							
Commitments to extend credit and other commitments							
- Stage 1	145,132	8,007	-	-	153,139	(79)	153,060
- Stage 2	-	-	253	-	253	(1)	252
	3,755,194	108,864	26,066	3,731	3,893,855	(2,914)	3,890,941

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

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

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

The line item "Transfers of financial instruments" represents the impact of stage transfers on gross carrying/nominal amounts and associated credit loss allowances determined as at the end of the financial reporting period. The line item "Net remeasurement of ECL arising from stage transfers and changes in risk parameters, including climate risk" represents the increase or decrease in credit loss allowances due to modified measurement basis from 12-month to lifetime in relation to stage transfers. It also includes the effects of changes in other expected credit loss measurement factors and model parameters such as, but not limited to, changes in time to maturity of assets; changes in underlying credit ratings; changes in measurement of loss given default and changes in respect of multiple economic scenarios. Finally, this line item also comprises the increase in ECL in respect of assets written off during the period measured as the movement between 1 January and the date of write-off.

The increase in credit loss allowances in the financial year ended 31 December 2024 was principally driven by the worsening financial conditions of some borrowers within the portfolio, leading to an increase in ECLs of €10.4 million. Also, the expected credit loss allowances decreased as a result of disposals and realisation of ECLs on Stage 3 loans by way of write-off amounting to €3.1 million as disclosed in the line item 'Assets written off'.

The decrease in credit loss allowances in the financial year ended 31 December 2023 was principally driven by the general improvement in financial condition experienced by borrowers within the portfolio, leading to significant repayments and in turn a decrease in ECLs of €0.9 million.

As per the following table, net exposures amounting to €18.7 million were transferred out of Stage 1 into Stages 2 or 3 during the year (2023: €2.9 million), with net transfers to Stage 3 amounting to €21.8 million (2023: €2.9 million). The net remeasurement of ECLs reflects in the increase in PDs and LGDs driven by point-in-time economic adjustments and more pessimistic forward-looking macroeconomic scenarios being forecasted in the modelling of ECLs. As explained in more detail in Note 2.2.7 – 'Current Conditions and Forward-looking information incorporated in the ECL model', the Bank deemed that forward-looking macroeconomic scenarios now appropriately reflected the uncertainty within the wider economy and reflects this increase in PDs and LGDs.

[illegible]

	As at 31 December 2024		Year ended 31 December 2024
	Gross carrying/ nominal amount	Credit loss allowance	ECL (charge)/release
	€000	€000	€000
As per preceding table	108,814	(9,598)	(10,482)
Balances at central banks	142,253	(1)	-
Loans and advances to financial institutions	285,719	-	-
Loans and advances to customers			
- Dutch Mortgage portfolio: drawn exposures	2,202,532	(251)	34
- Dutch Mortgage portfolio: undrawn commitments	32,446	(3)	-
- Belgian Mortgage portfolio: drawn exposures	365,934	(554)	(201)
- Belgian Mortgage portfolio: undrawn commitments	8,004	(14)	1
- Accrued interest	4,751	-	-
Investments measured at amortised cost			
- Securities portfolio	436,702	(55)	(23)
- Securitisation portfolio	393,994	(39)	6
- Asset-Backed Securitisation portfolio	131,672	(86)	(86)
Other accrued income	959	-	-
Summary of financial instruments to which the impairment requirements in IFRS 9 are applied through profit or loss	4,113,780	(10,601)	(10,751)
Total credit loss allowance/total statement of comprehensive income ECL charge for the year		(10,601)	(10,751)

The table below provides a reconciliation of movements in gross carrying/nominal amounts and credit loss allowances by stage for the International Corporate Lending portfolio for the financial year ended 31 December 2023:

	Non-credit impaired				Credit impaired		Total	
	Stage 1		Stage 2		Stage 3			
	Gross carrying/ nominal amount	Credit loss allowance	Gross carrying/ nominal amount	Credit loss allowance	Gross carrying/ nominal amount	Credit loss allowance	Gross carrying/ nominal amount	Credit loss allowance
Year ended 31 December 2023	€000	€000	€000	€000	€000	€000	€000	€000
International Corporate Lending portfolio								
At beginning of year	190,569	(2,295)	20,741	(783)	-	-	211,310	(3,078)
Repayments and disposals	(24,111)	143	(9,260)	67	-	1	(33,371)	211
Transfers of financial instruments								
- Transfers to Stage 3	(2,895)	38	-	-	2,895	(38)	-	-
Net remeasurement of ECL arising from stage transfers and changes in risk parameters, including climate risk	-	608	-	326	-	(247)	-	687
Other	138	-	260	-	(26)	-	372	-
At end of year	163,701	(1,506)	11,741	(390)	2,869	(284)	178,311	(2,180)
ECL released for the year								897
Change in expected credit losses and other credit impairment charges for the year								897

	As at 31 December 2023	Year ended 31 December 2023	
	Gross carrying/ nominal amount	Credit loss allowance	ECL release/(charge)
	€000	€000	€000
As per preceding table	178,311	(2,180)	897
Balances at central banks	176,689	(1)	-
Loans and advances to financial institutions	317,538	-	-
Loans and advances to customers			
- Dutch Mortgage portfolio: drawn exposures	2,104,853	(285)	(101)
- Dutch Mortgage portfolio: undrawn commitments	94,503	(3)	1
- Belgian Mortgage portfolio: drawn exposures	255,290	(353)	(223)
- Belgian Mortgage portfolio: undrawn commitments	28,722	(15)	19
- Accrued interest	1,775	-	-
Investments measured at amortised cost			
- Securities portfolio	426,359	(32)	26
- Securitisation portfolio	449,926	(45)	(3)
Other accrued income	529	-	-
Summary of financial instruments to which the impairment requirements in IFRS 9 are applied through profit or loss	4,034,495	(2,914)	616
Total credit loss allowance/total statement of comprehensive income ECL charge for the year		(2,914)	616

Credit loss allowances attributable to loans and advances to customers

The following table shows the credit loss allowances on loans and advances to customers recognised on the Bank's balance sheets as at 31 December 2024 and 2023, excluding credit loss allowances on accrued interest and other credit-related commitments, analysed by stage distribution.

	Stage 1	Stage 2	Stage 3	Total
	€000	€000	€000	€000
As at 31 December 2024				
International Corporate Lending portfolio	400	94	8,706	9,200
Dutch Mortgage portfolio	124	111	16	251
Belgian Mortgage portfolio	284	86	184	554
	808	291	8,906	10,005
	Stage 1	Stage 2	Stage 3	Total
	€000	€000	€000	€000
As at 31 December 2023				
International Corporate Lending portfolio	1,430	384	282	2,096
Dutch Mortgage portfolio	136	145	4	285
Belgian Mortgage portfolio	249	46	58	353
	1,815	575	344	2,734

The movement in credit loss allowances and the ECL charge for the financial year ended 31 December 2024 and 2023 are analysed in detail in the tables presented in the previous section.

During the financial year ended 31 December 2024, interest income amounting to €2.2 million (2023: €0.2 million) of the Bank was recognised in profit or loss on credit-impaired loans.

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

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

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

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

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

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

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

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

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

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

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

On renegotiation, where the existing agreement is cancelled and a new agreement is made on substantially different terms, or if the terms of an existing agreement are modified, such that the renegotiated loan is substantially a different financial instrument, the loan would be derecognised and a new loan is recognised, for accounting purposes.

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

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

As at 31 December 2024 and 2023, none of the exposures within the Dutch Buy to Let mortgage portfolio, Securities Investment, Securitisation Investment and Asset-Backed Securitisation Investment portfolios were forborne reflecting the fact that the Securitisation Investment portfolio, the Securities Investment portfolio and the Asset-Backed Securitisation Investment portfolio principally comprise of investment-grade exposures and that the Dutch Buy to Let mortgage portfolios is a relatively new portfolio. In this regard, any amounts disclosed in this section relate to forbearance activity within the International Corporate Lending, and Dutch and Belgian Mortgage portfolios.

The following table shows the principal amount (excluding accrued interest) and associated credit loss allowances of the Bank's loans and advances to customers classified within the International Corporate Lending portfolio reflecting forbearance activity, by stage and by past due status. For the avoidance of doubt, exposures benefiting from a general payment moratorium meeting the conditions established within the EBA Guidelines are classified as non-forborne exposures in the table below.

	International Corporate Lending Portfolio		Total
	Non-forborne exposures	Forborne exposures	
	€000	€000	€000
As at 31 December 2024			
Stage 1			
Neither past due nor credit-impaired	61,973	-	61,973
Stage 2			
Neither past due nor credit-impaired	8,311	-	8,311
Stage 3			
Credit-impaired, net of credit loss allowances	-	12,710	12,710
Loans and advances to customers, net of Stage 3 credit loss allowances	70,284	12,710	82,994
Stage 1 credit loss allowances	400	-	400
Stage 2 credit loss allowances	94	-	94
Stage 3 credit loss allowances	-	8,706	8,706

	International Corporate Lending Portfolio		Total
	Non-forborne exposures	Forborne exposures	
	€000	€000	€000
As at 31 December 2023			
Stage 1			
Neither past due nor credit-impaired	153,908	-	153,908
Stage 2			
Neither past due nor credit-impaired	1,596	9,891	11,487
Stage 3			
Credit-impaired, net of credit loss allowances	2,563	-	2,563
Loans and advances to customers, net of Stage 3 credit loss allowances	158,067	9,891	167,958
Stage 1 credit loss allowances	1,430	-	1,430
Stage 2 credit loss allowances	10	374	384
Stage 3 credit loss allowances	282	-	282

The following table shows the principal amount (excluding accrued interest) and associated credit loss allowances of the Bank's loans and advances to customers classified within the Dutch and Belgian Mortgage portfolios reflecting forbearance activity, by stage and by past due status.

	Dutch Mortgage Portfolio		Belgian Mortgage Portfolio		Total
	Non-forborne exposures	Forborne exposures	Non-forborne exposures	Forborne exposures	
	€000	€000	€000	€000	€000
As at 31 December 2024					
Stage 1					
Neither past due nor credit-impaired	2,191,869	-	353,761	-	2,545,630
Past due but not credit-impaired:					
- by up to 30 days	3,330	-	3,475	-	6,805
- by more than 30 days and up to 90 days	1,375	-	-	-	1,375
Stage 2					
Neither past due nor credit-impaired	157	2,883	257	2,296	5,593
Past due but not credit-impaired:					
- by up to 30 days	-	325	-	-	325
- by more than 30 days and up to 90 days	734	1,098	4,414	-	6,246
Stage 3					
Credit-impaired, net of credit loss allowances	492	253	1,289	258	2,292
Loans and advances to customers, net of Stage 3 credit loss allowances	2,197,957	4,559	363,196	2,554	2,568,266
Stage 1 credit loss allowances	124	-	284	-	408
Stage 2 credit loss allowances	62	49	55	31	197
Stage 3 credit loss allowances	16	-	153	31	200

	Dutch Mortgage Portfolio		Belgian Mortgage Portfolio		
	Non-forborne exposures	Forborne exposures	Non-forborne exposures	Forborne exposures	Total
	€000	€000	€000	€000	€000
As at 31 December 2023					
Stage 1					
Neither past due nor credit-impaired	2,091,365	-	221,761	-	2,313,126
Past due but not credit-impaired:					
- by up to 30 days	3,080	-	28,870	-	31,950
Stage 2					
Neither past due nor credit-impaired	231	4,619	-	896	5,746
Past due but not credit-impaired:					
- by more than 30 days and up to 90 days	4,030	1,227	3,209	-	8,466
Stage 3					
Credit-impaired, net of credit loss allowances	297	-	330	166	793
Loans and advances to customers, net of Stage 3 credit loss allowances	2,099,003	5,846	254,170	1,062	2,360,081
Stage 1 credit loss allowances	136	-	249	-	385
Stage 2 credit loss allowances	106	39	35	11	191
Stage 3 credit loss allowances	4	-	39	19	62

As at 31 December 2023, total gross forborne loans and advances to customers as a percentage of total gross loans and advances to customers of the Bank were equivalent to 0.7%.

Interest income recognised by the Bank during the financial year ended 31 December 2024 in respect of forborne exposures amounted to €2.2 million (2023: €1.2 million).

The movement in the principal amount (excluding accrued interest) of forborne loans and advances to customers, before credit loss allowances is analysed below:

	2024	2023
	€000	€000
Year ended 31 December		
At beginning of year	16,818	23,635
Loans to which forbearance measures have been extended during the year without derecognition	14,546	1,873
Capitalised fees	(104)	-
Repayments or disposals	(2,968)	(9,817)
Loans exiting forborne status during the year without derecognition	(186)	(164)
Newly recognised loans as a result of forbearance measures	-	898
Amortisation of premium or discount	(8)	33
Exchange differences	462	360
At end of financial year	28,560	16,818

Capitalised fees included in the table above reflect amounts disbursed by customers in relation to the origination of the exposure. Such amounts are recognised as part of the gross carrying amount of the exposure in the form of deferred income and amortised over the life of the instrument.

As at 31 December 2024, credit loss allowances in respect of the Bank's forborne loans were equivalent to €8.8 million (2023: €0.4 million). Additions to credit loss allowances on forborne loans during the year ended 31 December 2024 amounted to €8.4 million (2023: €0.4 million). Reversals of credit loss allowances on forborne loans during the year ended 31 December 2023 amounted to €0.8 million

The following tables show the principal amounts (excluding accrued interest) of the Bank's holdings of renegotiated loans and advances to customers analysed by industry sector and stage:

	Stage 1	Stage 2	Stage 3	Total
	€000	€000	€000	€000
As at 31 December 2024				
Accommodation and food service activities	-	-	11,520	11,520
Financial and insurance activities	-	-	9,896	9,896
Households and individuals	-	6,602	542	7,144
	-	6,602	21,958	28,560
	Stage 1	Stage 2	Stage 3	Total
	€000	€000	€000	€000
As at 31 December 2023				
Accommodation and food service activities	-	9,891	-	9,891
Households and individuals	-	6,742	185	6,927
	-	16,633	185	16,818

The Bank's forborne loans, net of credit loss allowances, classified within the International Corporate Lending portfolio as at 31 December 2024 consist of corporate exposures based in Europe, amounting to €21.4 million (2023: €9.3 million). Forbearance measures in respect of exposures classified within the Dutch and Belgian Mortgage portfolios are limited to payment arrangements, allowing customers to repay the amounts in arrears in addition to the regular monthly instalment. Past due amounts are thereby regularised within an agreed number of months. The forborne loans classified within the Dutch and Belgian Mortgage portfolios are categorised as exposures to households and individuals in the tables above.

2.2.5 Write-offs

Financial assets written off by the Bank during the financial year ended 31 December 2024 amounted to €3.1 million and were all resulting from renegotiations of financial instruments as described in further detail in note 2.2.4 – "Loans and advances to customers with renegotiated terms and the Bank's forbearance policy".

2.2.6 Collateral

The Bank holds collateral against loans and advances to customers classified under the Dutch and Belgian Mortgage portfolios in the form of hypothecary rights over immovable assets. The assets held as collateral are assigned a fair value at the time of credit approval. The assigned value is regularly monitored to identify assets that need revaluation.

In mortgage lending facilities, a charge over collateral is obtained and considered in determining the credit risk appetite and risk-return profile of all lending decisions. In the event of a default, the Bank may utilise the collateral as a source of repayment. Depending on its form, collateral can have a significant financial effect in mitigating exposure to credit risk.

The immovable property collateral received in respect of exposures within the the Dutch Mortgage portfolio and the Belgian Mortgage portfolio are mainly located in the Netherlands and Belgium respectively.

The following table shows the principal amount (excluding accrued interest) and associated credit loss allowances of the loans and advances to customers classified under the Dutch Mortgage portfolio by level of collateral expressed through the LTV ratio. The collateral measured for the purposes of the table below consists of fixed first charges on real estate.

	Non-forborne		Forborne		Total	
	Principal amount	Credit loss allowance	Principal amount	Credit loss allowance	Principal amount	Credit loss allowance
	€000	€000	€000	€000	€000	€000
As at 31 December 2024						
Stage 1						
a) Fully collateralised						
- Up to 50% LTV	84,833	(1)	-	-	84,833	(1)
- 51% to 75% LTV	495,643	(22)	-	-	495,643	(22)
- 76% to 90% LTV	523,756	(33)	-	-	523,756	(33)
- 91% to 100% LTV	933,997	(58)	-	-	933,997	(58)
b) Partially collateralised						
- greater than 100% LTV	158,345	(10)	-	-	158,345	(10)
	2,196,574	(124)	-	-	2,196,574	(124)
Stage 2						
a) Fully collateralised						
- 51% to 75% LTV	-	-	353	-	353	-
- 76% to 90% LTV	647	(56)	709	(1)	1,356	(57)
- 91% to 100% LTV	142	(6)	2,322	(26)	2,464	(32)
b) Partially collateralised						
- greater than 100% LTV	102	-	922	(22)	1,024	(22)
	891	(62)	4,306	(49)	5,197	(111)
Stage 3						
a) Fully collateralised						
- 51% to 75% LTV	-	-	253	-	253	-
- 91% to 100% LTV	279	(6)	-	-	279	(6)
b) Partially collateralised						
- greater than 100% LTV	229	(10)	-	-	229	(10)
	508	(16)	253	-	761	(16)
Total	2,197,973	(202)	4,559	(49)	2,202,532	(251)

	Non-forborne		Forborne		Total	
	Principal amount	Credit loss allowance	Principal amount	Credit loss allowance	Principal amount	Credit loss allowance
	€000	€000	€000	€000	€000	€000
As at 31 December 2023						
Stage 1						
a) Fully collateralised						
- Up to 50% LTV	88,235	(2)	-	-	88,235	(2)
- 51% to 75% LTV	396,035	(19)	-	-	396,035	(19)
- 76% to 90% LTV	468,787	(31)	-	-	468,787	(31)
- 91% to 100% LTV	1,014,975	(74)	-	-	1,014,975	(74)
b) Partially collateralised						
- greater than 100% LTV	126,413	(10)	-	-	126,413	(10)
	2,094,445	(136)	-	-	2,094,445	(136)
Stage 2						
a) Fully collateralised						
- Up to 50% LTV	-	-	43	-	43	-
- 51% to 75% LTV	159	-	653	(21)	812	(21)
- 76% to 90% LTV	589	(18)	506	(3)	1,095	(21)
b) Partially collateralised						
- greater than 100% LTV	3,513	(88)	4,644	(15)	8,157	(103)
	4,261	(106)	5,846	(39)	10,107	(145)
Stage 3						
a) Fully collateralised						
- 76% to 90% LTV	133	-	-	-	133	-
- 91% to 100% LTV	168	(4)	-	-	168	(4)
	301	(4)	-	-	301	(4)
Total	2,099,007	(246)	5,846	(39)	2,104,853	(285)

The following table shows the principal amount (excluding accrued interest) and associated credit loss allowances of the loans and advances to customers classified under the Belgian Mortgage portfolio by level of collateral expressed through the LTV ratio. The collateral measured for the purposes of the table below consists of fixed first charges on real estate.

	Non-forborne		Forborne		Total	
	Principal amount	Credit loss allowance	Principal amount	Credit loss allowance	Principal amount	Credit loss allowance
	€000	€000	€000	€000	€000	€000
As at 31 December 2024						
Stage 1						
a) Fully collateralised						
- Up to 50% LTV	39,505	(24)	-	-	39,505	(24)
- 51% to 75% LTV	112,721	(85)	-	-	112,721	(85)
- 76% to 90% LTV	162,397	(139)	-	-	162,397	(139)
- 91% to 100% LTV	42,360	(36)	-	-	42,360	(36)
b) Partially collateralised						
- greater than 100% LTV	253	-	-	-	253	-
	357,236	(284)	-	-	357,236	(284)
Stage 2						
a) Fully collateralised						
- 51% to 75% LTV	2,351	(24)	616	(7)	2,967	(31)
- 76% to 90% LTV	1,547	(21)	794	(11)	2,341	(32)
- 91% to 100% LTV	773	(10)	886	(13)	1,659	(23)
	4,671	(55)	2,296	(31)	6,967	(86)
Stage 3						
a) Fully collateralised						
- Up to 50% LTV	338	(36)	-	-	338	(36)
- 76% to 90% LTV	705	(75)	289	(31)	994	(106)
- 91% to 100% LTV	249	(26)	-	-	249	(26)
b) Partially collateralised						
- greater than 100% LTV	150	(16)	-	-	150	(16)
	1,442	(153)	289	(31)	1,731	(184)
Total	363,349	(492)	2,585	(62)	365,934	(554)

	Non-forborne		Forborne		Total	
	Principal amount	Credit loss allowance	Principal amount	Credit loss allowance	Principal amount	Credit loss allowance
	€000	€000	€000	€000	€000	€000
As at 31 December 2023						
Stage 1						
a) Fully collateralised						
- Up to 50% LTV	27,468	(20)	-	-	27,468	(20)
- 51% to 75% LTV	73,272	(67)	-	-	73,272	(67)
- 76% to 90% LTV	120,419	(130)	-	-	120,419	(130)
- 91% to 100% LTV	29,472	(32)	-	-	29,472	(32)
	250,631	(249)	-	-	250,631	(249)
Stage 2						
a) Fully collateralised						
- Up to 50% LTV	473	(4)	-	-	473	(4)
- 51% to 75% LTV	369	(3)	305	(3)	674	(6)
- 76% to 90% LTV	1,623	(19)	591	(8)	2,214	(27)
- 91% to 100% LTV	744	(9)	-	-	744	(9)
	3,209	(35)	896	(11)	4,105	(46)
Stage 3						
a) Fully collateralised						
- 76% to 90% LTV	369	(39)	185	(19)	554	(58)
	369	(39)	185	(19)	554	(58)
Total	254,209	(323)	1,081	(30)	255,290	(353)

As at 31 December 2024, the Bank held senior secured loans to international borrowers classified under the International Corporate Lending portfolio which amounted to €0.1 billion (2023: €0.2 billion). In respect of such financial assets, the Bank normally has a right over the borrower's unencumbered assets.

All the Bank's exposures classified under the Securities Investment portfolio as at 31 December 2024 and 2023 are unsecured with the exception of a sub-portfolio of covered bonds amounting to €327.3 million (2023: €320.6 million), which are backed by a separate group of assets in the form of loans. Similarly, all exposures classified under the Securitisation Investment portfolio as at 31 December 2024 and 2023 and the Asset-Backed Securitisation Investment portfolio are also backed by a separate group of assets in the form of loans.

2.2.7 Current Conditions and Forward-looking information incorporated in the ECL model

Point-in-time, forward-looking PD and LGD modelling methodology

The modelling methodology used by the Bank in the measurement of credit loss allowances in respect of Stage 1 and Stage 2 exposures leverages current and multiple scenarios of future projections of macroeconomic data beyond the reporting date in order to determine point-in-time PDs and incorporate forward-looking information. Statistical models used are developed by an external vendor.

As explained in more detail in Note 1.5 of the financial statements, for the International Corporate Lending and Securities portfolios the models use rating scale to TTC PD matrices calibrated on the basis of an underlying dataset of market observations to firstly determine a TTC PD and accordingly an implied rating for each borrower. The TTC PD/implied rating is determined by calibrating borrowers' financial and non financial profile with those of observable rated peers. An exposure's implied rating is then converted to an unconditional PiT PD using a methodology which utilises market capitalisation/equity volatility and leverage of comparable firms, with shocks to a firm's stock price translated into corresponding shocks to the credit risk metric attributable to the underlying exposure. Therefore, equity market performance is a key variable for incorporating current conditions into the Bank's ECL modelling methodology, particularly in the conversion from TTC to PiT PDs.

The methodology then utilises macroeconomic correlation models in order to determine the historical correlation of a borrower's financial performance with overall country or region-level macroeconomic conditions, with the correlation factors estimated principally by reference to borrower size as well as the industry in which the borrower operates. Multiple macroeconomic forecasts developed by an external vendor are then applied to PiT PDs to produce probability-weighted forward-looking conditioned PiT PDs in line with the requirements of IFRS 9. The conditioning of PDs by reference to multiple macroeconomic scenarios reflects forecasted quarter-on-quarter changes in macroeconomic variables (such as GDP, unemployment and HPI) over the PD term structure of the exposure. The Bank's modelling methodology therefore estimates a point-in-time and forward-looking measure of default risk. The same methodology is also used to estimate PiT LGDs.

For Dutch residential mortgages, PiT PDs and LGDs are determined using loan and borrower characteristics such as loan-to-value ('LTV') and loan-to-income ('LTI') inputs, calibrated based on historical data of proxy NHG loans from RMBS transactions which are adjusted to incorporate current and forward-looking macroeconomic variables and data such as unemployment rates, real GDP growth and house price indices. Likewise, for the Dutch buy-to-let portfolio, PiT PDs and LGDs are determined using loan and borrower characteristics which are adjusted to incorporate current and forward-looking macroeconomic variables and data such as regional unemployment rates, real GDP growth and regional house price indices.

For the Belgian mortgages, the PiT PDs are mainly based on the Belgium Mortgage industry level NPL data published by the National Bank of Belgium adjusted to incorporate forward-looking macroeconomic variables including unemployment rates, house price index, claims on private sector, compensation of employees and household disposable income.

In respect of defaulted / Stage 3 exposures classified within the International Corporate Lending portfolio, the Bank utilises an internally developed discounted cash flow methodology in order to estimate the net present value of forecasted operating cash flows under multiple forward-looking scenarios discounted using the borrower-specific weighted average cost of capital ('WACC'). In this regard, forward-looking expectations based on the impact of changing macroeconomic conditions on the borrower are reflected in multiple scenarios of operating cash flows developed by management, which are discounted and probability-weighted in accordance with the requirements of IFRS 9.

The model used to measure credit loss allowances in respect of all exposures classified within the Dutch and Belgian Mortgage portfolios estimates PDs and LGDs by reference to historical information observed in that jurisdiction for similar assets as well as multiple forward-looking macroeconomic forecasts for the respective economy developed by the external vendor.

The result of the U.S. presidential election has marked the start of an unparalleled and rather unpredictable year for the global economy, particularly Europe's economy is at risk of falling further amid the prospects of tariffs being imposed. These across-the-board tariffs might lead to a global trade war, which will have an adverse effect on the EU's exports and investment due to uncertainty and shaken confidence. Moreover, geopolitical tensions, especially related to Russia-Ukraine conflict could escalate. Given the high degree of uncertainty, the macroeconomic modelling aspect within the estimation of ECL, and the forecasting of economic conditions is subject to an inherent level of risk and highly subjective.

This has required an elevated level of review to ensure that the macroeconomic methodology used by the Bank, provided by a reputable third party, results in plausible scenarios that adequately captures the uncertainties previously mentioned. This methodology was also compared to regulator issued scenarios, with those used by the Bank being more conservative.

Judgement is still required in the determination of macroeconomic forecasts reflecting potential future economic conditions under different scenarios and their impact on PDs and LGDs.

Forecasts of future economic conditions

The Bank applies macroeconomic scenarios sourced from an external vendor to the PD and LGD term structures for the estimation of credit loss allowances in respect of Stage 1 and Stage 2 exposures classified within the International Corporate Lending portfolio, as well as in respect of all exposures classified within the Dutch Mortgage (inclusive of the Dutch Buy-to-Let portfolio), Belgian Mortgage, Securities Investment and Securitisation Investment portfolios. The macroeconomic scenarios represent the Bank's view of the range of potential outcomes, and application of these scenarios captures the non-linearity of expected credit losses under different scenarios for all portfolios.

The Bank has chosen three macroeconomic scenarios that include a central, or baseline, scenario and two "alternative" scenarios to reflect upside and downside scenarios. The scenarios are constructed by the external vendor based on a target severity for each of the scenarios. While the baseline scenario is by design in the middle of possible future economic outcomes, the alternative scenarios capture alternative economic conditions that are equally distanced from the baseline in terms of their severity as per the assumptions of the external vendor. After their construction, the scenarios are each assigned probability weights based on the external vendor's severity distribution and on how well they approximate (simulated) possible future economic developments. The scenarios are generated/refreshed on a quarterly basis.

The macroeconomic scenarios used in the Bank's modelling of credit loss allowances reflect possible macroeconomic paths taking into consideration a range of potential economic impacts driven by geopolitical tensions in respect of the conflict between Russia and Ukraine and between Israel and Hamas, assumptions on the tariffs due to potential trade wars between the U.S. and the EU, assumptions on the energy markets, monetary policy assumptions as the ECB continues to cut rates and supply chain assumptions.

With the current geopolitical tensions and the economic uncertainty following the results of the U.S. presidential election, rigorous monitoring of macroeconomic forecasts developed by the external vendor was performed by the Bank in order to challenge the adequacy and reasonableness of the developed scenarios. In this respect, the macroeconomic scenarios were reviewed on a quarterly basis.

The scenarios have been benchmarked and assessed against the macroeconomic forecasts for the Euro area published by the ECB, in line with ECB guidance, with the latest publication available being the one published in December 2024. In this respect, the Bank's forward-looking macroeconomic scenarios are deemed to be aligned with the ECB's macroeconomic forecasts for the Euro area.

As at 31 December 2024, management selected to use three scenarios developed and recommended by the external vendor which are deemed to be mostly aligned with the December 2024 ECB Staff projections. As per the preceding year, management selected the Baseline, the Upside, and the Downside 2 scenarios.

The scenarios used for the purposes of determining the ECL as at 31 December 2024 are described below.

Baseline

- U.S. President imposes tariffs on the EU, increasing the effective tariff rate by 5 percentage points. The EU retaliates with similar tariffs but excludes energy imports. The tariffs go into effect in July and remain in place until the end of 2026
- The U.S. seeks to engage with Russia and Ukraine, but the conflict continues with varying intensity, as negotiations fail to lead to lasting peace
- Israel's hostilities with Hamas do not escalate into an all-out regional conflict
- Global oil prices remain around current levels for several quarters
- Natural gas prices remain close to or below current levels
- Supply chains come under renewed pressure as firms try to beat expected tariffs, but severe strains are avoided
- ECB continues to cut rates reaching neutral levels in spring
- Structural factors such as high debt levels and a declining working-age population bear down on eurozone growth over the long-term

Upside

- The U.S. and the EU quickly find a negotiated settlement to their dispute and avoid imposing disruptive tariffs
- The U.S.'s attempts to negotiate a settlement are partly successful with an enduring ceasefire. Supplies of commodities such as oil, gas and food from the region increase
- The supply side of the economy expands strongly, driven by productivity gains, while slack in the economy proves more substantial than initially thought. The global economy picks up robustly, boosting manufacturing output. Productivity gains and the expansion of the supply side of the economy are stronger
- Global energy prices are slightly higher than in the baseline, reflecting stronger demand that is met by robust supply
- Given the stronger economy and slightly higher inflation, the ECB feels more confident and proceeds with normalisation more slowly than in the baseline. It reaches neutral values significantly later than the baseline

Downside 2

- The U.S. initially imposes larger tariffs on the EU than in the baseline scenario. There is a tit-for-tat escalation, with the EU responding to the EU tariffs. The overall effective tariff rate increases by 12%
- Tensions over Russia's invasion of Ukraine increase. Fears grow that NATO will be dragged into the conflict, which leads to an even sharper decline in confidence
- Worries emerge that the conflict in the Middle East will develop further and destabilise the region. This is facilitated by the U.S. escalating tensions with Iran and/or by Israel being even less constrained by the new U.S. administration
- Tensions between the U.S. and China persist and intensify, with barriers to shipping along the Taiwan Strait
- The euro zone's domestic political risks intensify and lead to a selloff in financial markets
- Business investment declines as does the demand for labour
- After some hesitation, the ECB rapidly cuts rates, taking the deposit rate below neutral but above zero
- To limit stress in sovereign and interbank markets, the ECB restarts its purchase of government bonds, provides forward guidance about its future policy moves, and further loosens the eligibility criteria for the collateral it accepts from banks

- Next Generation EU funds support demand, but countries are unable to reform public finances in a meaningful way. National fiscal policy is constrained by high debt levels and stress in sovereign debt markets. As a result, these actions are insufficient in counteracting the economic downturn

The year-on-year forecasts for 2024 to 2027 for key macro-economic variables (MEVs) under each of the scenarios described above together with the MEVs for the Severe Upside and Severe Downside scenarios are disclosed below.

The Bank's weighting allocation approach is that weights represent the share of outcomes that are best approximated by a scenario (not the likelihood of a specific scenario occurring). The Bank has assigned the probability weightings to each scenario using the mid-point approach through which the probability weight assigned to each scenario would be dependent on the mid-points between the percentiles (representing the severity of the scenario) which each scenario represents along the distribution curve. Management selected this mid-point approach since it is an approach recommended by the external vendor and, the scenarios and probability weight chosen are deemed to be mostly aligned with the December 2024 ECB Staff projections.

The scenarios selected, together with the relative probability weightings relative to the severity distribution provided by the external vendor for each scenario, are disclosed in the table below:

External vendor Scenarios	Severe Upside	Upside	Baseline	Downside 1	Downside 2	Severe Downside
External Vendor Severity	96%	90%	50%	25%	10%	4%
Probability Weight		30%	40%		30%	

The following tables present the year-on-year growth rates for the key macroeconomic variables provided by the external vendor under the baseline and the five alternative scenarios referred to above for the measurement of ECL for all portfolios as at 31 December 2024 and 2023.

For the International Corporate Lending and Securities portfolios, MEVs are determined for each country, with the forecasted MEV data in respect of the countries to which the Bank is mostly exposed being presented in the tables below. Eurozone MEVs are used in some cases, rather than country-level MEVs, as the former are deemed to have a higher correlation to the country specific portfolio assets. The key MEVs used for the estimation of ECL for exposures classified within the Corporate and Securities portfolios comprise real GDP growth, the performance of stock market indices and unemployment rates.

With respect to the Dutch Mortgage portfolio (inclusive of the Dutch Buy-to-Let portfolio), the Bank utilises regional-level as well as national-level MEVs as appropriate in order to capture regional level peculiarities. The key MEVs used for the estimation of ECL in respect of exposures classified within these portfolios comprise the House Price Index, unemployment rates, a 10-year treasury rates, and real GDP growth with the national level forecasts used in the ECL calculation being disclosed in the table hereunder.

For the Belgian Residential Mortgages portfolio, the key MEVs used for the estimation of ECL are national levels of House Price Index, Unemployment Rate, Household Disposable Income, Compensation of Employees, and Claims on Private Sector.

Economic Scenarios: Year-on-year Forecasts (2024-2027) for key MEVs

		International Corporate Lending and Treasury												Dutch Mortgages				Belgian Mortgages			
		UK				US				Eurozone				Netherlands				Belgium			
	ECL Scenario	2024	2025	2026	2027	2024	2025	2026	2027	2024	2025	2026	2027	2024	2025	2026	2027	2024	2025	2026	2027
Real GDP - Growth %	Severe Upside	15%	71%	2.2%	1.9%	2.5%	5.9%	2.4%	2.4%	1.1%	4.3%	1.9%	1.8%	1.8%	5.0%	2.0%	1.4%	-	-	-	-
	Upside	15%	5.6%	1.4%	2.0%	2.5%	3.3%	2.0%	2.2%	1.1%	3.4%	1.4%	1.8%	1.8%	3.7%	1.4%	1.4%	-	-	-	-
	Baseline	15%	2.1%	1.2%	2.1%	2.5%	1.9%	1.5%	2.0%	1.1%	1.2%	1.5%	1.9%	1.8%	1.0%	1.4%	1.7%	-	-	-	-
	Downside 1	15%	-1.8%	2.4%	2.4%	2.5%	-0.8%	2.7%	2.7%	1.1%	-1.2%	2.0%	2.3%	1.8%	-0.8%	1.3%	2.2%	-	-	-	-
	Downside 2	15%	-3.5%	1.5%	3.3%	2.5%	-2.5%	1.8%	3.3%	1.1%	-4.5%	2.0%	3.2%	1.8%	-4.5%	1.7%	3.7%	-	-	-	-
	Severe Downside	15%	-4.6%	0.1%	4.6%	2.5%	-4.2%	0.7%	3.4%	1.1%	-6.4%	0.1%	4.2%	1.8%	-6.6%	-0.1%	4.6%	-	-	-	-
Unemployment Rate - Average %	Severe Upside	4.3%	3.6%	3.2%	3.3%	4.0%	3.0%	2.9%	3.2%	6.4%	6.0%	5.6%	5.5%	3.7%	3.6%	3.0%	3.3%	5.6%	5.6%	6.0%	5.9%
	Upside	4.3%	3.9%	3.7%	3.7%	4.0%	3.3%	3.3%	3.5%	6.4%	6.2%	5.9%	5.8%	3.7%	3.6%	3.4%	3.6%	5.6%	5.6%	6.0%	6.0%
	Baseline	4.3%	4.4%	4.5%	4.6%	4.0%	4.1%	4.1%	4.1%	6.4%	6.4%	6.4%	6.3%	3.7%	3.8%	4.0%	4.0%	5.6%	5.8%	6.1%	6.1%
	Downside 1	4.3%	4.8%	4.8%	4.7%	4.0%	6.3%	5.6%	4.1%	6.4%	6.7%	6.9%	6.5%	3.7%	4.0%	4.7%	4.3%	5.6%	5.9%	6.5%	6.5%
	Downside 2	4.3%	5.5%	7.1%	7.3%	4.0%	7.3%	8.0%	6.6%	6.4%	7.1%	7.9%	7.5%	3.7%	4.3%	5.8%	5.3%	5.6%	6.4%	8.0%	8.3%
	Severe Downside	4.3%	6.2%	8.3%	8.2%	4.0%	7.8%	9.2%	9.0%	6.4%	7.3%	8.6%	8.9%	3.7%	4.4%	6.4%	6.3%	5.6%	6.6%	9.0%	10.0%
Stock Market Index - Growth %	Severe Upside	10.1%	14.1%	-3.7%	1.8%	32.3%	10.8%	-1.9%	4.5%	14.8%	15.9%	0.6%	15%	-	-	-	-	-	-	-	-
	Upside	10.1%	9.8%	-2.2%	1.5%	32.3%	5.9%	-2.1%	3.7%	14.8%	11.7%	0.8%	15%	-	-	-	-	-	-	-	-
	Baseline	10.1%	-0.3%	0.4%	4.3%	32.3%	-0.1%	-1.7%	4.9%	14.8%	0.8%	2.0%	3.8%	-	-	-	-	-	-	-	-
	Downside 1	10.1%	-3.3%	-0.9%	5.1%	32.3%	-21.3%	7.2%	12.7%	14.8%	-10.5%	4.6%	6.7%	-	-	-	-	-	-	-	-
	Downside 2	10.1%	-19.6%	9.1%	10.5%	32.3%	-34.6%	5.9%	19.6%	14.8%	-32.4%	15.4%	17.7%	-	-	-	-	-	-	-	-
	Severe Downside	10.1%	-32.9%	5.2%	16.8%	32.3%	-43.7%	1.0%	15.2%	14.8%	-45.3%	11.8%	21.6%	-	-	-	-	-	-	-	-
10Yr Treasury Rate - Average %	Severe Upside	-	-	-	-	-	-	-	-	-	-	-	-	2.6%	2.7%	3.0%	3.2%	-	-	-	-
	Upside	-	-	-	-	-	-	-	-	-	-	-	-	2.6%	2.6%	2.8%	2.9%	-	-	-	-
	Baseline	-	-	-	-	-	-	-	-	-	-	-	-	2.6%	2.5%	2.5%	2.6%	-	-	-	-
	Downside 1	-	-	-	-	-	-	-	-	-	-	-	-	2.6%	1.9%	2.0%	2.5%	-	-	-	-
	Downside 2	-	-	-	-	-	-	-	-	-	-	-	-	2.6%	1.6%	1.3%	1.5%	-	-	-	-
	Severe Downside	-	-	-	-	-	-	-	-	-	-	-	-	2.6%	1.1%	0.5%	0.5%	-	-	-	-
House Price Index %	Severe Upside	-	-	-	-	-	-	-	-	-	-	-	-	7.8%	7.4%	4.8%	1.2%	-0.8%	3.5%	2.5%	2.3%
	Upside	-	-	-	-	-	-	-	-	-	-	-	-	7.8%	6.4%	3.5%	1.1%	-0.8%	3.2%	2.4%	2.3%
	Baseline	-	-	-	-	-	-	-	-	-	-	-	-	7.8%	3.4%	2.7%	1.8%	-0.8%	1.8%	2.4%	2.1%
	Downside 1	-	-	-	-	-	-	-	-	-	-	-	-	7.8%	1.2%	2.3%	3.0%	-0.8%	1.1%	1.8%	1.7%
	Downside 2	-	-	-	-	-	-	-	-	-	-	-	-	7.8%	-4.6%	-1.8%	6.2%	-0.8%	-2.9%	0.1%	1.6%
	Severe Downside	-	-	-	-	-	-	-	-	-	-	-	-	7.8%	-6.4%	-7.5%	5.4%	-0.8%	-3.6%	-3.3%	-0.1%
Household Disposable Income - Growth %	Severe Upside	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2.2%	3.4%	3.4%	2.4%
	Upside	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2.2%	2.8%	2.4%	2.1%
	Baseline	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2.2%	1.4%	1.2%	1.7%
	Downside 1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2.2%	1.0%	0.3%	2.0%
	Downside 2	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2.2%	-0.6%	-1.5%	2.1%
	Severe Downside	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2.2%	-1.0%	-3.5%	1.7%

Economic Scenarios: Year-on-year Forecasts (2023-2026) for key MEVs

		International Corporate Lending and Treasury												Dutch Mortgages				Belgian Mortgages			
		UK				US				Eurozone				Netherlands				Belgium			
	ECL Scenario	2023	2024	2025	2026	2023	2024	2025	2026	2023	2024	2025	2026	2023	2024	2025	2026	2023	2024	2025	2026
Real GDP - Growth %	Severe Upside	0.6%	5.4%	2.0%	1.1%	2.6%	6.1%	2.6%	2.8%	0.3%	4.4%	1.9%	1.6%	-0.6%	4.9%	2.6%	1.3%	1.5%	4.2%	4.3%	1.9%
	Upside	0.6%	3.9%	1.2%	1.3%	2.6%	3.5%	2.3%	2.5%	0.3%	3.5%	1.5%	1.6%	-0.6%	3.6%	2.0%	1.3%	1.5%	3.2%	3.3%	1.9%
	Baseline	0.6%	0.4%	1.0%	1.3%	2.6%	1.3%	1.9%	2.4%	0.3%	1.2%	1.7%	1.8%	-0.6%	0.9%	2.0%	1.6%	1.5%	1.7%	1.9%	1.9%
	Downside 1	0.6%	-3.3%	2.5%	1.5%	2.6%	-0.7%	2.9%	2.7%	0.3%	-1.0%	2.6%	1.9%	-0.6%	-0.8%	2.2%	2.0%	1.5%	0.3%	2.5%	2.0%
	Downside 2	0.6%	-5.6%	1.3%	2.6%	2.6%	-2.3%	1.6%	3.3%	0.3%	-5.0%	2.2%	3.1%	-0.6%	-5.4%	2.3%	3.8%	1.5%	-4.7%	2.6%	3.2%
	Severe Downside	0.6%	-7.1%	-0.2%	4.2%	2.6%	-4.1%	0.3%	3.4%	0.3%	-7.1%	0.2%	4.5%	-0.6%	-7.3%	0.3%	4.7%	1.5%	-7.1%	0.3%	4.7%
Unemployment Rate - Average %	Severe Upside	4.2%	3.8%	3.5%	3.5%	3.6%	2.8%	2.9%	3.1%	6.5%	6.3%	6.0%	6.1%	3.6%	3.6%	3.0%	3.4%	5.6%	6.8%	7.1%	7.0%
	Upside	4.2%	4.1%	3.9%	3.9%	3.6%	3.1%	3.3%	3.4%	6.5%	6.5%	6.3%	6.4%	3.6%	3.6%	3.4%	3.7%	5.6%	6.8%	7.1%	7.0%
	Baseline	4.2%	4.5%	4.7%	4.7%	3.6%	4.0%	4.1%	4.0%	6.5%	6.7%	6.7%	6.7%	3.6%	3.9%	4.0%	4.1%	5.6%	6.9%	7.1%	7.0%
	Downside 1	4.2%	4.9%	5.0%	4.9%	3.6%	5.7%	5.3%	4.0%	6.5%	7.0%	7.3%	7.1%	3.6%	4.0%	4.6%	4.4%	5.6%	7.0%	7.2%	7.1%
	Downside 2	4.2%	5.6%	7.3%	7.5%	3.6%	6.7%	7.4%	6.1%	6.5%	7.7%	8.8%	8.3%	3.6%	4.4%	5.9%	5.5%	5.6%	7.2%	8.0%	8.0%
	Severe Downside	4.2%	6.3%	8.5%	8.4%	3.6%	7.2%	8.7%	8.3%	6.5%	8.0%	9.8%	9.6%	3.6%	4.5%	6.6%	6.6%	5.6%	7.3%	8.5%	8.7%
Stock Market Index - Growth %	Severe Upside	3.0%	23.3%	-0.3%	2.4%	13.3%	18.1%	2.6%	4.9%	14.0%	20.7%	3.8%	4.5%	-	-	-	-	-	-	-	-
	Upside	3.0%	18.7%	1.2%	2.0%	13.3%	12.9%	2.3%	4.1%	14.0%	16.5%	4.3%	4.6%	-	-	-	-	-	-	-	-
	Baseline	3.0%	7.8%	3.9%	4.8%	13.3%	6.5%	2.8%	5.3%	14.0%	6.1%	4.6%	6.2%	-	-	-	-	-	-	-	-
	Downside 1	3.0%	4.5%	2.5%	5.7%	13.3%	-19.1%	14.3%	14.3%	14.0%	-3.8%	6.9%	8.5%	-	-	-	-	-	-	-	-
	Downside 2	3.0%	-13.2%	12.9%	11.1%	13.3%	-33.8%	11.3%	22.4%	14.0%	-28.2%	26.6%	17.5%	-	-	-	-	-	-	-	-
	Severe Downside	3.0%	-27.5%	8.8%	17.4%	13.3%	-42.9%	4.8%	16.3%	14.0%	-41.5%	20.6%	33.1%	-	-	-	-	-	-	-	-
10Yr Treasury Rate - Average %	Severe Upside	-	-	-	-	-	-	-	-	-	-	-	-	2.8%	2.7%	2.8%	3.1%	-	-	-	-
	Upside	-	-	-	-	-	-	-	-	-	-	-	-	2.8%	2.6%	2.7%	2.8%	-	-	-	-
	Baseline	-	-	-	-	-	-	-	-	-	-	-	-	2.8%	2.6%	2.6%	2.6%	-	-	-	-
	Downside 1	-	-	-	-	-	-	-	-	-	-	-	-	2.8%	2.1%	2.2%	2.6%	-	-	-	-
	Downside 2	-	-	-	-	-	-	-	-	-	-	-	-	2.8%	1.7%	1.5%	1.7%	-	-	-	-
	Severe Downside	-	-	-	-	-	-	-	-	-	-	-	-	2.8%	1.2%	0.9%	1.0%	-	-	-	-
House Price Index %	Severe Upside	-	-	-	-	-	-	-	-	-	-	-	-	-5.3%	2.4%	3.9%	3.6%	-1.6%	-0.5%	0.9%	2.2%
	Upside	-	-	-	-	-	-	-	-	-	-	-	-	-5.3%	1.3%	2.7%	3.6%	-1.6%	-0.9%	0.7%	2.3%
	Baseline	-	-	-	-	-	-	-	-	-	-	-	-	-5.3%	-1.5%	2.8%	4.3%	-1.6%	-2.1%	1.0%	2.5%
	Downside 1	-	-	-	-	-	-	-	-	-	-	-	-	-5.3%	-3.9%	2.3%	5.0%	-1.6%	-3.1%	1.0%	2.3%
	Downside 2	-	-	-	-	-	-	-	-	-	-	-	-	-5.3%	-10.1%	-2.0%	8.6%	-1.6%	-6.3%	0.3%	3.6%
	Severe Downside	-	-	-	-	-	-	-	-	-	-	-	-	-5.3%	-11.6%	-7.9%	7.7%	-1.6%	-6.3%	-2.5%	3.2%
Household Disposable Income - Growth %	Severe Upside	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	5.8%	2.5%	3.5%	2.3%
	Upside	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	5.8%	2.0%	2.8%	2.1%
	Baseline	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	5.8%	1.4%	1.7%	1.8%
	Downside 1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	5.8%	1.2%	1.6%	1.5%
	Downside 2	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	5.8%	0.6%	0.9%	1.0%
	Severe Downside	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	5.8%	1.1%	0.3%	0.5%

Model adjustments and management overlays

ECB guidance states that subjective model inputs and post-core model adjustments (overlays) may be used given the current level of uncertainties. These need to be directionally consistent with objective and verifiable evidence such as observable macroeconomic variables and forward-looking forecasts. Overlays should be supported by adequately documented processes and subject to strict governance oversight.

To ensure that the Bank is adequately capturing the level of credit risk in its International Corporate Lending portfolio, an assessment was performed and the Bank introduced caps to implied internal ratings to borrowers that have undergone distressed restructuring and where necessary have applied notch downgrades to exposures that are classified as 'Under Surveillance' to reflect the increase in credit risk since origination.

The movement in asset volatility and firms' default points during 2024 can be attributed to being the main variables to the change in PiT PDs within the Bank's ECL model for Corporates.

Management is confident that the modelled macroeconomic scenarios from the external vendor include reasonable economic and geopolitical risk assumptions and the model outputs are appropriately reflecting the current market conditions.

ECL sensitivity analysis in respect of macroeconomic scenarios

Notwithstanding the significant number of assumptions and different aspects forming part of the Bank's methodology for modelling credit loss allowances in respect of exposures classified within the Bank's portfolios of financial instruments, the ECL measurement is deemed to be most sensitive to the inherent level of estimation uncertainty in respect of the modelling of macroeconomic forecasts.

The Bank is hereby presenting the sensitivity analysis in respect of credit loss allowances attributable to Stage 1 and Stage 2 exposures classified within the International Corporate Lending portfolio as at 31 December 2024 and 2023, estimated by determining the range of credit loss allowances which would have been measured as at each date by assigning a 100% weighting to each of the macroeconomic scenarios developed by the external vendor, as presented in the table below.

Scenario sensitivity	Severe Upside	Upside	Baseline	Downside 1	Downside 2	Severe Downside
2024						
Probability Weight 2024	-	30%	40%	-	30%	-
ECL as at 31 December 2024	-	222,362	388,411	-	1,156,731	-
2023						
Probability Weight 2023	-	30%	40%	-	30%	-
ECL as at 31 December 2023	-	639,329	1,282,553	-	3,975,952	-

It is to be noted that the weighted average ECL cannot be reconciled by applying the relative probability weights to the ECL outcomes under each scenario since staging might change across the scenarios when using a 100% weighting (e.g. an exposure might be classified as Stage 2 in one out of five individual scenarios, and as Stage 1 in the weighted average scenarios).

The estimated weighted average ECL under each scenario as at 31 December 2024, presented in the table above, is not directly comparable with the estimated weighted average ECL under each scenario as at 31 December 2023, since the size of the International Corporate Lending portfolio decreased significantly compared to the prior financial year.

Although duly taken into consideration, the impact of macroeconomic scenarios on the measurement of credit loss allowances in respect of credit-impaired / Stage 3 exposures classified within the International Corporate Lending portfolio is less pronounced compared to other borrower-specific factors used to forecast operating cash flows under different scenarios. Accordingly, the sensitivity impact was not considered to be significant.

The sensitivity impact of macroeconomic scenarios on the ECL outcome measured in respect of exposures classified within the Dutch and Belgian Mortgage, Securities Investment and Securitisation Investment portfolios is not considered to be significant taking cognisance of the level of credit loss allowances estimated at 31 December 2024 and 2023.

The Bank has integrated ESG, by catering for climate and environmental risk factors into its existing credit risk processes.

The Bank applies climate-adjusted scenarios sourced from an external vendor and utilises a statistical model developed by the external vendor for the estimation of the climate-adjusted credit loss allowances of its exposures classified within the International Corporate Lending and Dutch Mortgage portfolios.

The Bank applies stresses on the collateral pledged as security for the estimation of the climate-adjusted credit loss allowances of its exposures classified within the Belgian Mortgage portfolio.

As at 31 December 2024, the increase in expected credit losses recognised in relation to climate risk was not deemed material to warrant further disclosures.

Other portfolios

For its Asset-Backed Securitisation Investment portfolio, the Bank has adopted the low credit risk exemption since as at reporting date the credit risk on this portfolio has not increased significantly since initial recognition.

2.2.8 Concentration of credit risk exposures

2.2.8.1 Concentration of investment securities

Securities Investment portfolio

The Bank monitors concentrations of investment securities for credit risk by type of exposure. An analysis of concentrations of credit risk at the reporting date for the financial year ended 31 December 2024 and 2023 is shown below. The amounts presented in the following table are exclusive of accrued interest.

	Measured at amortised cost	
	2024	2023
	€000	€000
Concentration by type		
As at 31 December:		
Carrying amount (excluding accrued interest):		
Covered bonds	327,353	320,103
National and regional government	104,812	102,813
Total	432,165	422,916

Securitisation Investment portfolio

The Bank's Securitisation Investment portfolio comprises the investment in CLO transactions managed by third-party entities, amounting to €390.9 million (2023: €445.9 million) excluding accrued interest. The Bank's investment in CLO transactions managed by third-party entities comprise positions in the most senior tranche of 16 different CLOs (2023: 18), all of which are also collateralised by a pool of leveraged loans.

As at 31 December 2024, credit loss allowances in respect of exposures classified under this portfolio and measured at amortised cost amounted to €39 thousand (2023: €45 thousand).

Asset-Backed Securitisation Investment portfolio

The Bank's Asset-Backed Securitisation Investment portfolio comprises the investment in AAA-rated Dutch and German securitisations of a pool of unsecured consumer loans, auto loan receivables, and residential mortgage loans.

Credit loss allowances amounting to €86 thousand were recognised in respect of these exposures as at 31 December 2024.

2.2.8.2 Concentration of loans and advances to customers

An analysis of concentration of loans and advances to customers, excluding IFRS basis adjustment and accrued interest, by industry sector and geography is shown in the following tables.

As at 31 December 2024, exposures to UK counterparties classified under the International Corporate Lending portfolio and categorised as 'Other European countries' in the tables below amounted to €18.6 million (2023: €41.0 million).

Exposures classified under Dutch and Belgian Mortgage portfolios are categorised as EU exposures in the following tables whereas the Dutch and Belgian retail mortgage portfolios are classified under the "household and individuals" sector.

	Principal amount				Credit loss allowance			
	EU	Other European countries	North America	Total	EU	Other European countries	North America	Total
	€000	€000	€000	€000	€000	€000	€000	€000
Stage 1								
As at 31 December 2024								
Financial and insurance activities	14,163	7,961	-	22,124	(153)	(54)	-	(207)
Households and individuals	2,553,810	-	-	2,553,810	(408)	-	-	(408)
Information and communication	10,000	-	-	10,000	(67)	-	-	(67)
Manufacturing	9,978	-	-	9,978	(35)	-	-	(35)
Wholesale and retail trade, repairs of motor vehicles and motorcycles	11,885	-	7,986	19,871	(91)	-	-	(91)
	2,599,836	7,961	7,986	2,615,783	(754)	(54)	-	(808)
Stage 2								
As at 31 December 2024								
Financial and insurance activities	-	-	8,311	8,311	-	-	(94)	(94)
Households and individuals	12,164	-	-	12,164	(197)	-	-	(197)
	12,164	-	8,311	20,475	(197)	-	(94)	(291)
Stage 3								
As at 31 December 2024								
Accommodation and food service activities	-	11,520	-	11,520	-	(742)	-	(742)
Financial and insurance activities	9,896	-	-	9,896	(7,964)	-	-	(7,964)
Households and individuals	2,492	-	-	2,492	(200)	-	-	(200)
	12,388	11,520	-	23,908	(8,164)	(742)	-	(8,906)
Total	2,624,388	19,481	16,297	2,660,166	(9,115)	(796)	(94)	(10,005)

	Nominal amount				Credit loss allowance			
	EU	Other European countries	North America	Total	EU	Other European countries	North America	Total
	€000	€000	€000	€000	€000	€000	€000	€000
Commitments to extend credit and other commitments								
As at 31 December 2024								
Accommodation and food service activities	-	557	-	557	-	(36)	-	(36)
Financial and insurance activities	-	-	15,365	15,365	-	-	(68)	(68)
Households and individuals	40,450	-	-	40,450	(17)	-	-	(17)
	40,450	557	15,365	56,372	(17)	(36)	(68)	(121)

	Principal amount				Credit loss allowance			
	EU	Other European countries	North America	Total	EU	Other European countries	North America	Total
	€000	€000	€000	€000	€000	€000	€000	€000
Stage 1								
As at 31 December 2023								
Administrative and support service activities	7,476	-	-	7,476	(169)	-	-	(169)
Construction	7,924	-	-	7,924	(62)	-	-	(62)
Financial and insurance activities	43,838	23,351	14,785	81,974	(379)	(194)	(91)	(664)
Households and individuals	2,345,076	-	-	2,345,076	(385)	-	-	(385)
Information and communication	10,001	-	-	10,001	(101)	-	-	(101)
Manufacturing	9,967	-	-	9,967	(71)	-	-	(71)
Professional, scientific and technical activities	9,989	2,878	-	12,867	(91)	(14)	-	(105)
Wholesale and retail trade, repairs of motor vehicles and motorcycles	11,838	3,880	7,981	23,699	(104)	(30)	(124)	(258)
	2,446,109	30,109	22,766	2,498,984	(1,362)	(238)	(215)	(1,815)
Stage 2								
As at 31 December 2023								
Accommodation and food service activities	-	11,487	-	11,487	-	(384)	-	(384)
Households and individuals	14,212	-	-	14,212	(191)	-	-	(191)
	14,212	11,487	-	25,699	(191)	(384)	-	(575)
Stage 3								
As at 31 December 2023								
Financial and insurance activities	-	-	2,845	2,845	-	-	(282)	(282)
Households and individuals	855	-	-	855	(62)	-	-	(62)
	855	-	2,845	3,700	(62)	-	(282)	(344)
Total	2,461,176	41,596	25,611	2,528,383	(1,615)	(622)	(497)	(2,734)

	Nominal amount				Credit loss allowance			
	EU	Other European countries	North America	Total	EU	Other European countries	North America	Total
	€000	€000	€000	€000	€000	€000	€000	€000
Commitments to extend credit and other commitments								
As at 31 December 2023								
Accommodation and food service activities	-	160	-	160	-	(1)	-	(1)
Financial and insurance activities	22,000	-	8,007	30,007	-	-	(62)	(62)
Households and individuals	123,225	-	-	123,225	(17)	-	-	(17)
	145,225	160	8,007	153,392	(17)	(1)	(62)	(80)

2.2.9 Offsetting financial assets and financial liabilities

The Bank is eligible to present certain financial assets and financial liabilities on a net basis in the statement of financial position in accordance with the Bank's policy described in Note 1.6 'Offsetting Financial Instruments'.

The following tables set out:

- the impact of offsetting financial assets and financial liabilities on the consolidated statement of financial position;
- the financial impact of netting for instruments subject to an enforceable master netting arrangement or similar agreement; and
- the available financial collateral received or pledged in relation to the total amounts of assets and liabilities that were not offset.

The Bank enters into derivative transactions under International Swap and Derivatives Association (ISDA) master netting agreements. In general, under such agreements the amounts owed by each counterparty on a single day in respect of all transactions outstanding in the same currency are aggregated into a single net amount that is payable by one party to the other. In certain circumstances such as when an event of default occurs, all outstanding transactions under the agreement are terminated and settled in a single net amount per currency.

The ISDA agreements do not meet the criteria for offsetting the positive and negative values in the statement of financial position. This is attributable to the fact that the Bank and its counterparties do not have any currently legally enforceable right to settle on a net basis or to realise the asset and settle the liability simultaneously because the right to offset is enforceable only on the occurrence of future credit events.

The Bank also pledges and receives collateral in the form of cash and marketable securities primarily for sale and repurchase agreements and for margining purposes on OTC derivative transactions. Pledges are generally conducted under terms that are usual and customary for standard contracts and transactions of this nature. The rights of set off relating to such collateral are conditional upon the default of the counterparty. The financial instruments subject to such collateral arrangements are included in the table below within 'Financial collateral pledged/(received)'.

The net amount of financial instruments that do not meet the on-balance sheet offsetting criteria, including collateral pledged and received, presented within the following tables is equal to the amount presented in the statement of financial position for that instrument, exclusive of accrued interest.

Below is a table showing financial instruments subject to offsetting, enforceable master netting arrangements and similar agreements.

	Gross amounts of recognised financial instruments	Gross amounts of recognised financial instruments offset in the statement of financial position	Net amounts of financial instruments presented in the statement of financial position	Related amounts not offset in the statement of financial position		Net amount
				Amounts subject to master netting arrangements	Financial collateral pledged/(received) (incl. cash)	
	€000	€000	€000	€000	€000	€000
As at 31 December 2024						
Financial assets						
Derivative financial instruments	174,513	-	174,513	232	(147,194)	27,551
Loans and advances to financial institutions	269,286	-	269,286	-	(32,081)	237,205
Investments - Securities Portfolio	432,164	-	432,164	-	(113,256)	318,908
Investments - Securitisation Portfolio	390,936	-	390,936	-	(123,697)	267,239
Investments - Asset-Backed Securitisation Portfolio	131,185	-	131,185	-	-	131,185
	1,398,084	-	1,398,084	232	(416,228)	982,088
Financial liabilities						
Derivative financial instruments	(31,849)	-	(31,849)	(232)	32,081	-
Amounts owed to financial institutions	(168,447)	-	(168,447)	-	236,953	68,506
	(200,296)	-	(200,296)	(232)	269,034	68,506

	Gross amounts of recognised financial instruments	Gross amounts of recognised financial instruments offset in the statement of financial position	Net amounts of financial instruments presented in the statement of financial position	Related amounts not offset in the statement of financial position		Net amount
				Amounts subject to master netting arrangements	Financial collateral pledged/(received) (incl. cash)	
	€000	€000	€000	€000	€000	€000
As at 31 December 2023						
Financial assets						
Derivative financial instruments	207,438	-	207,438	648	(180,732)	27,354
Loans and advances to financial institutions	312,074	-	312,074	-	(25,296)	286,778
Investments - Securities Portfolio	422,916	-	422,916	-	(87,367)	335,549
Investments - Securitisation Portfolio	445,932	-	445,932	-	(114,995)	330,937
	1,388,360	-	1,388,360	648	(408,390)	980,618
Financial liabilities						
Derivative financial instruments	(24,648)	-	(24,648)	(648)	25,296	-
Amounts owed to financial institutions	(278,184)	-	(278,184)	-	202,362	(75,822)
	(302,832)	-	(302,832)	(648)	227,658	(75,822)

Derivative financial liabilities and loans and advances to financial institutions are offset as a netting agreement is in place with the counterparty in order to set-off the liabilities against the assets received. There is a legal right to settle, or otherwise eliminate, the amount due by applying the amount receivable from the same counterparty against it.

As at 31 December 2024, the Bank's derivative financial liabilities subject to master-netting agreements have a fair value of €0.2 million (2023: €0.6 million). Within the table above, these have been capped at the fair value of the derivative assets of the Bank amounting to €0.2 million (2023: €0.6 million).

2.3 Liquidity Risk

2.3.1 Management of liquidity risk

In line with the Bank's Liquidity Risk Management Policy, management of the Bank's liquidity position is the responsibility of its Treasury Operations and ALM function under the oversight of the Asset and Liability Committee ("ALCO") and the Board Risk and Compliance Committee ("BRCC"). The Treasury Operations and ALM function have primary responsibility for managing and reporting the Bank's projected liquidity position (the "base case") to the ALCO.

The Bank's Risk team ensures that all liquidity risks are independently identified, measured, overseen and reported. In particular, the Risk team has primary responsibility for monitoring liquidity risk, including defining potential adverse liquidity scenarios ("stress cases") that are considered for assessing the Bank's exposure to these scenarios and for assessing the effectiveness of contingency plan funding measures, bringing to attention any potential shortfalls in liquidity contingencies.

The Bank's liquidity risks principally relate to its banking activities and the Bank's Board of Directors sets, approves and oversees the implementation of the targets for liquidity management of the Bank. Analysis of liquidity risk is the joint responsibility of the Bank's Treasury Operations and ALM and Risk functions under the oversight of the ALCO and of the BRCC.

Management Asset and Liability Committee

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

Board Risk and Compliance Committee

The Board delegates to the Board Risk and Compliance Committee ("BRCC") its oversight responsibilities of the risk function. Therefore, the BRCC represents the principal forum for overseeing the Bank's liquidity and funding risk. In addition, it is responsible for recommending to the Board an appropriate liquidity and funding risk appetite and for approving liquidity risk-related policies and recommendations. The BRCC is also responsible for ensuring that all liquidity risk controls are in accordance with regulatory requirements and best practice and for advising the Board on the coordination and prioritisation of liquidity risk management issues throughout the Bank.

The BRCC reviews regular reports on the liquidity position of the Bank, including the review of stress testing scenarios to assess the resilience of its liquidity buffers in relation to internal liquidity metrics and the minimum regulatory requirements comprising the Liquidity Coverage Ratio (“LCR”) and the Net Stable Funding Ratio (“NSFR”). It is informed immediately of new and emerging liquidity concerns and ensures that Executive management takes appropriate remedial actions to address the concerns, including the viability of contingency funding options in light of monthly stress test results.

Roles and responsibilities

The Treasury team, under the leadership of the Chief Financial Officer has primary responsibility for managing and reporting the Bank’s projected liquidity position (the “base case”). For liquidity purposes, the Bank’s balance sheet, encompassing both assets and liabilities, is managed on an intraday and day-to-day basis, and includes monitoring compliance with metrics of current liquidity. The department is also responsible for forecasting the Bank’s future cash flow profile, as well as for analysis and management of the Bank’s deposit book. This is executed under the leadership of the Head - ALM.

The Bank’s Risk team, under the leadership of the Chief Risk Officer (“CRO”), has primary responsibility of independently monitoring current liquidity performance as well as defining potential adverse liquidity scenarios that should be considered, and for reporting exposure to these scenarios (the “downside case”). Under the leadership of the CRO, it is responsible for ensuring that all significant risks relating to liquidity are properly identified and clearly incorporated into the Bank’s risk management and reporting framework. It is also responsible for producing reports that show and analyse the Bank’s sensitivity to external events related to liquidity, including the definition of severe but plausible events that could constitute stress scenarios.

Funding strategy

Banks traditionally perform a role of liquidity transformation, whereby they fund through liabilities that are liquid in the short to medium term, in order to invest in longer term and less liquid assets. This mismatch of liquid liabilities and less liquid assets is a near universal feature of bank balance sheets and clearly leads to a risk if liabilities cannot be rolled over when they mature (which may be every day in the case of money held in current or savings accounts).

The Bank’s strategy to mitigate this risk has four main components:

- Diversifying deposit product offerings as its primary instrument of funding by focusing on the retail market to maximise granularity;
- Limiting its exposure to wholesale funding withdrawal by locking in term, rather than short-dated, funding against illiquid assets (where this is used at all: illiquid assets are primarily deposit funded) and by either diversifying its sources of funding in general or ensuring that it does not rely on funding that is at the discretion of market counterparties;
- Maintaining a contingency source of funding by ensuring that substantially all of its HQLA Securities Investment portfolio is eligible for funding at the ECB or at Eurex, as well as ensuring that other AAA-rated debt instruments are eligible for use as collateral against multiple repo lines, if alternative sources are unavailable; and
- Holding assets, well above the minimum regulatory requirements, that could be liquidated within a reasonable timeframe or against which funding can be obtained in the secondary market.

The Bank’s objective is to maintain a prudent funding structure drawn from diverse funding sources in the short-, medium- and long-term.

Potential funding sources may include, but are not limited to:

- Deposits from retail and corporate customers;
- Bond issuance, either secured (for example through CLO structures or the issuance of RMBSs, the latter representing one of the main sources of funding for the Dutch Mortgage portfolio), senior unsecured or subordinated;
- Issuance of capital instruments; and
- Central Bank funding (although it is the Bank's strategy not to rely on the Central Bank for funding in the normal course of events, but instead only used as a secondary source of financing).

To ensure that the Bank has adequate liquidity to meet its near-term obligations, the Treasury team maintains good liquidity buffers and projects the Bank's expected liquidity position for each day over the subsequent week, as well as the "residual" cash balance that considers known inflows and outflows (for example settlements of asset purchases or sales) beyond this period.

The Bank complies with the Liquidity Coverage Ratio ("LCR") in relation to short-term liquidity and monitor the Net Stable Funding Ratio ("NSFR") in order to assess long-term liquidity:

- **The Liquidity Coverage Ratio ("LCR"):** The ratio aims to ensure that institutions are able to withstand a 30-day period of stress by virtue of having sufficient unencumbered High Quality Liquid Assets ("HQLA"). HQLA consist of cash or assets that can be converted into cash at little or no loss of value in the markets. The LCR metric is designed to promote the short-term resilience of the Bank's liquidity profile.

The Bank's LCR remained above the minimum legal requirement of 100% at all times during the financial year ended 31 December 2024 and 2023.

- **The Net Stable Funding Ratio ("NSFR"):** This ratio looks at the relationship between long-term assets and long-term funding. The NSFR requires institutions to maintain sufficient stable funding relative to required stable funding and reflects a bank's long-term funding profile (funding with a term of more than a year). It is designed to complement the LCR and the NSFR requirement is of 100%.

The Bank's NSFR remained above the minimum legal requirement of 100% at all times during the financial year ended 31 December 2024 and 2023.

2.3.2 Liquidity risk reporting

Reliable liquidity management reporting is essential to provide the Executive and the Board with timely and forward-looking information on the Bank's liquidity position. Reporting of risk measures is done on a weekly and monthly basis and compares current liquidity exposures to established limits and stress tests to identify any emerging pressures and limit breaches.

The Bank's Risk team report regular stress testing of its liquidity profile, as well as the availability of contingency funding options through both its ILAAP and monthly Maximum Cumulative Outflow ("MCO") report. The MCO analyses the likely risks to the Bank's liquidity position and quantifies its ability to withstand the associated shocks through deployment of management contingency funding plan options. Summarised results from all the various analyses are used as inputs to the MCO, with the liquidity impacts of different levels of severity of both idiosyncratic and market-wide scenarios modelled across a twelve-month time horizon. In addition, the Bank's Liquidity Contingency Plan ("LCP") analyses the availability and practicability of its contingency funding measures with regards to idiosyncratic and market-wide stress scenarios.

The Risk team also monitors the product maturity ladder.

The Treasury Operations and ALM team report the Bank's expected liquidity position for each day over the subsequent week, as well as the "residual" cash balance that takes into account known inflows and outflows (for example settlements of asset purchases or sales) beyond this period.

2.3.3 Contractual maturity ladder

The following is an analysis of financial assets and liabilities by remaining contractual maturities as at the reporting date, with the exception of the analysis of loans and advances to customers classified under the International Corporate Lending and Dutch and Belgian Mortgage portfolios, debt securities in issue and subordinated liabilities, that are based on the expected maturities based on the date when the instruments are expected to be fully repaid, since this is how the liquidity of the Bank is monitored on a regular basis. Refer also to Note 2.3.5 that provides an analysis of encumbered investments.

	Not more than 1 month	Between 1 and 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years	No maturity date	Total
	€000	€000	€000	€000	€000	€000	€000
As at 31 December 2024							
Assets							
Balances with central banks (including accrued interest)	113,971	-	-	-	-	28,281	142,252
Derivative financial instruments	110	-	2,254	23,058	149,091	-	174,513
Loans and advances to financial institutions (including accrued interest)	272,027	13,692	-	-	-	-	285,719
Loans and advances to customers (excluding IFRS basis adjustment)	16,828	43,797	161,208	957,424	1,476,553	-	2,655,810
- International Corporate Lending portfolio	-	-	-	82,500	-	-	82,500
- Dutch Mortgage portfolio	13,647	31,918	133,964	756,235	1,266,517	-	2,202,281
- Belgian Mortgage portfolio	3,181	6,292	27,182	118,689	210,036	-	365,380
- Accrued interest	-	5,587	62	-	-	-	5,649
Investments	-	6,320	4,502	278,118	673,248	-	962,188
- Securities portfolio (including accrued interest)	-	2,900	4,502	278,118	151,127	-	436,647
- Securitisation portfolio (including accrued interest)	-	3,019	-	-	390,936	-	393,955
- Asset-Backed Securitisation portfolio (including accrued interest)	-	401	-	-	131,185	-	131,586
Accrued income	-	-	-	-	-	959	959
Other receivables (incl. in other assets)	-	-	-	-	-	144	144
Other assets (incl. in other assets)	-	-	-	-	-	21,305	21,305
Subtotal	402,936	63,809	167,964	1,258,600	2,298,892	50,689	4,242,890
IFRS basis adjustment: Mortgage portfolio	-	-	-	-	-	(142,246)	(142,246)
Total financial assets	402,936	63,809	167,964	1,258,600	2,298,892	(91,557)	4,100,644
Liabilities							
Derivative financial instruments	2	-	755	8,186	22,906	-	31,849
Amounts owed to financial institutions (including accrued interest)	22,479	157,155	-	-	-	-	179,634
Amounts owed to customers (including accrued interest)	2,623,751	85,968	267,998	74,641	51	-	3,052,409
Debt securities in issue (including accrued interest)	5,590	11,181	49,210	273,390	302,302	-	641,673
Lease liabilities (incl. in other liabilities)	119	134	463	920	-	-	1,636
Amounts due to related parties (incl. in other liabilities)	-	-	-	-	-	2,232	2,232
Total financial liabilities	2,651,941	254,438	318,426	357,137	325,259	2,232	3,909,433
Liquidity gap	(2,249,005)	(190,629)	(150,462)	901,463	1,973,633		
Cumulative liquidity gap	(2,249,005)	(2,439,634)	(2,590,096)	(1,688,633)	285,000		

	Not more than 1 month	Between 1 and 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years	No maturity date	Total
	€000	€000	€000	€000	€000	€000	€000
As at 31 December 2023							
Assets							
Balances with central banks (including accrued interest)	154,767	34	-	-	-	21,887	176,688
Derivative financial instruments	198	-	1,102	27,958	178,180	-	207,438
Loans and advances to financial institutions (including accrued interest)	312,439	5,099	-	-	-	-	317,538
Loans and advances to customers (excluding IFRS basis adjustment)	15,437	33,794	176,359	863,404	1,440,312	-	2,529,306
- International Corporate Lending portfolio	-	-	35,327	130,817	-	-	166,144
- Dutch Mortgage portfolio	13,009	26,179	120,605	650,679	1,294,096	-	2,104,568
- Belgian Mortgage portfolio	2,428	4,382	20,003	81,908	146,216	-	254,937
- Accrued interest	-	3,233	424	-	-	-	3,657
Investments	-	16,400	58,401	241,888	559,519	-	876,208
- Securities portfolio (including accrued interest)	-	12,451	58,401	241,888	113,587	-	426,327
- Securitisation portfolio (including accrued interest)	-	3,949	-	-	445,932	-	449,881
Accrued income	-	-	-	-	-	529	529
Loans to related parties (incl. in other assets)	-	-	-	-	-	1,337	1,337
Other receivables (incl. in other assets)	-	-	-	-	-	161	161
Other assets (incl. in other assets)	-	-	-	-	-	19,042	19,042
Subtotal	482,841	55,327	235,862	1,133,250	2,178,011	42,956	4,128,247
IFRS basis adjustment: Mortgage portfolio	-	-	-	-	-	(183,180)	(183,180)
Total financial assets	482,841	55,327	235,862	1,133,250	2,178,011	(140,224)	3,945,067
Liabilities							
Derivative financial instruments	28	-	-	4,519	20,101	-	24,648
Amounts owed to financial institutions (including accrued interest)	278,365	324	-	-	-	-	278,689
Amounts owed to customers (including accrued interest)	2,166,305	8,386	203,220	154,182	10	-	2,532,103
Debt securities in issue (including accrued interest)	9,987	18,567	66,456	821,737	-	-	916,747
Lease liabilities (incl. in other liabilities)	36	75	378	913	23	-	1,425
Amounts due to related parties (incl. in other liabilities)	-	-	-	-	-	1,047	1,047
Total financial liabilities	2,454,721	27,352	270,054	981,351	20,134	1,047	3,754,659
Liquidity gap	(1,971,880)	27,975	(34,192)	151,899	2,157,877		
Cumulative liquidity gap	(1,971,880)	(1,943,905)	(1,978,097)	(1,826,198)	331,679		

Current accounts and savings deposits payable on demand or at short notice of the Bank amounted to €2 billion (2023: €2 billion) as at 31 December 2024. This amount is disclosed within the 'Not more than 1 month' maturity grouping. As at 31 December 2024 savings deposits with a withdrawal notice period of one month amounting to €128 thousand (2023: €181 thousand), are disclosed within the 'Between 1 and 3 months' maturity grouping. In addition, as at 31 December 2024 savings deposits with a withdrawal notice period of three to six months amounting to €71 million (2023: €133 million), are disclosed within the 'Between 3 months and 1 year' maturity grouping. Furthermore, as at 31 December 2024, savings deposits with a withdrawal notice period of one year for the Bank amounting to €21 million (2023: €69 million) are disclosed within the 'Between 1 year and 5 years' maturity grouping. However, in practice these deposits are maintained with the Bank for longer periods; hence the effective date of repayment is later than the contractual date.

As of 31 December 2024, unencumbered financial assets classified as Securities Investments measured at amortised cost with a carrying amount of €318.9 million (2023: €335.5 million), form part of the high quality liquid asset portfolio for LCR purposes. Accordingly, they may be liquidated within one month.

The Bank's cash from margin balances amounting to €17.1 million (2023: €45.7 million), can be available upon maturity of the contract, favourable change in the market value/change in the exchange rates or reduction in the initial margins.

2.3.4 Residual contractual maturities of financial liabilities

The following is an analysis of undiscounted cash flows payable under the principal non-derivative financial liabilities by remaining contractual maturities as at the reporting date, except for debt securities in issue and subordinated liabilities for which undiscounted cash flows payable are presented by expected maturities in line with the Contractual Maturity Ladder presented in Note 2.3.3.

	Carrying amount	Total outflows	Not more than 1 month	Between 1 and 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years
	€000	€000	€000	€000	€000	€000	€000
As at 31 December 2024							
<i>Non-derivative liabilities</i>							
Amounts owed to financial institutions							
- Due to clearing houses	157,155	157,155	-	157,155	-	-	-
- Due to other banks	22,479	22,479	22,479	-	-	-	-
Amounts owed to customers	3,052,409	3,059,439	2,623,768	86,491	271,114	78,015	51
Debt securities in issue	641,673	682,344	5,945	11,890	52,329	241,626	370,554
Lease liabilities (included in other liabilities)	1,636	1,743	124	197	499	923	-
	3,875,352	3,923,160	2,652,316	255,733	323,942	320,564	370,605
	Carrying amount	Total outflows	Not more than 1 month	Between 1 and 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years
	€000	€000	€000	€000	€000	€000	€000
As at 31 December 2023							
<i>Non-derivative liabilities</i>							
Amounts owed to financial institutions							
- Due to clearing houses	180,994	180,995	180,732	263	-	-	-
- Due to other banks	97,695	97,925	97,864	61	-	-	-
Amounts owed to customers	2,532,103	2,536,609	2,166,310	8,407	204,159	157,723	10
Debt securities in issue	916,747	985,350	8,169	16,339	71,892	888,950	-
Lease liabilities (included in other liabilities)	1,425	1,769	110	88	470	997	104
	3,728,964	3,802,648	2,453,185	25,158	276,521	1,047,670	114

The following is an analysis of undiscounted cash flows relating to the Bank's principal derivative financial instruments by remaining contractual maturities as at the reporting date:

	Carrying amount	Inflows/ (Outflows)	Not more than 1 month	Between 1 and 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years
	€000	€000	€000	€000	€000	€000	€000
As at 31 December 2024							
Derivative assets							
Derivative financial instruments							
- Interest rate swaps	174,403	201,341	2,577	3,328	20,871	78,186	96,379
- Foreign exchange swaps	110	(90)	(90)	-	-	-	-
Inflows		11,808	11,808	-	-	-	-
Outflows		(11,898)	(11,898)	-	-	-	-
	174,513	201,251	2,487	3,328	20,871	78,186	96,379
Derivative liabilities							
Derivative financial instruments							
- Interest rate swaps	31,849	(36,412)	295	119	(5,218)	(18,686)	(12,922)
	31,849	(36,412)	295	119	(5,218)	(18,686)	(12,922)

	Carrying amount	Inflows/ (Outflows)	Not more than 1 month	Between 1 and 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years
	€000	€000	€000	€000	€000	€000	€000
As at 31 December 2023							
Derivative assets							
Derivative financial instruments							
- Interest rate swaps	207,240	242,439	3,493	6,528	26,213	85,793	120,412
- Foreign exchange swaps	198	(210)	(210)	-	-	-	-
Inflows		18,412	18,412	-	-	-	-
Outflows		(18,622)	(18,622)	-	-	-	-
	207,438	242,229	3,283	6,528	26,213	85,793	120,412
Derivative liabilities							
Derivative financial instruments							
- Interest rate swaps	24,620	(28,830)	38	1,611	2,041	(21,313)	(11,207)
- Foreign exchange swaps	28	28	28	-	-	-	-
Inflows		5,810	5,810	-	-	-	-
Outflows		(5,782)	(5,782)	-	-	-	-
	24,648	(28,802)	66	1,611	2,041	(21,313)	(11,207)

2.3.5 Encumbered assets

The following tables set out the availability of the Bank's financial assets to support future funding. Mortgage portfolios exclude any IFRS basis adjustment.

	Encumbered		Unencumbered		Total
	Pledged as collateral	Other*	Available as collateral	Other**	
	€000	€000	€000	€000	€000
31 December 2024					
Balances with central banks (including accrued interest)	-	28,281	113,961	10	142,252
Derivative financial instruments	-	-	-	174,513	174,513
Loans and advances to financial institutions (including accrued interest)	240,426	-	-	45,293	285,719
Loans and advances to customers	-	-	-	2,655,810	2,655,810
- International Corporate Lending portfolio	-	-	-	82,500	82,500
- Dutch Mortgage portfolio***	-	-	-	2,202,281	2,202,281
- Belgian Mortgage portfolio	-	-	-	365,380	365,380
- Accrued interest	-	-	-	5,649	5,649
Investments	236,953	-	717,333	7,902	962,188
- Securities portfolio (including accrued interest)	113,257	-	318,908	4,482	436,647
- Securitisation portfolio (including accrued interest)	123,696	-	267,240	3,019	393,955
- Asset-Backed Securitisation portfolio (including accrued interest)	-	-	131,185	401	131,586
Accrued income	-	-	-	959	959
Other receivables (included in other assets)	-	-	-	144	144
Other assets (included in other assets)	-	-	-	21,305	21,305
	477,379	28,281	831,294	2,905,936	4,242,890

* Represents assets that are not pledged for funding purposes but that the Bank believes it is restricted from using to secure funding, for legal or other reasons.

** Represents assets that are not restricted for use as collateral, but that the Bank would not consider as readily available to secure funding in the normal course of business.

*** Some loans are securitized, but do not meet the definition of encumbrance.

	Encumbered		Unencumbered		Total
	Pledged as collateral	Other*	Available as collateral	Other**	
	€000	€000	€000	€000	€000
31 December 2023					
Balances with central banks (including accrued interest)	-	21,887	154,767	34	176,688
Derivative financial instruments	-	-	-	207,438	207,438
Loans and advances to financial institutions (including accrued interest)	291,898	-	-	25,640	317,538
Loans and advances to customers	-	-	-	2,529,306	2,529,306
- International Corporate Lending portfolio	-	-	-	166,144	166,144
- Dutch Mortgage portfolio***	-	-	-	2,104,568	2,104,568
- Belgian Mortgage portfolio	-	-	-	254,937	254,937
- Accrued interest	-	-	-	3,657	3,657
Investments	202,363	-	666,485	7,360	876,208
- Securities portfolio (including accrued interest)	87,368	-	335,548	3,411	426,327
- Securitisation portfolio (including accrued interest)	114,995	-	330,937	3,949	449,881
Accrued income	-	-	-	529	529
Loans and advances to related parties (included in other assets)	-	-	-	1,337	1,337
Other receivables (included in other assets)	-	-	-	161	161
Other assets (included in other assets)	-	-	-	19,042	19,042
	494,261	21,887	821,252	2,790,847	4,128,247

* Represents assets that are not pledged for funding purposes but that the Bank believes it is restricted from using to secure funding, for legal or other reasons.

** Represents assets that are not restricted for use as collateral, but that the Bank would not consider as readily available to secure funding in the normal course of business.

*** Some loans are securitized, but do not meet the definition of encumbrance.

2.4 Market risk

Market risk arises from fluctuations in key market variables, including interest rates, foreign exchange rates, and credit spreads. These changes can have a direct impact on the Bank's financial performance, affecting its income streams and the valuation of its holdings in financial instruments. Unlike credit risk, market risk is not tied to the credit standing of an obligor or issuer but rather to broader economic and market conditions.

Effective market risk management is crucial to ensure the Bank remains resilient in the face of volatile market conditions. The primary objective is to identify, measure, and control these exposures within well-defined and acceptable parameters. At the same time, the Bank aims to strategically manage these risks to optimise the return on risk. This involves balancing the need to protect the Bank's financial stability with opportunities to enhance performance through prudent risk-taking within its risk appetite framework.

2.4.1 Management of market risks

The responsibility for managing market risk lies with the Bank’s Treasury team, under the monitoring of the Bank’s Risk team. Oversight is provided by the Bank’s Asset and Liability Committee (ALCO) and the Board Risk and Compliance Committee, as outlined in the Bank’s policies on Foreign Exchange (FX) Risk and Interest Rate Risk and Credit Spread Risk in the Banking Book (IRRBB & CSRBB).

2.4.2 Foreign exchange risk

Foreign exchange (FX) risk refers to potential fluctuations in the value of the Bank’s positions due to changes in foreign currency exchange rates. To minimise FX risk, the Bank adopts a proactive hedging strategy for all significant exposures within its risk appetite. The primary FX risks are associated with US Dollar and GB Pound movements stemming from the Bank’s corporate banking operations. The Bank mitigates these risks by aligning foreign currency-denominated liabilities with corresponding assets in the same currency. Any residual mismatches are closely monitored, and the Treasury team is authorised to employ financial instruments such as spots, forwards, and swaps to effectively hedge FX exposures.

The following table provides an analysis of the principal financial assets and financial liabilities of the Bank into relevant currency groupings. The Mortgage portfolios exclude any IFRS basis adjustment.

	EUR currency	GBP currency	USD currency	Other	Total
	€000	€000	€000	€000	€000
As at 31 December 2024					
Financial assets					
Balances with central banks (including accrued interest)	142,252	-	-	-	142,252
Derivative financial instruments	174,513	-	-	-	174,513
Loans and advances to financial institutions (including accrued interest)	280,609	2,130	1,622	1,358	285,719
Loans and advances to customers (excluding IFRS basis adjustment)	2,644,197	11,613	-	-	2,655,810
- International Corporate Lending portfolio	70,979	11,521	-	-	82,500
- Dutch Mortgage portfolio	2,202,281	-	-	-	2,202,281
- Belgian Mortgage portfolio	365,380	-	-	-	365,380
- Accrued interest	5,557	92	-	-	5,649
Investments	962,188	-	-	-	962,188
- Securities portfolio (including accrued interest)	436,647	-	-	-	436,647
- Securitisation portfolio (including accrued interest)	393,955	-	-	-	393,955
- Asset-Backed Securitisation portfolio (including accrued interest)	131,586	-	-	-	131,586
Accrued income	959	-	-	-	959
Other receivables (included in other assets)	144	-	-	-	144
Other assets (included in other assets)	21,305	-	-	-	21,305
	4,226,167	13,743	1,622	1,358	4,242,890
Financial liabilities					
Derivative financial instruments	31,849	-	-	-	31,849
Amounts owed to financial institutions (including accrued interest)	179,634	-	-	-	179,634
Amounts owed to customers (including accrued interest)	3,040,378	1,858	8,912	1,261	3,052,409
Debt securities in issue (including accrued interest)	641,673	-	-	-	641,673
Lease liabilities (included in other liabilities)	1,636	-	-	-	1,636
Amounts owed to related parties (incl. in other liabilities)	1,661	69	502	-	2,232
	3,896,831	1,927	9,414	1,261	3,909,433
Net on-balance sheet financial position		11,816	(7,792)	97	
Notional of derivative financial instruments		(11,877)	7,961	73	
Residual exposure		(61)	169	170	

	EUR currency	GBP currency	USD currency	Other	Total
	€000	€000	€000	€000	€000
As at 31 December 2023					
Financial assets					
Balances with central banks (including accrued interest)	176,688	-	-	-	176,688
Derivative financial instruments	207,244	194	-	-	207,438
Loans and advances to financial institutions (including accrued interest)	313,485	1,244	1,178	1,631	317,538
Loans and advances to customers (excluding IFRS basis adjustment)	2,504,351	24,954	1	-	2,529,306
- International Corporate Lending portfolio	141,415	24,729	-	-	166,144
- Dutch Mortgage portfolio	2,104,568	-	-	-	2,104,568
- Belgian Mortgage portfolio	254,937	-	-	-	254,937
- Accrued interest	3,431	225	1	-	3,657
Investments	876,208	-	-	-	876,208
- Securities portfolio (including accrued interest)	426,327	-	-	-	426,327
- Securitisation portfolio (including accrued interest)	449,881	-	-	-	449,881
Accrued income	529	-	-	-	529
Loans to related parties (included in other assets)	1,305	19	5	8	1,337
Other receivables (included in other assets)	161	-	-	-	161
Other assets (included in other assets)	19,042	-	-	-	19,042
	4,099,013	26,411	1,184	1,639	4,128,247
Financial liabilities					
Derivative financial instruments	24,620	-	28	-	24,648
Amounts owed to financial institutions (including accrued interest)	278,689	-	-	-	278,689
Amounts owed to customers (including accrued interest)	2,522,106	1,859	6,603	1,535	2,532,103
Debt securities in issue (including accrued interest)	916,747	-	-	-	916,747
Lease liabilities (included in other liabilities)	1,425	-	-	-	1,425
Amounts owed to related parties (incl. in other liabilities)	559	66	422	-	1,047
	3,744,146	1,925	7,053	1,535	3,754,659
Net on-balance sheet financial position		24,486	(5,869)	104	
Notional of derivative financial instruments		(24,263)	5,851	-	
Residual exposure		223	(18)	104	

The Bank uses derivative financial instruments to hedge movements in foreign exchange rates by entering derivative contracts with notional amounts which substantially reflect the net exposure in each currency. As a result, the Bank is not materially exposed to fluctuations in foreign exchange rates as evidenced in the tables above, reflecting the policy to eliminate foreign exchange risk as much as is practicable.

In view of the Bank's policy for managing currency risk, the Board does not deem necessary the presentation of a sensitivity analysis disclosing how profit or loss and equity would have been affected by changes in foreign exchange rates that were reasonably possible at the end of the reporting year.

2.4.3 Interest rate risk

The Bank's Interest Rate Risk in the Banking Book (IRRBB) position is managed through a three lines of defence model, ensuring a layered approach to risk management.

The First Line of Defence involves the asset and liability management process, which is the responsibility of the Bank's Treasury team. This team actively monitors and manages the day-to-day interest rate risk exposures, aligning them with the strategic objectives of the Bank.

The Second Line of Defence is provided by the Risk team, which operates independently of the Treasury function. This team is tasked with establishing risk limits, monitoring adherence to these limits, and providing oversight to ensure risks are managed in line with the Bank's IRRBB policy.

The Third Line of Defence is performed by Internal Audit, which independently reviews the effectiveness of the controls and processes in place to manage IRRBB. This layer provides an additional level of assurance to the Bank's senior management and governing bodies.

The monitoring and reporting activities are subject to oversight at various governance levels. For the First Line of Defence, these activities are reviewed and managed independently by the Bank's Asset and Liability Committee (ALCO). For the Second Line of Defence, the Enterprise Risk Management Committee oversees monitoring and reporting. Lastly, the Audit Committee provides governance for the Third Line of Defence, ensuring the integrity of the overall process.

Interest rate risk is actively managed by comparing the interest rate risk profile of the Bank's assets with that of its liabilities. This involves assessing mismatches between the two and taking appropriate actions to mitigate any significant exposure. Unmatched interest rate risks arising from the balance sheet are hedged through the use of interest rate derivatives, primarily interest rate swaps. These instruments enable the Bank to reduce potential variability in its earnings and safeguard its financial stability.

Interest rate risk reporting and analysis

As part of its monitoring duties, the Bank's Risk team prepares and reports on the Bank's interest rate risk position on a monthly basis. The report outputs show the effects of a number of internal and regulatory interest rate shocks on the:

- Bank's projection and sensitivity of net interest income – ΔNII ;
- Bank's projection and sensitivity of economic value of equity – ΔEVE ; and
- Time bucket sensitivity of the interest rate gap – $PV01$.

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

The table below discloses the mismatch of the dates on which interest rates on financial assets and liabilities either will be reset to market rates levels, or the date on which instruments mature, based on contractual terms. Actual cash flows on reset dates may differ from contractual dates owing to the possible exercise of behavioural options such as prepayments. In addition, contractual terms may not be representative of the behaviour in respect of financial assets and liabilities. The carrying amounts presented in the following table are exclusive of accrued interest.

	Repricing in					
	Carrying amount	Not more than 3 months	Between 3 months and 1 year	Between 1 year and 3 years	Between 3 and 5 years	More than 5 years
	€000	€000	€000	€000	€000	€000
As at 31 December 2024						
Balances with central banks	142,242	142,242	-	-	-	-
Loans and advances to financial institutions	269,286	269,286	-	-	-	-
Loans and advances to customers	2,507,915	137,537	161,147	408,141	466,783	1,334,307
- International Corporate Lending portfolio	82,500	82,500	-	-	-	-
- Dutch Mortgage portfolio	2,202,281	45,564	133,965	343,027	413,208	1,266,517
- Belgian Mortgage portfolio	365,380	9,473	27,182	65,114	53,575	210,036
- IFRS basis adjustment: Mortgage portfolio	(142,246)	-	-	-	-	(142,246)
Investments	954,286	717,723	236,563	-	-	-
- Securities portfolio	432,165	195,602	236,563	-	-	-
- Securitisation portfolio	390,936	390,936	-	-	-	-
- Asset-Backed Securitisation portfolio	131,185	131,185	-	-	-	-
	3,873,729	1,266,788	397,710	408,141	466,783	1,334,307
Amounts owed to financial institutions:	168,447	21,253	147,194	-	-	-
- Due to clearing houses	147,194	-	147,194	-	-	-
- Due to other banks	21,253	21,253	-	-	-	-
Amounts owed to customers	3,001,948	2,708,216	219,114	58,283	16,335	-
Debt securities in issue	638,952	14,050	49,210	177,245	96,145	302,302
	3,809,347	2,743,519	415,518	235,528	112,480	302,302
Interest rate repricing gap		(1,476,731)	(17,808)	172,613	354,303	1,032,005
Impact of hedging interest rate derivatives – notional amounts	142,554	1,318,550	384,600	(515,033)	(204,890)	(983,227)
Net interest rate repricing gap		(158,181)	366,792	(342,420)	149,413	48,778

	Repricing in					
	Carrying amount	Not more than 3 months	Between 3 months and 1 year	Between 1 year and 3 years	Between 3 and 5 years	More than 5 years
	€000	€000	€000	€000	€000	€000
As at 31 December 2023						
Balances with central banks	176,654	176,654	-	-	-	-
Loans and advances to financial institutions	312,074	312,074	-	-	-	-
Loans and advances to customers	2,342,469	182,537	170,213	375,285	357,302	1,257,132
- International Corporate Lending portfolio	166,144	136,539	29,605	-	-	-
- Dutch Mortgage portfolio	2,104,568	39,188	120,605	330,681	319,998	1,294,096
- Belgian Mortgage portfolio	254,937	6,810	20,003	44,604	37,304	146,216
- IFRS basis adjustment: Mortgage portfolio	(183,180)	-	-	-	-	(183,180)
Investments	868,848	626,225	242,623	-	-	-
- Securities portfolio	422,916	180,293	242,623	-	-	-
- Securitisation portfolio	445,932	445,932	-	-	-	-
	3,700,045	1,297,490	412,836	375,285	357,302	1,257,132
Amounts owed to financial institutions:	278,184	278,184	-	-	-	-
- Due to clearing houses	180,731	180,731	-	-	-	-
- Due to other banks	97,453	97,453	-	-	-	-
Amounts owed to customers	2,509,167	2,174,031	191,463	127,957	15,706	10
Debt securities in issue	910,848	22,655	66,456	235,035	586,702	-
	3,698,199	2,474,870	257,919	362,992	602,408	10
Interest rate repricing gap		(1,177,380)	154,917	12,293	(245,106)	1,257,122
Impact of hedging interest rate derivatives – notional amounts	182,620	995,400	952,650	(479,233)	(464,690)	(1,004,127)
Net interest rate repricing gap		(181,980)	1,107,567	(466,940)	(709,796)	252,995

The Bank's exposure to interest rate risk primarily arises from mismatches in the repricing terms of its assets and liabilities. Its asset base is composed of both short- and long-duration portfolios. The short-duration portfolio includes high-quality securities within the Treasury portfolio and the International Corporate Lending portfolio, which typically reprice periodically. In contrast, the long-duration portfolio consists of the Dutch and Belgian Mortgage portfolios, which have extended maturities. The presence of interest rate floors embedded in most of the International Corporate Lending portfolio is a mitigation factor of the repricing risk in case rates decrease. Beyond repricing mismatches, fluctuations in market interest rates can also affect the Mark-to-Market (MtM) value of the Bank's fixed-rate instruments.

The Bank's long-term risk exposure to interest rate risk is managed through a hedging strategy which uses a series of plain vanilla interest rate swaps that form a run-off profile matching a mortgage portfolio run-off profile with behavioural pre-payment assumptions.

The net interest rate repricing gap is attributable to differences between the behavioural and the contractual view of repricing profile. The Interest rate risk measurement, limits and hedging decisions are based on the behavioural view of repricing profile. The interest rate gaps under the behavioural view are kept at low levels resulting in conservative interest rate risk taken by the Bank.

A positive interest rate sensitivity gap exists where more assets than liabilities reprice during a given period. Although a positive gap position tends to benefit net interest income in a rising interest rate environment, the actual effect will depend on several factors, including the extent to which repayments are made earlier or later than the contracted date and variations in interest rates within repricing periods and among currencies. Similarly, a negative interest rate sensitivity gap exists where more liabilities than assets re-price during a given period. A negative gap position tends to benefit net interest income in a declining interest rate environment, but the actual effect will depend on the same factors as for positive interest rate gaps.

The management of interest rate risk attributable to interest rate repricing gap limits is supplemented by monitoring the sensitivity of the Bank's financial assets and liabilities to various interest rate scenarios under the stress testing framework whilst the extent of the difference between risk factors on the asset side and liability side is monitored through the re-fixing gap analysis.

The estimated impact on the Bank's Net Interest Margin ("NIM") and on Economic Value of Equity based on scenarios and assumptions prescribed by the EBA guidelines on the management of interest rate risk arising from non trading book activities (EBA/TRS/2022/10) would be as follows:

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- NIM would decrease by €0.1 million in a parallel up scenario and decrease by €4.0 million in the parallel down scenario.
- Economic value of equity would increase by €3.3 million in a parallel up scenario and decrease by €3.6 million in the parallel down scenario.

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- NIM would decrease by €5.3 million in a parallel up scenario and increase by €2.7 million in the parallel down scenario.
- Economic value of equity would increase by €2.9 million in a parallel up scenario and decrease by €5.2 million in the parallel down scenario.

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

- Interest bearing assets are assumed to mature on their expected maturity or behavioural prepayment profile and are not replaced for the Δ EVE purposes (run off balance sheet).
- Interest bearing assets are assumed to mature on their expected maturity and are replaced on like for like basis for the Δ NII purposes (constant balance sheet);
- The Dutch NHG and Belgian Retail mortgages are assumed to follow a CPR curve over and above the contractual principal payment schedule;
- In addition to the legal floor on regulated savings accounts of the Bank, there is an implicit zero floor option on retail customer deposits as the Bank will not charge negative rates to the retail segment of its customer base;
- The Δ NII and Δ EVE metrics includes the effect of changes in value of the contractual automatic options embedded in the banking book assets;
- Customer deposits follow their behavioural schedule; and
- Sensitivities to behavioural assumptions are measured on a quarterly basis as part of the ICAAP whereas the IRRBB measurement has been validated and adapted to cater for novel characteristics of new product lines.

Interest rate movements affect reported equity in the following ways:

- retained earnings arising from increases or decreases in net interest income after taking into consideration the net impact of interest rate hedging instruments; and
- fair value reserves arising from increases or decreases in fair values of investments measured at fair value through other comprehensive income reported directly in equity.

2.4.4 Credit Spread Risk

The Bank has a portfolio of Treasury securities (held mainly as High-Quality Liquid Assets - HQLAs) and other low credit risk bearing assets which give rise to the Credit Spread Risk in the Banking Book ("CSRBB"). Exposure to movements in securities prices can be decomposed into the exposure to interest rates and to spreads which for a same level of creditworthiness fluctuate on a daily basis as a result of the changes in the market demand and liquidity for certain securities.

The Bank quantified the credit spread through the difference between the security's market yield at the valuation date and the risk-free rate and is strengthening its market value risk assessment including metrics related to the Marked-to-Market value sensitivity to spreads. For assets being held to their maturities, the Bank is not directly exposed to their market value variations. Nevertheless, the credit spread is an important market risk category for the Bank given the existence of the Treasury and highly rated securities, mainly held for liquidity purposes, which could potentially be used as contingency assets in case of severe liquidity stress. This risk is however mitigated by the high credit quality requirement set in the Treasury's policy, the short spread duration of those securities and the hold to maturity strategy of the Bank.

2.5 Operational risk

In line with the Basel framework, operational risk is defined as the potential for loss arising from failed or inadequate internal processes, people, systems or from external events. Operational risks can arise from all business lines and from all activities which are carried out by the Bank. Failure to manage operational risk may result in a direct or indirect financial loss, reputational damage, regulatory breaches or may even have a negative impact on the management of other risks such as credit, liquidity or market risk. There are various operational risk subtypes, including but not limited to fraud (internal/external), business disruption due to reduced or non-availability of systems, inadequate outsourcing arrangements, the Bank's inability to attract, retain, train and develop the right people, failed or inadequate business processes, data risk and project execution risk.

Operational Risk Management ensures that the Bank's risk appetite for operational risk is translated in a form that can be implemented and managed in practice. As covered in the Risk Appetite Statement, the Bank has low tolerance for operational risk events that could jeopardise its financial performance, customer outcomes or reputation. The Bank's objective is to manage operational risk to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity while maintaining risk taking within a tolerable limit.

The governance of Operational Risk follows the Bank's Three Lines of Defence model. The First Line of Defence is accountable to manage its own risks, whilst the Operational Risk Management, which forms part of the Second Line of Defence oversees and challenges risk taking activities and ensures that operational risks are consistently identified and assessed, managed adequately, monitored and reported accordingly. The Third Line of Defence (Internal Audit) provides an independent assurance on the design and operating effectiveness of the control structure.

The Bank also has an Operational Risk framework in place to make sure that it has a consistent and embedded approach for fully identifying and managing operational risks in an effective manner. The framework covers the following sections: Operational Risk Policy, Operational Risk Awareness, Operational Risk & Control Self-Assessment (RCSAs), Operational Risk Control Testing, Operational Risk Reporting and Incident Management & Business Continuity.

The Risk & Control Self-Assessment process, which at minimum, is carried out on an annual basis, is used to identify, document and assess the key risks and controls within the Bank. The RCSA process provides a bottom-up approach to risk identification at granular level. The RCSA results are leveraged for creating key risk indicators and developing narratives for scenario analysis. The risk identification process is also supported through the use of audit findings and internal loss data. The Operational Risk Management function maintains a repository of loss data which captures and records operational loss events and “near misses” events.

Operational Risk is monitored through the development and ongoing evolution of the Key Risk Indicator (KRI) reporting process. Operational Risk Management aim to develop KRIs that allow for the monitoring of internal controls factors associated with significant risks. Operational Risk is also monitored through: Risk & Control Owners alerting Operational Risk Management of control deficiencies, Operational Risk Management identifying changes to the operational risk profiles and by Internal Audit through their assessment of Operational Risk Management and indirectly through their reviews of business areas. Control testing is also carried out, using a risk-based approach to identify weaknesses in the control environment.

Operational Risk reporting provides management with a timely view of the Bank’s Operational Risk profile and any breaches to the Risk Appetite Statement. Material risks and breaches are escalated to the Bank’s governing bodies, such as Executive Committee and Board Committee, which serve as medium to ensure that corrective action plans are in place to mitigate significant risks and avoid reoccurrence of events impacting the Bank’s operations. Operational risks are reported through the Monthly Risk Management Report, Incident Reporting, Internal Control Report and the annual ICAAP.

Operational Risk Management is also responsible to ensure that the Bank has contingencies in the event of business disruption. The Bank has in place a Business Continuity Plan (BCP) and an IT Disaster Recovery Plan (DRP), both of which are defined in separate documents respectively. Since the DRP focuses on the availability of IT/technology services, the document is maintained and tested by the IT department. The BCP is intended to provide the Bank with a plan of actions necessary to restore critical business operations and ensuring the availability of resources whenever and wherever necessary and relies on the assumption that technology is available to support the business continuity efforts. The BCP is regularly tested to ensure the appropriateness of the responses in case of a business disruption.

A financial measurement of this risk is calculated by the Bank for the purpose of allocating risk capital using the Basic Indicator Approach under Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013, also known as the CRR. The risk weighted assets for operational risk under this method as at 31 December 2024 were calculated at €92.8 million (2023: €68.2 million).

ICT Security

ICT Risk is the risk of loss due to breach of confidentiality, failure of integrity of systems and data, inappropriateness or unavailability of systems and data or inability to change information technology within a reasonable time and with reasonable costs when the environment or business requirements change. This includes security risks resulting from inadequate or failed internal processes or external events including cyber-attacks or inadequate physical security.

There is a constantly evolving threat from cyberattacks that are increasing in terms of frequency, sophistication, impact and severity. Any failure in MeDirect’s cybersecurity policies, procedures or controls, may result in significant financial losses, major business disruption, inability to deliver customer services, loss of data, and may cause associated

reputational damage. The Bank continues to invest in prevention and detection systems and controls on a risk-sensitive basis, throughout the lifecycle of a product or customer relationship to ensure this risk is managed effectively.

The ICT Security function, led by the CISO manages the Bank's ICT and Security Risk management framework. The Framework documents the Bank's approach to managing ICT risks and is reviewed and approved annually by the Board. The Framework has been documented taking into consideration supervisory requirements, namely the EBA Guidelines on ICT and security risk management (EBA/GL/2019/04) and the Digital Operational Resilience Act (DORA).

Responsibility to manage and mitigate ICT risks lies with all Bank employees, employees follow the Bank's Information Security policies and procedures.

Residual ICT Security risks are managed in the context of the Bank's Risk Appetite Statement. ICT Security critical and non-critical risk appetite limits have been defined by the Bank. Breaches at different levels will trigger a course of action – risk appetite breaches and notification thresholds are reported to the Board every month.

The Bank's ICT Security strategy is embedded within the overall ICT Strategy and is aligned with the Bank's overall business strategy.

ICT Risk Identification and ICT Risk Mitigation:

ICT Risk Identification: MeDirect adopts several techniques to identify ICT risks. Risk sources include ICT security risk assessments, external security assessments, IT Security policy spot-checks, ICT security audits, ICT security policy exemptions, RCSAs, risks assessed as part of third-party due diligence, risks identified through ongoing monitoring of ICT infrastructure and risks identified through monitoring the cyber security threat landscape.

ICT Risk Mitigation: risks are documented in the ICT risk register and are followed up by the IT Security function. A risk treatment plan is documented for each risk. A control owner is defined and an implementation timeline for each control is documented. Implementation of controls is followed up by the IT Security function with the relevant control owner(s).

ICT Security controls implemented by MeDirect through the IT Security strategy are grouped into the following categories:

- a) Physical Security;
- b) Logical Security;
- c) ICT Operations Security;
- d) Security monitoring;
- e) Information Security reviews, assessment and training; and
- f) Information Security training and awareness.

ICT risk, risk appetite limits and key risk indicators form part of the CRO update to ExCo on a monthly basis and then CISO also provides an annual formal report to ExCo at least once a year. This includes coverage of selected IT risks, IT risk appetite limits and Key Risk Indicators ("KRIs").

Cyber security matters of interest are also reported to the Board. This includes updates on the Cyber security landscape, new and existing threats and how the Bank is responding to such threats and results of external security tests.

Risk reports, security control test results and results from phishing awareness campaigns are presented to the EMRC and the Operations Committee.

2.6 Environmental, Social and Governance-related (“ESG”) risk

During 2024, the Group continued to integrate sustainability into its internal organisational structure as part of the implementation of its ESG agenda.

The Board of Directors are ultimately responsible for approving and overseeing the implementation of the Group's strategic objectives, principal policies and procedures, including its ESG Strategy and Climate-related and Environmental Risks (“CER”)/ESG risk procedures and commitments that are incorporated into the Group's wider risk management framework. Moreover, the Board reviews and approves the Group's Non-Financial report together with the Group Annual Report & Financial Statements ensuring that all material ESG-related topics are covered and disclosed.

The Board structure enables the Group to coordinate its CER/ESG policies and procedures to ensure consistency on matters affecting all entities within the Group across all jurisdictions including Malta, Belgium, UK and the Netherlands. By setting the ESG agenda at the parent level, the Board ensures a common ESG strategic framework which can be deployed and implemented across the Group, including at the subsidiary level. This helps to ensure that ESG is given appropriate priority on the Group's agenda and that ESG factors are embedded in the decision-making processes at all levels of the Group structure.

The Board maintains oversight of CER/ESG risks via periodic updates (at least once a quarter) that are given during the routine Board meetings by the Head of Sustainability.

The ESG Committee has the overall responsibility to oversee CER/ESG risks and initiatives, including oversight of the MeDirect ESG strategy and agenda implementation, whilst providing advice and support to the Board of Directors on CER/ESG-related matters. The Committee consists of top management of main functions, including Finance (Group Chief Financial Officer and Belgium Chief Financial Officer), Risk (Group Chief Risk Officer and Belgium Chief Risk Officer), Compliance and other functions. The Head of Regulatory Affairs and Sustainability is the Chair of the Committee and the Belgium Chief Risk Officer is the co-Chair. The Internal Audit function is a permanent invitee to the Committee as an observer in order to maintain its independent status.

Moreover, the Group incorporated CER across the three lines of defence (“LoD”) by updating business procedures and policies, the risk management framework, risk appetite, stress testing, compliance monitoring plans and internal audit plan.

The front-line business is responsible for identifying, assessing and managing sustainability risks within their specific operations and for incorporating the management of such risks in the various stages of their business processes including, amongst others, the credit process, the wealth process and the procurement process. Business functions should follow the internal procedures related to CER/ESG in their day-to-day business operations.

The Risk Management function is responsible for developing and tracking a dashboard of relevant CER/ESG risk indicators, stress test and limits within the existing risk reporting frameworks of the Group, with continuous enhancement over time. It has integrated CER and ESG risks (both financial and non-financial) in their risk identification and management process comprehensively analysing the ways in which CER and ESG risks may affect different areas of the Group. MeDirect Sustainability Risk Policy outlines the Group's approach on integrating and managing sustainability risks in the Group's main processes including credit, wealth, procurement, remuneration and governance processes. During 2024, MeDirect has enhanced its ESG risk process by the integration of a dedicated Sustainability Risk Appetite Statement outlining the commitments and key risk indicators for each element within ESG. Additionally, it enhanced the transmission channels between traditional risks and ESG, including greenwashing risks. MeDirect is committed to continue improving upon its ESG risk assessment on different asset classes, particularly the retail and corporate lending portfolios.

The Compliance Function is responsible for preparing compliance plans that consider CER/ESG risk. It operates independently from the business units, albeit advising and assisting the business units and other internal functions to ensure that operations are in line with policies, procedures and regulations. In 2024, Regulatory Compliance took over the responsibility of the Regulatory Horizon Scanning, where it monitors all incoming regulatory and legislative changes, including sustainability-related regulations.

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

All the strategic objectives and commitments related to CER/ESG were incorporated in the ESG Strategy 2022-2024/25 "On the path to sustainability for 2022-2024/25". During the first half of 2024, the Group reviewed the ESG Strategy to ensure continued consistency with the CER Materiality Assessment. In its revision of the ESG Strategy, the Group revised its limit of exposure to sectors highly contributing to climate change and included new commitments. Additionally, a sub-strategy was adopted in relation to the transition towards decarbonisation and climate neutrality of the Group by 2050. Additional commitments relating to employees and society were adopted, including the equal pay gap monitoring, the selection of one or more ESG Champions selected through ESG hackathons, the implementation of a two-way communication system between the employees and HR representatives, compliance with the European Accessibility Act ("EAA") principles and the implementation of career plans and personal development plans for employees.

During 2024, the Risk and appropriate Business functions continue to adopt (hard) risk appetite limits into its Risk Appetite Statements for all lending portfolios linked to physical and/or transition climate risks, such as high flood risk and high sea-level increase risk regions, poor EPC scoring (yearly energy efficiency) of the mortgaged properties, sectors highly contributing to climate change, and exclusion sectoral lists. The Group will continue to monitor these limits, and applies escalation procedure, in line with the Risk Appetite Framework, in case of a breach in limits.

The Group also incorporated in its operational framework the risk of CER impacting its operational centres and reputation. The Business Continuity Plan ("BCP") includes scenarios related to natural hazards (e.g. storm, earthquake, flooding) and power failure, among others. The bank has a setup where the employees can work from home via VPN in case of such extreme situation and it has been tested and functioning without any issue. The Operational & Reputational Risk Appetite Statement includes CER impact of the Group counterparties and Reputational Risk Management Policy includes ESG risk affecting reputation. In addition, the Planning and Budgeting Policy and Impairment and Accounting Policy were updated to include CER in budgeting process and impairment calculation whenever applicable.

The Risk function reviews and updates on an annual basis the Group CER Materiality Assessment that analyses the sensitivity of the Group's businesses to physical and transition risks using a forward-looking approach. In 2024, the Group reviewed its initial assessment to analyse the main CER that may impact MeDirect strategy, business model, asset portfolios, funding sources, treasury and hedging, wealth management services, as well as the business operating centres in which it operates. The assessment was presented to the ESG Committee and was validated by the Board.

The assessment included all on-balance sheet elements and off-balance sheet elements, covering physical risks (floods/fluvial, sea level risk, drought/external heat, forest fire/wildfire, biodiversity loss, water stress) and transition risks (policy/regulations, stranding risk, market sentiment, technology change) including high-level impact horizons (short, medium and long-term). The Group used the European Climate Risk Typology, European Environment Agency

maps and Moody's Investor Services analysis including sectoral heatmaps while analysing individual physical risks. To analyse transition risk, the Group used Moody's Analytics researches and Grantham Research Institute's report on Climate Change and the Environment that are publicly available. The assessment was conducted on a proportional and risk-based approach, utilising currently available sources and data. The materiality assessment was conducted by the Risk function with the support of the relevant business functions.

The materiality assessment continues to conclude that the overall strategic Group's exposure to CER is limited given the Group's business profile and its strategy. The direct impact of MeDirect operation is not material as the Group mainly operates in digital channels and its greenhouse gas emissions and resources consumption are limited. The impact is mainly indirect through financing clients from the sectors highly contributing to the climate change or through green financing. The assessment indicated that the assets could be impacted by CER primarily through credit risk (deterioration of collateral valuation and deterioration of credit standing of the borrower), retail funding primarily through reputational risk (deposit outflows), wholesale funding primarily through counterparty/country risk and deterioration of securities collateral valuation, wealth management services through market sentiment (fund classes) and operational centres through operational risk (higher energy requirements, physical risk of destruction or failure).

The Group assessment has shown a higher transition risk related to its residential mortgage portfolios in the Netherlands, Belgium and Malta driven by stranding assets risk and wealth management services driven by market sentiment. The real estate portfolios of Belgium and Netherlands are the most exposed to these risks in the long-term due to their geographical location. The assessment was conducted in line with the approach adopted in the 2022 ECB Climate Stress Test, using a regional approach based on Eurostat's nomenclature of territorial units for statistics ("NUTS") for EU countries and European Climate Risk Typology ("ECRT") using CER scenarios. The Group's exposure to these portfolios represents almost €2.6 billion (51.3% of the Group 2024 assets) as presented in the table below.

	Balance sheet exposure	Group assets
	€000,000	%
Dutch NHG mortgage portfolio exposure	2,029	40%
Dutch Buy-to-let mortgage portfolio exposure	173	3%
Belgian mortgage portfolio exposure	366	7%

A relatively low proportion of the Group's Dutch Mortgage portfolio is exposed to higher flood risk (3.5%) and none of the Belgian Mortgage portfolio, while 17.9% of the Group's Dutch Mortgage portfolio and 20.6% of the Belgium Mortgage portfolio is exposed to higher sea hazard risk area.

	2024	2023
% of Dutch NHG mortgage portfolio exposure in high flood risk areas	3.5%	3.5%
% of Dutch NHG mortgage portfolio exposure in high sea hazard risk areas	17.9%	17.9%
% of Dutch Buy-to-let mortgage portfolio exposure in high flood risk areas	3.6%	4.4%
% of Dutch Buy-to-let mortgage portfolio exposure in high sea hazard risk areas	9.6%	3.1%
% of Belgian mortgage portfolio exposure in high flood risk areas	0%	0%
% of Belgian mortgage portfolio exposure in high sea hazard risk areas	20.6%	22.9%

The physical risk in the Dutch mortgage portfolio property is mitigated through property insurance or the National Mortgage Guarantee (NHG) protection. In Belgium, the Group implemented a contractual obligation for clients to purchase property insurance that automatically covers flood risk. Most of the Group's Belgian mortgages are already covered by property insurance.

Moreover, the Group implemented the portfolio limits related to high flood risk in Dutch and Belgian Risk Appetite Statement.

The transition risk related to sea level increase hazard in the Dutch and Belgium mortgage portfolio is a long-term risk. The Group monitors the exposure to this risk in the quarterly Risk Report and Dutch and Belgian Risk Appetite Statement the portfolio limits related to high coastal (sea-level) risk.

Notwithstanding these risks, the Group has assessed its residual risk as low, particularly in the short- to medium-term. The assessment indicates that based on its current CER/ESG risk profile, no additional capital or liquidity buffer is required to cover potential impact of CER risk.

Moreover, CER has been also assessed from both the normative and economic perspectives of the ICAAP, which assesses its impact on the profit or loss, capital requirements and solvency (PD, LGD). The Group has incorporated climate-related scenarios into its stress testing processes, which encompass both physical and transition risks over a three-year time horizon. The updated 2024 capital stress tests include scenarios linked to MeDirect operation (physical risk related to significant weather conditions impacting MT operation) and credit portfolios (NGFS Scenario Combined Orderly Net Zero 2050 Scenario and transition risk related to new CER regulations impose on homeowners with energy-inefficient properties to renovate their houses with the impact on capital and capital ratios). The impact on of the CER transition scenario on the capital is €21.6 million less than the budgeted amount of capital over the considered stress horizon, and on the impairment the impact is €28.4 million impairments over and above the budgeted amount of impairments. The impact of the CER physical scenario on the capital is €15.0 million operational loss. The Group continues to evolve its stress testing processes and to enhance existing processes to be able to conduct adequate and plausible Climate Risk Stress Tests to make informed decisions.

In reference to the ESMA's Public Statement on Accounting for Carbon Allowances in Financial Statements, the Group does not have carbon allowances in its balance sheet as not applicable.

2.7 Capital management - regulatory capital

The Bank's regulator, the ECB's Joint Supervisory Team ("the JST") sets and monitors capital requirements for the Bank based on the capital requirements prescribed within CRR II and Capital Requirements Directive ("CRD V").

As a result, the Bank is required to maintain a prescribed ratio of total capital to total risk-weighted assets. The Bank does not engage in trading and is exempt from having a trading book. Risk-weighted assets on the banking book are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets including balances with counterparties and other illiquid assets.

The Bank complies with the provisions of the CRR in respect of regulatory capital and it applies the standardised approach for credit risk. For regulatory purposes, the Bank's capital base is divided in two main categories, namely Common Equity Tier 1 Capital and Tier 2 Capital.

- Common Equity Tier 1 Capital which includes ordinary share capital, share premium, shareholders' contributions, retained earnings, fair value reserve and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes including deductions relating to Reserve for Depositor Compensation Scheme ('Other reserves') and certain other regulatory items; and

- Tier 2 Capital consists of unrealised gains included within the fair value reserve and subordinated liabilities in issue, which rank after the claims of all depositors (including financial institutions) and all other creditors.

	2024	2023
	%	%
CET 1 Ratio	21.3	22.1
Total Capital Ratio	21.3	22.1

The Bank's policy is to maintain a good capital base to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Bank recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

In this respect, the Bank has complied with all externally imposed capital requirements throughout the year.

MDB Group Limited publishes full Pillar 3 disclosures as a separate document. The Group's and Bank's Pillar 3 Disclosures Annual Report provides information about the financial risk management of MeDirect.

The MeDirect Belgium Disclosures are prepared in accordance with the requirements in Article 433b of Part Eight of the EU Regulation 876/2019 of the European Parliament and of the Council of 20 May 2019 amending regulation (EU) No 575/2013 (Capital Requirements Regulation 2 – "CRR 2"). Given that the Bank is a 'small and non-complex institution' it is required to publish the disclosures as per Article 433b CRR on an annual basis.

2.8 Fair value measurement

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Bank measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if the transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. The judgement as to whether a market is active may include, but is not restricted to, the consideration of factors such as the magnitude and frequency of trading activity, the availability of prices and the size of bid/offer spreads.

If there is no quoted price in an active market, then the Bank uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price - i.e., the fair value of the consideration given or received. If the Bank determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by the quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss only to the extent that it arises from a change in a factor (including time) that market participants would consider in setting a price.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Bank measures assets and long positions at a bid price and liabilities and short positions at an ask price.

2.8.1 Fair value hierarchy

The Bank measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: inputs that are quoted market prices (unadjusted) in active markets for identical instruments.
- Level 2: inputs other than quoted market prices included within Level 1 that are observable either directly (i.e., as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data. Financial instruments which are generally included in this category include certain loans and advances to customers and over-the-counter derivatives where the fair value is based on observable inputs.
- Level 3: inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

2.8.2 Use of valuation techniques

In the event that the market for a financial instrument is not active, a valuation technique is used. Valuation techniques may incorporate assumptions about factors that other market participants would use in their valuations, including:

- the likelihood and expected timing of future cash flows from the instrument
- selecting an appropriate discount rate for the instrument; and
- judgement to determine what model to use to calculate fair value in areas where the choice of valuation model is particularly subjective.

A range of valuation techniques is employed, dependent on the instrument type and available market data. Most valuation techniques are based upon discounted cash flow analyses, in which expected future cash flows are calculated and discounted to present value using a discounting curve. Prior to considering credit risk, the expected future cash flows may be known, as would be the case for the fixed leg of an interest rate swap, or may be uncertain and require projection, as would be the case for the floating leg of an interest rate swap. Projection utilises market forward curves, if available.

Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premiums used in estimating discount rates, bond and foreign currency exchange rates and expected price volatilities and correlations.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

The Bank uses widely recognised valuation models for determining the fair value of common and simple financial instruments, such as interest rate and currency swaps, that use only observable market data and require minimal management judgement and estimation.

Fair values of investment securities in inactive markets are based on:

- quoted prices of similar instruments, performing numerical procedures such as interpolation when input values do not directly correspond to the most active market trade parameters; or
- price quotations in respect of orderly transactions between market participants provided by reputable dealers.

Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange traded derivatives and simple over the counter derivatives such as interest rate swaps. Availability of observable market prices and model inputs reduces the need for management judgement and estimation and reduces the uncertainty associated with determining fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

2.8.3 Financial instruments measured at fair value

The following table analyses financial instruments measured at fair value at the end of the reporting year, in terms of the respective levels within the fair value hierarchy into which the respective fair value measurement is categorised. The fair value amounts are based on the carrying amounts reflected in the statement of financial position.

	As at 31 December 2024				As at 31 December 2023			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	€000	€000	€000	€000	€000	€000	€000	€000
Assets								
Instruments mandatorily measured at fair value through profit or loss								
- Derivative financial instruments	-	174,513	-	174,513	-	207,438	-	207,438
Total financial assets	-	174,513	-	174,513	-	207,438	-	207,438
Liabilities								
Derivative financial instruments	-	31,849	-	31,849	-	24,648	-	24,648

Level 2 assets principally comprise derivatives held for risk management that are fair valued based on valuation models with the key methodology utilised comprising the calculation of the net present value of a series of expected cash flows, considering the different terms of each specific contract/instrument (discounted cash flow approach). These models use as their basis independently sourced market parameters including, for example, interest rate yield curves. Market parameters are either directly observable or are implied from observable instrument prices. The model may perform numerical procedures in respect of pricing such as interpolation when input values do not directly correspond to the most active market trade parameters.

Level 3 assets consist of the following:

- As part of a derecognition of loans and advances to a European corporation as a result of restructuring procedures that occurred in 2021, the Bank obtained equity instruments as part of this restructuring procedure which it initially held at nil value due to the unlikely scenario of recovering any value on the equity at that time. During 2022, the Bank was notified of an agreement to sell the corporation against which the Bank would be receiving proceeds for the equity positions it held. Following the closing of this transaction in 2023, the Bank received €0.8 million.

The following table shows a reconciliation of the fair value measurements in Level 3 of the fair value hierarchy:

	Securities investment portfolio measured at fair value through profit or loss		Derivative financial instruments measured at fair value through profit or loss	
	2024	2023	2024	2023
	€000	€000	€000	€000
Year ended 31 December				
At beginning of year	-	819	-	80,061
Changes in fair value	-	-	-	(80,061)
Realised	-	(819)	-	-
At end of year	-	-	-	-

The Level 3 assets as at 1 January 2023 consisted of back-to-back structured interest rate swaps entered into by MeDirect that reinternalised interest rate risk of the securitised mortgage loan receivables. The valuation of these derivatives as at 31 December 2022 was performed based on the expected cashflows on the swap transaction measured until the First Optional Redemption Date (FORD) of these related securitisations transactions. The valuation included both market observable inputs interest rate curves) as well as mortgage loan prepayment estimates consistent with MeDirect IRRBB assumptions.

The Bank did not hold any Level 3 assets as at 31 December 2024 and 31 December 2023. Accordingly, a sensitivity analysis of the fair value measurement to changes in observable inputs was not deemed relevant.

2.8.3.1 Transfers between levels

The Bank recognises transfers between levels of the fair value hierarchy as of the end of the reporting year during which the transfer has occurred.

There were no transfers between levels of the fair value hierarchy during the financial years ended 31 December 2024 and 2023.

2.8.4 Financial instruments not measured at fair value

The following table sets out the fair values of financial instruments not measured at fair value and analyses them in terms of the respective level within the fair value hierarchy into which the respective fair value measurement is categorised. This table includes only financial instruments in respect of which fair value is estimated to be materially different than the carrying amounts (excluding accrued interest).

As at 31 December 2024

	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
	€000	€000	€000	€000	€000
Assets					
Loans and advances to customers	-	37,503	2,383,622	2,421,125	2,623,439
- International Corporate Lending portfolio	-	37,503	18,195	55,698	55,778
- Dutch Mortgage portfolio	-	-	2,026,328	2,026,328	2,202,281
- Belgian Mortgage portfolio	-	-	339,099	339,099	365,380
Investments	425,230	131,167	390,059	946,456	954,286
- Securities portfolio	425,230	-	-	425,230	432,165
- Securitisation portfolio	-	-	390,059	390,059	390,936
- Asset-Backed Securitisation portfolio	-	131,167	-	131,167	131,185
Total financial assets	425,230	168,670	2,773,681	3,367,581	3,577,725
Liabilities					
Debt securities in issue	-	-	639,977	639,977	638,952
Total financial liabilities	-	-	639,977	639,977	638,952

As at 31 December 2023

	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
	€000	€000	€000	€000	€000
Assets					
Loans and advances to customers	-	25,351	2,114,039	2,139,390	2,385,025
- International Corporate Lending portfolio	-	25,351	-	25,351	25,520
- Dutch Mortgage portfolio	-	-	1,875,134	1,875,134	2,104,568
- Belgian Mortgage portfolio	-	-	238,905	238,905	254,937
Investments	409,007	-	438,753	847,760	868,848
- Securities portfolio	409,007	-	-	409,007	422,916
- Securitisation portfolio	-	-	438,753	438,753	445,932
Total financial assets	409,007	25,351	2,552,792	2,987,150	3,253,873
Liabilities					
Debt securities in issue	-	-	914,409	914,409	910,848
Total financial liabilities	-	-	914,409	914,409	910,848

* The mortgage portfolios disclosed in the preceding tables are presented exclusive of the IFRS basis adjustment equivalent to €142.2 million (2023: €183.2 million).

The Level 1 fair values reflected in the tables above consist of the closing bid price quoted in an active market in respect of debt securities classified under the Securities Investment portfolio.

The Level 2 and Level 3 fair value disclosures of the International Corporate Lending portfolio mainly comprise price quotations sourced from an online platform in respect of internationally traded loans and advances, consisting of the Bank's international loan book with foreign corporates. Loans and advances to customers forming part of the International Corporate Lending portfolio of the Bank amounting to €26.3 million (2023: €140.9 million), net of expected credit losses have not been reflected within the preceding table given that there were no observable market prices or any public information available but the contractual terms of these instruments, that mainly re-price within three months, and the nature of the borrowers, are similar to those of the instruments in the preceding table and thus their fair valuation characteristics would not differ significantly from those of the instruments included in the preceding table.

The Level 3 assets also include the following:

- The Bank's investments in tranches of securitisation structures amounting to €390.9 million (2023: €445.9 million), which are mainly rated AAA, and for which a fair value is determined using third party valuation models to estimate the net present value of a series of expected cash flows, taking into consideration instrument-specific contractual terms (discounted cash flow approach). Amongst other things, these models take into consideration the characteristics of the underlying portfolio of assets (including quality of underlying assets), historical portfolio performance, and the liability structure of the CLO transaction. These models also make use of independently sourced market parameters including, for example, interest rate yield curves.
- Dutch mortgages amounting to €2,202.3 million (2023: €2,104.5 million) and Belgium mortgages amounting to €365.4 million (2023: €254.9 million) included in Loans and advances to customers. In order to derive their fair value as at 31 December 2024 and 2023, the Bank bootstraps the average of the top three interest rate quotes offered by Dutch government-backed mortgage loan lenders in the Netherlands and Belgian mortgage loan lenders in Belgium respectively for every mortgage fixed rate tenor to create a zero coupon discount curve and applies this curve to discount the projected future cashflows. In addition, to estimate the future cashflows, the Bank considers both instrument-specific contractual terms and estimated conditional prepayment rates.

The Bank's financial instruments not measured at fair value also comprise balances with central banks, loans and advances to financial institutions, and amounts owed to financial institutions and customers. The fair values of these financial assets and liabilities are not disclosed given that the carrying amount is a reasonable approximation of fair value because these are either re-priced to current market rates frequently or are short-term in nature.

As at 31 December 2024, all the Bank's exposures classified under loans and advances to financial institutions amounting to €269.3 million (2023: €312.1 million), and balances with central banks amounting to €142.2 million (2023: €176.7 million), reprice or mature in less than one year. Hence their fair value is not deemed to differ materially from their carrying amount at the reporting date.

Fair values referred to above are estimated using discounted cash flows, applying market rates. These estimates are considered Level 3 fair value estimates.

The majority of the 'Amounts owed to financial institutions' of the Bank as at 31 December 2024 amounting to €168.4 million (2023: €278.2 million), and 'Amounts owed to customers' of the Bank amounting to €2.9 billion (2023: €2.4 billion), sourced from the Belgian market, re-price or mature in less than one year. Hence their fair value is not deemed to differ materially from their carrying amount at the reporting date. Fair values of these liabilities are estimated using discounted cash flows, applying current rates offered for deposits of similar remaining maturities. These are considered Level 3 fair value estimates. The fair value of a demand deposit is not less than the amount payable on demand, discounted from the first date on which the amount payable is required to be paid.

3. Accounting estimates and judgements

3.1 Critical accounting estimates and judgements in applying the Bank's accounting policies

Estimates and judgements are continually evaluated and based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances.

The Bank makes estimates and assumptions concerning the future. The resulting accounting estimates are, by definition, seldom equal the related actual results. These estimates and assumptions present a risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. The Bank's management also makes judgements, apart from those involving estimations, in the process of applying the entity's accounting policies that may have a significant effect on the amounts recognised in the financial statements.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

Information about assumptions, estimations and uncertainties that have a significant risk of resulting in a material adjustment in the year ending 31 December 2025 is set out below in relation to estimated cash flows for the purposes of applying the effective interest method and the impairment of financial instruments.

3.2 Expected credit losses on loans and advances to customers

Financial assets measured at amortised cost are evaluated for impairment on the basis described in Accounting Policy Note 1.5. Expected credit losses ("ECL") on loans and advances represent management's best estimate of expected credit losses on the loan portfolios subject to IFRS 9 impairment requirements at the end of the reporting period. In this respect, management is required to exercise judgement in defining what is considered to be a significant increase in credit risk or an unlikelihood-to-pay event, in determining the expected lifetime and point of initial recognition of financial instruments, and in making assumptions and estimates to incorporate relevant information about past events, current conditions and forecasts of economic conditions when calculating expected credit losses.

The measurement of credit loss allowances in respect of loans and advances to customers in line with IFRS 9 principles requires complex statistical analyses and modelling assumptions, with ECL models built and calibrated principally by reference to historical information in respect of default levels and loss severities. However, due to the inherent level of estimation uncertainty in modelling such aspects of the ECL calculation, a significant element of expert judgement is required to ensure that model parameters produce an ECL output which is reasonable and appropriate in light of existing conditions.

For loans within the Bank's International Corporate Lending portfolio, judgement is firstly required in determining whether there is objective evidence that an exposure is credit-impaired. In performing this assessment, management applies a significant level of judgement in evaluating all relevant information on indicators of unlikelihood-to-pay, including the consideration of factors that immediately indicate deterioration in the financial condition of borrowers, but also in respect of factors that impact the outlook of borrowers affecting their ability to pay, as described in Note 1.5. A higher level of judgement is required for loans to borrowers showing continued signs of financial difficulty similar to those experienced during the preceding financial year, and for borrowers that are performing better compared to the prior year to understand whether the improvements are sustainable going forward. These judgements are reflected within forecasted cash flow forecasts under different scenarios for Stage 2 borrowers particularly when assessing their unlikelihood to pay.

The measurement of credit loss allowances in respect of defaulted exposures is performed through an internally developed model based upon management's best estimate of the present value of the cash flows that are expected to be received under multiple forward-looking scenarios. As described in note 2.2.1 the Bank utilises a DCF approach.

In estimating cash flows for defaulted exposures within the International Corporate Lending portfolio, management makes judgements about a debtor's financial situation and future repayment prospects, taking into consideration management plans for growth within the current environment. In this regard, judgement is applied in estimating the expected future cash flows from each borrower under the different scenarios, assigning probabilities to those scenarios, and determining appropriate discount rates reflecting borrower-specific characteristics. The determination of operating cash flows under multiple scenarios requires a significant level of judgement in order to adequately capture the current economic conditions.

The estimates of recoverable cash flows for each defaulted borrower are independently reviewed and challenged by the Bank's credit risk function, and approved by the Bank's Management Credit Committee.

During 2024 and 2023, the Bank extended loan forbearance measures to borrowers experiencing financial difficulties by agreeing to modify the contractual payment terms of loans in order to improve collection opportunities or to avoid default. Where forbearance activities are present, higher levels of judgement and estimation uncertainty are involved in determining their effects on credit loss allowances. Significant judgement was required in determining whether substantial modifications were made to contractual terms, thereby requiring derecognition of the extinguished financial instrument(s) and the recognition of the new financial instrument(s). In addition, whether such restructuring led to the recognition of new financial instruments or the continuing recognition of the pre-restructured debt, the determination of the relative staging of the post-restructured debt and the measurement of the associated credit loss allowances are also deemed to be highly judgemental.

For exposures classified as Stage 1 and Stage 2 within the International Corporate Lending portfolio, and all exposures within the Dutch and Belgian Mortgage portfolios, the Bank measures credit loss allowances on the basis of complex models with a number of underlying assumptions. Particularly, in respect of the International Corporate Lending portfolio, the level of estimation uncertainty is exacerbated in respect of:

- (i) modelling PiT PDs and LGDs;
- (ii) forecasting macroeconomic scenarios for the purposes of estimating probability-weighted credit loss allowances;
- (iii) the determination of expected maturities of facilities, particularly in the case of International Corporates classified as Stage 2; and
- (iv) assessing if there has been a significant increase in credit risk, which comprise a combination of qualitative and quantitative criteria, as described in Note 1.5.

The PD, LGD and EAD models used for the measurement of credit loss allowances for the International Corporate Lending and Dutch Mortgage portfolios are developed by an external vendor, enabling the estimation of these three key risk parameters at a facility level using statistical models, mainly by benchmarking exposure-specific characteristics against an underlying dataset. Specifically, PDs and LGDs are developed on a name-by-name basis by reference to the default and loss history of comparable borrowers with similar characteristics in terms of size, industry and country of operations.

In this regard, the methodology together with the assumptions and parameterisation used in the calibration of the model are reviewed on a regular basis by management in order to ensure that the model output remains appropriate in view of the Bank's observed default and credit loss history. A significant level of judgement is required in order to assess the continuing appropriateness and reasonableness of the PiT PDs and LGDs being determined by the statistical models. In this respect, it is noteworthy to mention that the Bank's IFRS 9 model for determining PiT PDs is particularly sensitive to equity market data. As a result, given that equity prices are driven by factors unrelated to creditworthiness, a significant level of expert judgement is required to determine the reasonableness of ECL model outputs. As described in more detail in Note 2.2.7 of the financial statements, as at 31 December 2024 the Bank did not resort to the application of overlays.

Similarly, significant judgement was also required in the modelling and selection of macroeconomic forecasts as well as in calibration of the severities and respective probability weights of macroeconomic scenarios used in the determination of ECLs. Judgement in this respect has been amplified by the heightened level of uncertainty triggered by the unprecedented economic and socio-political conditions being currently experienced across countries and industries. In this respect, a number of modelling assumptions are required, based on expert judgement, in order to form a view on the impact of the conflict between Russia and Ukraine and between Israel and Hamas on macroeconomic variables in specific countries and industries.

Hence, as at 31 December 2024, the development of multiple forward-looking macroeconomic scenarios taking into consideration all these variables represents a key element of estimation uncertainty in the measurement of credit loss allowances. In addition, as described in Note 2.2.7 of the financial statements, the Bank ensures that the modelled macroeconomic forecasts provided by the external vendor that supplies the Bank with the applicable modelled scenarios for the purposes of ECL modelling are aligned with the ECB staff macroeconomic projections published in December 2024.

In view of the high subjectivity involved in forecasting scenarios and the sensitivity of the ECL to the key changes in the number, selection and probability weightings applicable to the different scenarios, the Bank has recalculated the ECL under the different scenarios both by applying a 100% weight to each scenario, as well as by re-calibrating the probability weights to scenario severities determined by the external vendor as in the preceding year, i.e. prior to any post-model adjustments. The effect of this uncertainty on the ECL outcome is disclosed in the sensitivity analysis of the measured credit loss allowances as at 31 December 2024 and 2023 presented in Note 2.2.7 of the financial statements.

The determination of expected maturities, which is particularly relevant for Stage 2 exposures within the International Corporate Lending portfolio, is based on behavioural maturity, reflecting management expectations on the exercise of prepayment options, based on borrowers' ability to refinance their debt in the open market. The level of subjectivity in determining expected maturities increases significantly when increased credit risk is experienced by such borrowers as it diminishes their refinancing abilities over the shorter term. In this context, management continues to monitor the expected maturities of borrowers in Stage 2 by reference to borrower specific information as well as by benchmarking the expected timing of future recoveries against actual outcomes to ensure that they remain appropriate.

The identification of SICR events, particularly in respect of the International Corporate Lending portfolio, requires significant judgement in order to assess the severity of the impact of significant events on the financial performance and financial condition of such borrowers. In this respect, during 2024 and 2023, increased reliance has continued to be made by the Bank on its qualitative staging criteria, particularly through the introduction of caps on implied ratings and notch downgrades to ensure that borrower specific risks as at the end of the financial reporting period are captured in as timely a manner as possible.

3.3 Valuation of derivatives and hedge accounting

The level of management judgment required in establishing fair value of derivative financial instruments is limited for those instruments valued using valuation models which are standard across the industry and where all parameter inputs are quoted in active markets.

The level of subjectivity and degree of management judgment required is more significant for those derivative financial instruments valued using specialised and sophisticated models and where some or all of the parameter inputs are less liquid or less observable. Management judgment is required in the selection and application of appropriate parameters, assumptions and modelling techniques. Where no market data are available for a particular instrument then pricing inputs are determined by assessing other relevant sources of information such as historical data and making appropriate adjustment to reflect the actual instrument being valued and current market conditions. Further, some valuation adjustments may require the exercise of management judgment to achieve fair value.

Moreover, the accounting treatment of the hedging relationship and the effectiveness test is based on a number of assumptions that include amongst others the expected future early redemptions and renegotiations of the Mortgage portfolios.

Financial assets and liabilities carried at fair value are required to be disclosed according to the inputs to the valuation method that are used to determine their fair value. Specifically, segmentation is required between those valued using valuation techniques based on observable parameters (level 2) and valuation techniques using significant unobservable parameters (level 3). Management judgment is required in determining the category to which certain instruments should be allocated. This specifically arises when the valuation is determined by a number of parameters, some of which are observable and others are not.

4. Balances with central banks and cash

	2024	2023
	€000	€000
At amortised cost:		
Balances with central banks	142,242	176,654
Accrued interest	10	34
	142,252	176,688

As at 31 December 2024, balances held with central banks include reserve deposits amounting to €28.3 million (2023: €21.9 million) relating to the Minimum Reserve Requirement in terms of Regulation (EC) No 1745/2003 of the ECB bearing interest at 0% per annum. Other balances with central banks held by the Bank with the National Bank of Belgium amounting to €114.0 million (2023: €154.7 million) are subject to a positive interest rate of 3% (2023: positive interest rate of 4%) per annum.

Balances with central banks in the preceding table are shown net of credit loss allowances amounting to €1 thousand as at 31 December 2024 and 2023.

5. Derivative financial instruments

The Bank established derivative lines with counterparties to purchase foreign exchange swaps, interest rate swaps and other appropriate instruments approved for hedging risks.

The Bank uses over-the-counter foreign exchange swaps to hedge its exposure to changes in foreign exchange rates. All foreign exchange swaps mature within 1 month (2023: 1 month) from the reporting date.

The Bank also uses over-the-counter interest rate swaps to hedge its exposure to interest rate risk emanating from a portfolio of fixed-rate mortgages (see Note below – macro fair value hedging under the EU carve-out version of IAS 39). The losses on the related hedging instruments during the year ended 31 December 2024 were €40.1 million (2023: losses of €86.4 million). The gains on the hedged items arising during the year attributable to the hedged risk were €39.8 million (2023: gains of €85.1 million).

Foreign exchange and interest rate swaps are commitments to exchange one set of cash flows for another, resulting in an economic exchange of currencies or interest rates (for example, fixed rate for floating rate).

	2024	2023
	€000	€000
Derivative financial assets - fair value	174,513	207,438
Derivative financial liabilities - fair value	(31,849)	(24,648)

The Bank applies fair value hedge accounting on macro level whereby a portfolio of items is hedged with multiple hedging instruments. For macro hedges of interest rate risk, the Bank applies the EU 'carve-out' version of IAS 39. The EU 'carve-out' rules for macro hedging enable a group of derivatives (or proportions) to be viewed in combination and jointly designated as the hedging instrument and remove some of the limitations in fair value hedge accounting relating to hedging net positions of loans and core deposits and under-hedging strategies. Thus, natural interest rate hedges are used in the first place, which is the interest rate risk associated with liabilities (e.g. retail funding, wholesale funding), to determine the net exposure. The remaining exposure is hedged in a portfolio hedge, using the EU 'carve-out' version of IAS 39, in which a portion of the lending portfolio is designated as a hedged item for hedge accounting purposes.

The Bank applies the following types of hedge accounting:

Fair value hedges

Hedging the interest rate risk in respect of loans and advances to customers (macro hedge)

The hedged portfolio comprises fixed-rate mortgages of MeDirect Belgium (refer to Note 7). These are mortgages that have a fixed-rate interest period of more than 240 months. The hedging instruments are interest rate swaps entered into as part of interest rate risk management in the Asset and Liability Management ('ALM') process. The risk being hedged is the risk of change in fair value of the portfolio attributable to movements in market interest rates. Effectiveness assessments are performed on a retrospective and a prospective basis, using the dollar offset method.

Hedge ineffectiveness can arise from:

- Differences in timing of cash flows of hedged items and hedging instruments;
- Different interest rate curves and the intra period movement of these curves applied to forecast and discount of the cash flows of the hedged item and hedging instruments; and
- Disparity between expected and actual prepayments (prepayment risk).

The fair values of the held for trading derivatives and derivatives designated as hedging instruments in fair value hedges together with the related notional amounts, distinguishing between micro hedges and macro hedges for the purposes of hedge accounting, are as follows:

	Notional	Fair value	Notional	Fair value
	2024	2024	2023	2023
	€000	€000	€000	€000
Derivatives held for trading – Assets				
Instrument type:				
- Foreign exchange swaps	10,526	110	18,412	198
		110		198
Derivatives held for trading – Liabilities				
Instrument type:				
- Foreign exchange swaps	-	-	5,782	(28)
		-		(28)
Net derivatives held for trading		110		170
Derivatives designated as hedging instruments in fair value hedges – Assets				
Instrument type:				
- Interest rate swaps maturing in				
More than one year and less than five years				
- Macro hedges	705,173	25,312	1,080,923	29,060
More than five years				
- Macro hedges	1,044,727	149,091	1,031,277	178,180
		174,403		207,240
Derivatives designated as hedging instruments in fair value hedges – Liabilities				
Instrument type:				
- Interest rate swaps maturing in				
More than one year and less than five years				
- Macro hedges	1,110,550	(8,944)	553,900	(4,519)
More than five years				
- Macro hedges	398,500	(22,905)	432,850	(20,101)
		(31,849)		(24,620)
Net derivatives designated as hedging instruments in fair value hedges		142,554		182,620

The carrying amounts and the accumulated basis adjustment for the Mortgage portfolios are included in the statement of financial position within Loans and advances to customers and accordingly disclosed in note 7.

The accumulated negative basis adjustment within loans and advances to customers amounting to €142.2 million (2023: negative basis adjustment amounting to €183.2 million) also includes the accumulated unamortised fair value hedge adjustments of €0.1 million (2023: €1.2 million) related to hedges that have been discontinued and are now amortised.

6. Loans and advances to financial institutions

	2024	2023
	€000	€000
At amortised cost:		
Repayable on call and at short notice	237,546	262,643
Term loans and advances	31,740	49,431
Accrued interest	16,433	5,464
	285,719	317,538

As at 31 December 2024, the Bank's loans and advances to financial institutions includes balances that are held with Eurex to serve as collateral, most of which were in relation to the funding of the purchase of Dutch mortgages amounting to €197.1 million (2023: €182.9 million) and in relation to the funding of the purchase of Belgium mortgages amounting to €8.4 million (2023: €22.2 million).

Besides the above, the Bank has amounts of €23.7 million (2023: €40.1 million) that are held for the purposes of margin requirements on hedging instruments attributable to the Dutch Mortgage lending business, and are hence considered encumbered.

As at 31 December 2024, €1.1 million (2023: €46.0 million) were encumbered, most of which were pledged in favour of Eurex Clearing AG in relation to clearing of derivative financial instruments. In addition, €1.0 million (2023: €1.0 million) in the form of cash have also been contributed by the Bank to a derivatives clearing fund held by Eurex Clearing AG, of which the Bank is a member. The clearing fund protects members against losses until they leave the clearing fund.

As at 31 December 2024, loans and advances to financial institutions included amounts due from immediate parent company amounting to €6.6 million (2023: €5.5 million).

Amounts due from immediate parent company are unsecured, interest free and repayable on demand.

Loans and advances to financial institutions as at 31 December 2024 and 2023 were neither past due nor credit-impaired and no forbearance measures were applied by the Bank in this respect. Furthermore, no expected credit losses are attributable to loans and advances to financial institutions.

7. Loans and advances to customers

	2024	2023
	€000	€000
International Corporate Lending portfolio		
- Term loans and advances: corporate	91,700	168,240
Dutch Mortgage portfolio		
- Term loans and advances: retail	2,202,532	2,104,853
Belgian Mortgage portfolio		
- Term loans and advances: retail	365,934	255,290
IFRS basis adjustment - Mortgage portfolio	(142,246)	(183,180)
Gross loans and advances to customers	2,517,920	2,345,203
Add: Accrued interest	5,943	3,679
Less: Credit loss allowances	(10,299)	(2,756)
	2,513,564	2,346,126

	Allowance booked under							
	Stage 1		Stage 2		Stage 3		Total	
	2024	2023	2024	2023	2024	2023	2024	2023
	€000	€000	€000	€000	€000	€000	€000	€000
Credit loss allowances:								
- International corporate lending	(400)	(1,430)	(94)	(384)	(8,706)	(282)	(9,200)	(2,096)
- Dutch mortgage portfolio	(114)	(136)	(120)	(145)	(17)	(4)	(251)	(285)
- Belgian mortgage portfolio	(284)	(249)	(86)	(46)	(184)	(58)	(554)	(353)
- Accrued interest	(7)	(17)	-	(3)	(287)	(2)	(294)	(22)
	(805)	(1,832)	(300)	(578)	(9,194)	(346)	(10,299)	(2,756)

The negative fair value/basis adjustment amounting to €142.2 million (2023: negative fair value/basis adjustment amounting to €183.2 million) is attributable to interest rate swaps entered into as part of the interest rate risk management in the ALM process to hedge the risk of change in fair value of the portfolio attributable to movements in market interest rates (refer to Note 5). The movement led to gains on hedged items attributable to the hedged risk amounting to €39.8 million (2023: gains of €85.1 million) as disclosed in Note 21 to these financial statements.

As disclosed in further detail in Note 17, as at 31 December 2024 Dutch retail mortgages amounting to €1,140.3 million (2023: €1,153.3 million) have been securitised through three (2023: three) Residential Mortgage-Backed Security ("RMBS") transactions. As risks and rewards were deemed to have been retained by the Bank, as at 31 December 2024 and 2023, these were recognised on the Bank's statement of financial position.

The Bank's Dutch Mortgage portfolio in the preceding table mainly consist of Dutch retail residential mortgages with the exception of buy-to-let mortgages amounting to €173.5 million as at 31 December 2024 (2023: €85.3 million).

Loans and advances relating to exposures within the Bank's International Corporate Lending portfolio amounting to €3.1 million have been written off during the financial year. Consequently, during the financial year ended 31 December

2024, credit loss allowances amounting to €1.0 million relating to such write-offs have been released to profit or loss.

Throughout the financial year ended 31 December 2024, the Bank derecognised loans and advances to one European corporation with a gross carrying amount of €2.8 million as a result of restructuring procedures. As at the date of restructuring, credit loss allowances recognised in respect of these financial instruments amounted to €0.3 million. These financial instruments were replaced by new loans and advances to customers with a gross carrying amount of €1.9 million that were classified as hold to collect financial assets measured at amortised cost on initial recognition but these were disposed of throughout 2024 resulting in a loss of €1.0 million.

8. Securities and Securitisation Investment portfolios

Securities Investment portfolio

	2024	2023
	€000	€000
Investments measured at amortised cost		
- Debt and other fixed income securities	432,220	422,948
- Less: Credit loss allowances	(55)	(32)
	432,165	422,916
Accrued interest	4,482	3,411
	436,647	426,327
	Measured at amortised cost	
	2024	2023
	€000	€000
Debt securities and other fixed income securities		
Issued by public bodies		
- foreign national and regional governments	104,812	102,813
Issued by other bodies		
- foreign banks	327,353	320,103
	432,165	422,916
Listing status		
- listed on foreign recognised exchanges	432,165	422,916
	432,165	422,916

	Measured at amortised cost		Measured at fair value	
	2024	2023	2024	2023
	€000	€000	€000	€000
Year ended 31 December				
At beginning of year	422,916	389,479	-	819
Additions	77,000	136,600	-	-
Redemptions	(67,211)	(101,200)	-	(819)
Amortisation of premium/discount	(517)	(1,989)	-	-
Movement in credit loss allowances	(23)	26	-	-
At end of year	432,165	422,916	-	-

Investment securities with a nominal value of €424.7 million are pledged as collateral with Eurex against the provision of borrowing facilities (2023: €336.0 million). These include investment securities that are held on balance sheet with a carrying amount of €553.0 million (2023: €335.5 million).

The cash value of unutilised borrowing facilities (headroom) as at 31 December 2024 which are secured by the investment securities referred to above amounted to €414.1 million (2023: €319.8 million).

Investment securities with a nominal value of €75.2 million (2023: €87.0 million) and a carrying amount of €75.3 million (2023: €87.0 million) are also pledged as part of the cooperation with the Blauwtrust Groep to access their multi-investor platform to purchase newly originated Dutch mortgages.

As at 31 December 2024 and 2023, the Bank had no commitment to purchase further investment securities.

As referred to in note 2.8.3, throughout the financial year ended 31 December 2022, the Bank recognised equity investments of €0.8 million, acquired as part of a restructure of a European corporation that occurred in 2021, which were previously held at nil value. These were redeemed in 2023.

Securitisation Investment portfolio

	2024	2023
	€000	€000
Investments measured at amortised cost		
- Debt and other fixed income securities	390,975	445,977
- Less: Credit loss allowances	(39)	(45)
	390,936	445,932
Accrued interest	3,019	3,949
	393,955	449,881

	Measured at amortised cost	
	2024	2023
	€000	€000
Year ended 31 December		
At beginning of year	445,932	415,036
Additions	27,500	31,250
Redemptions	(82,571)	(169)
Amortisation of premium/discount	69	(182)
Movement in credit loss allowances	6	(3)
At end of year	390,936	445,932

As at 31 December 2024, the Bank had pledged €123.7 million (2023: €115.0 million) of the Securitisation Investment portfolio in favour of third parties against the provision of borrowing facilities.

The Bank acquired portions in CLO transactions managed by third party entities corresponding to tranches with the highest credit rating in such CLO structures. These acquired portions in CLO transactions are listed on recognised exchanges but not centrally traded. The underlying assets for these CLO transactions are leveraged loans, predominantly senior secured leveraged loans, and high yield corporate bonds. As at 31 December 2024, positions with a nominal value of €390.9 million (2023: €445.9 million), are held in a 'hold to collect' business model and measured at amortised cost.

Reclassification of investments

In June 2022, the Bank changed the business model for managing those investments within the Securities and Securitisation Investments portfolios that were originally deemed to be "Hold to collect and sell" and therefore were measured at fair value through other comprehensive income.

The change in business model was attributable to the fact that the first half of 2022 represented the end of the diversification from the international corporate lending business to the Dutch and Belgian mortgages business. As a result, on 1 July 2022, these investments with a carrying amount of €647.1 million were reclassified out of the fair value through other comprehensive income measurement category and into the amortised cost measurement category, at an amortised cost of €962.5 million.

As at 31 December 2024, the Investments - Securities portfolio and the Investments - Securitisation portfolio included investments with a carrying amount of €82.6 million and €391.0 million respectively (2023: €146.5 million and €415.1 million) that were part of this reclassification that took place on 1 July 2022. The fair value of these investments as at 31 December 2024 in the Investments - Securities portfolio and the Investments - Securitisation portfolio was equivalent to €79.1 million and €353.1 million respectively (2023: €137.6 million and €407.6 million). If these investments had not been reclassified out of the fair value through other comprehensive income category so that they are measured at amortised cost, between 1 July 2022 and 31 December 2024 fair value gains of €2.2 million would have been recognised on the Securities portfolio within the other comprehensive income (1 July 2022 to 31 December 2023: fair value losses of €1.7 million) whereas fair value gains of €14.5 million would have been recognised on the Securitisation portfolio within other comprehensive income (1 July 2022 and 31 December 2023: fair value gains of €9.8 million).

Asset-Backed Securitisation Investment portfolio

	2024	2023
	€000	€000
Investments measured at amortised cost		
- Debt and other fixed income securities	131,271	-
- Less: Credit loss allowances	(86)	-
	131,185	-
Accrued interest	401	-
	131,586	-
	2024	2023
	€000	€000
Measured at amortised cost		
Year ended 31 December		
Additions	131,271	-
Movement in credit loss allowances	(86)	-
At end of year	131,185	-

During the financial year ended 31 December 2024, the Bank invested into 'AAA' rated Class A notes of securitisation transactions (ABS / RMBS) of consumer finance, auto loans and mortgage loans receivables from Dutch and German markets.

9. Property and equipment

	Improvements to premises	Computer equipment	Other equipment	Fixture and fittings	Motor vehicles	Right-of- use assets	Total
	€000	€000	€000	€000	€000	€000	€000
As at 1 January 2023							
Cost	53	246	68	273	142	3,157	3,939
Accumulated depreciation	(22)	(187)	(48)	(162)	(142)	(1,567)	(2,128)
Net book amount	31	59	20	111	-	1,590	1,811
Year ended 31 December 2023							
At beginning of year	31	59	20	111	-	1,590	1,811
Additions	-	3	1	-	-	-	4
Modification of lease	-	-	-	-	-	221	221
Depreciation for the year	(6)	(37)	(8)	(24)	-	(514)	(589)
At end of year	25	25	13	87	-	1,297	1,447
As at 31 December 2023							
Cost	53	249	69	273	142	3,378	4,164
Accumulated depreciation	(28)	(224)	(56)	(186)	(142)	(2,081)	(2,717)
Net book amount	25	25	13	87	-	1,297	1,447
Year ended 31 December 2024							
At beginning of year	25	25	13	87	-	1,297	1,447
Additions	43	16	8	19	-	-	86
Modification of lease	-	-	-	-	-	209	209
Depreciation for the year	(15)	(20)	(8)	(22)	-	(681)	(746)
At end of year	53	21	13	84	-	825	996
As at 31 December 2024							
Cost	96	265	77	292	142	3,587	4,459
Accumulated depreciation	(43)	(244)	(64)	(208)	(142)	(2,762)	(3,463)
Net book amount	53	21	13	84	-	825	996

The fair value of property, plant and equipment is estimated by the Directors to approximate the carrying amount.

As at 31 December 2024 and 2023, the Bank operated from one immovable property which is held under a lease agreement.

The right-of-use assets disclosed in the preceding table reflect the following assets relating to leases:

	2024	2023
	€000	€000
Premises	708	926
Computer equipment	117	370
Other equipment	-	1
	825	1,297

The movement in the carrying amount of right-of-use assets is analysed in the following table:

	Premises	Computer equipment	Other equipment	Total
	€000	€000	€000	€000
As at 1 January 2023				
Cost	1,465	1,673	19	3,157
Accumulated depreciation	(588)	(964)	(15)	(1,567)
Net book amount	877	709	4	1,590
Year ended 31 December 2023				
At beginning of year	877	709	4	1,590
Modification of lease	221	-	-	221
Depreciation for the year	(172)	(339)	(3)	(514)
At end of the year	926	370	1	1,297
As at 31 December 2023				
Cost	1,686	1,673	19	3,378
Accumulated depreciation	(760)	(1,303)	(18)	(2,081)
Net book amount	926	370	1	1,297
Year ended 31 December 2024				
At beginning of year	926	370	1	1,297
Depreciation for the year	(218)	(253)	(1)	(472)
At end of the year	708	117	-	825
As at 31 December 2024				
Cost	1,686	1,673	19	3,378
Accumulated depreciation	(978)	(1,556)	(19)	(2,553)
Net book amount	708	117	-	825

The relevant lease liabilities are disclosed and analysed in Note 20 to these financial statements.

There were no capitalised borrowing costs related to the acquisition of property and equipment during the year (2023: nil).

10. Intangible assets

	Computer software	Right-of-use assets	Total
	€000	€000	€000
As at 1 January 2023			
Cost	2,533	7,215	9,748
Accumulated amortisation	(1,338)	(4,642)	(5,980)
Net book amount	1,195	2,573	3,768
Year ended 31 December 2023			
At beginning of year	1,195	2,573	3,768
Additions	115	247	362
Modification of lease	-	(99)	(99)
Amortisation and impairment charges for the year	(465)	(1,216)	(1,681)
At end of year	845	1,505	2,350
As at 31 December 2023			
Cost	2,648	7,363	10,011
Accumulated amortisation	(1,803)	(5,858)	(7,661)
Net book amount	845	1,505	2,350
Year ended 31 December 2024			
At beginning of year	845	1,505	2,350
Additions	104	134	238
Modifications throughout the year	(247)	915	668
Amortisation and impairment charges for the year	(445)	(1,923)	(2,368)
At end of year	257	631	888
As at 31 December 2024			
Cost	2,505	8,412	10,917
Accumulated amortisation	(2,248)	(7,781)	(10,029)
Net book amount	257	631	888

The right-of-use assets reflected in the preceding table related to leased computer software. The relevant lease liabilities are disclosed and analysed in Note 20 to these financial statements.

There were no capitalised borrowing costs related to the acquisition of software during the year (2023: nil).

11. Deferred tax assets and liabilities

	2024	2023
	€000	€000
Deferred tax assets	7,602	7,602

Deferred tax assets and liabilities are attributable to the following:

	2024	2023
	€000	€000
Unutilised tax losses	5,469	7,184
Credit loss allowances	2,648	729
Earnings attributable to securitisation entities	(4,775)	(3,836)
Differences between IFRS and BEGAAP accounting standards:		
- Interest rate swaps and hedging	4,757	4,384
- Other	(497)	(859)
	7,602	7,602

As at 31 December 2024, deferred tax assets and liabilities amounting to €5.5 million (2023: €5.0 million) were offset as there is a legally enforceable right to offset current tax assets against current tax liabilities and the deferred income taxes relating to the same fiscal authority.

Deferred taxes are calculated on all temporary differences under the liability method and are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled based on tax rates (and tax laws) that have been substantively enacted by the end of the reporting period. The principal tax rates used are 25% (2023: 25%) in respect of the Belgian fiscal authority.

Movements in deferred tax during the year:

	At beginning of year	Recognised in profit or loss	At end of year
	€000	€000	€000
Year ended 31 December 2024			
Unutilised tax losses	7,184	(1,715)	5,469
Credit loss allowances	729	1,919	2,648
Earnings attributable to securitisation entities	(3,836)	(939)	(4,775)
Differences between IFRS and BEGAAP accounting standards:			
- Interest rate swaps and hedging	4,384	373	4,757
- Other	(859)	362	(497)
	7,602	-	7,602

	At beginning of year	Recognised in profit or loss	At end of year
	€000	€000	€000
Year ended 31 December 2023			
Unutilised tax losses	7,544	(360)	7,184
Credit loss allowances	882	(153)	729
Earnings attributable to securitisation entities	(2,601)	(1,235)	(3,836)
Differences between IFRS and BEGAAP:			
- Interest rate swaps and hedging	2,906	1,478	4,384
- Other	(1,129)	270	(859)
	7,602	-	7,602

As at 31 December 2024, the Bank had unutilised tax losses in respect of which the Bank has taken the decision of not recognising deferred tax assets amounting to €5.8 million (2023: €6.7 million). Although the Bank has taken a prudent approach of not recognising certain deferred tax assets on unutilised tax losses, such unutilised tax losses have no expiry date and can be carried forward indefinitely even beyond the assessment period used in determining the deferred tax assets.

12. Prepayments and accrued income

	2024	2023
	€000	€000
Prepayments	166	159
Accrued income	959	529
	1,125	688

13. Other assets

	2024	2023
	€000	€000
Amounts receivable from:		
- immediate parent company	-	1,189
- other group companies	-	148
Deferred customer contract costs	996	523
Other receivables	144	161
Other assets	21,305	19,042
	22,445	21,063

As at 31 December 2023, the Bank granted a revolving credit facility to its immediate parent company. This facility was subject to interest per annum equal to the aggregate of the three month Euribor and the margin of 2.80% and was secured by a pool of international corporate loans held by MeDirect Malta with a nominal value of €33.5 million. There were no drawn amounts as at 31 December 2023 and this facility was terminated in 2024.

Amounts receivable from immediate parent company and other group companies were unsecured, interest free and repayable on demand.

As at 31 December 2024, the Bank's deferred customer contract costs amounted to €1.0 million (2023: €0.5 million). During the year, the Bank capitalised €0.8 million (2023: €0.2 million) as costs to obtain customer contracts with amortisation on customer contracts amounting to €0.3 million (2023: €0.3 million). The capitalised cost to obtain customer contracts are amortised over four years.

As at 31 December 2024, the Bank's 'other assets' includes balances amounting to €16.9 million (2023: €17.1 million) held with a third-party mortgage originator in the Netherlands until the relevant NHG eligibility criteria for specific loan applications relating to the Dutch Mortgage portfolio are fulfilled in the future.

As at 31 December 2024, the Bank's 'other assets' includes balances amounting to €3.8 million (2023: €1.6 million) held with a third-party mortgage originator in Belgium until the relevant criteria for specific loan applications relating to the Belgian Mortgage portfolio are fulfilled in the future.

None of these assets are deemed credit-impaired at 31 December 2024 and 2023 and expected credit losses in relation to such balances were deemed to be insignificant.

14. Capital and reserves

	2024	2023
	No.	No.
Authorised:		
Ordinary 'A' shares of €1 each	225,000	225,000
Issued and fully paid up:		
Ordinary 'A' shares of €1 each	225,000	225,000

Other reserves

As at 31 December 2024, other reserves of the Bank consists of a legal reserve amounting to €0.9 million (2023: €0.7 million) that has to be maintained by MeDirect Belgium in line with Article 7:211 of the Belgian Companies Code which requires MeDirect Belgium to assign at least 5% of MeDirect Belgium's net profits to the legal reserve until such legal reserve amounts to 10% of MeDirect Belgium share capital.

All reserves at the reporting date, except for the Bank's retained earnings are non-distributable.

Dividends

The directors of the Bank do not propose any final dividends for distribution.

15. Amounts owed to financial institutions

	2024	2023
	€000	€000
Term deposits	168,447	278,184
Accrued interest expense	11,187	505
	179,634	278,689

As at 31 December 2024, amounts owed to financial institutions of the Bank amounting to €21.3 million (2023: €97.6 million) included in term deposits and consisting of repos are secured by a pledge over the Bank's investments (refer to Note 8).

16. Amounts owed to customers

	2024	2023
	€000	€000
Repayable on call and at short notice	2,603,896	2,158,203
Term deposits	398,052	350,964
Accrued interest expense	50,461	22,936
	3,052,409	2,532,103

17. Debt securities in issue

	2024	2023
	€000	€000
Year ended 31 December		
At beginning of year	910,848	969,569
Amortisation of premium recognised in profit or loss	7,375	(1,028)
Amortisation of issue costs recognised in profit or loss	(7,222)	995
Repurchase	(272,049)	
Redemptions	-	(58,688)
At end of year	638,952	910,848
As at 31 December		
Original face value of notes issued	638,718	910,766
Unamortised note premium	1,467	2,316
Unamortised note issue costs	(1,233)	(2,234)
Net carrying amount	638,952	910,848
As at 31 December		
Bastion 2020-1 NHG B.V.	-	271,555
Bastion 2021-1 NHG B.V.	296,409	297,822
Bastion 2022-1 NHG B.V.	342,543	341,471
Net carrying amount	638,952	910,848
Accrued interest expense	2,721	5,899
	641,673	916,747

Bastion 2020-1 NHG B.V.

By virtue of a base prospectus dated May 2020, MeDirect Belgium successfully securitised part of its Dutch retail mortgage portfolio raising €350.0 million through a RMBS transaction, listed on Luxembourg Stock Exchange. As part of the transaction the mortgage portfolio was sold to Bastion 2020-1, a special purpose securitisation vehicle established in the Netherlands, which is controlled by MeDirect Belgium.

This RMBS is subject to interest of 0.60% per annum above 3-month Euribor (including floor at 0%) up to the first optional redemption date, and interest of 1.00% per annum above 3-month Euribor (including floor at 0%) from the first optional redemption date being April 2025, payable quarterly. All bonds are redeemable at par and shall become due for final redemption in April 2057, however, MeDirect Belgium reserves the right to redeem the bond in particular circumstances specified in the base prospectus.

An institutional investor acquired the Class A notes of the RMBS equivalent to €350.0 million, having a senior ranking vis-à-vis all the junior tranches retained by MeDirect Belgium. MeDirect retains substantially all risks and rewards of the underlying securitised Dutch government-backed mortgage portfolio and accordingly controls Bastion 2020-1. As a result, the mortgage portfolio, the senior notes of Bastion 2020-1 held by the institutional investor and related income and expenditure are reflected in the Bank's financial statements.

On each of the Notes Payment Dates of Bastion 2020-1, falling on 23 January 2023, 24 April 2023, 24 July 2023 and 23 October 2023, amounts of €6.4 million, €5.6 million, €5.1 million and €6.7 million of Class A notes, pertaining to the senior tranche were redeemed.

During financial year ending 31 December 2024, the Bank repurchased €273.0 million of Class A notes of Bastion 2020-1 from the institutional investor. As at 31 December 2024, these Class A notes were held by the Bank and accordingly not presented as liabilities in the consolidated accounts.

Bastion 2021-1 NHG B.V.

In January 2021, MeDirect Belgium securitised a further part of its Dutch retail mortgages portfolio through a RMBS transaction, listed on Luxembourg Stock Exchange, whereby a principal amount of €414.0 million of the Dutch Mortgage portfolio was sold to a securitisation special purpose entity, Bastion 2021-1 NHG B.V., established in the Netherlands, which is controlled by MeDirect Belgium.

This RMBS is subject to interest of 0.70% per annum above 3-month Euribor (including floor at 0%) up to the first optional redemption date, and interest of 1.05% per annum above 3-month Euribor (including floor at 0%) from the first optional redemption date being August 2026, payable quarterly. All bonds are redeemable at par and shall become due for final redemption in August 2058, however, MeDirect Belgium reserves the right to redeem the bond in particular circumstances specified in the base prospectus.

An institutional investor acquired the Class A notes of the RMBS equivalent to €350.0 million, having a senior ranking vis-à-vis all the junior tranches retained by MeDirect Belgium. MeDirect retains substantially all risks and rewards of the underlying securitised Dutch government-backed mortgage portfolio and accordingly controls Bastion 2021-1. As a result, the mortgage portfolio, the senior notes of Bastion 2021-1 held by the institutional investor and related income and expenditure are reflected in the Bank's financial statements.

On each of the Notes Payment Dates of Bastion 2021-1, falling on 20 February 2023, 22 May 2023, 21 August 2023 and 20 November 2023, amounts of €8.0 million, €5.3 million, €10.6 million and €6.8 million of Class A notes, pertaining to the senior tranche were redeemed.

Bastion 2022-1 NHG B.V.

By virtue of a base prospectus dated 25 November 2022, MeDirect Belgium successfully securitised part of its Dutch retail mortgage portfolio raising €368.5 million through placement with external investors of A1 notes of the RMBS transaction, listed on Luxembourg Stock Exchange. As part of the transaction the mortgage portfolio was sold to Bastion 2022-1, a special purpose securitisation vehicle established in the Netherlands, which is controlled by MeDirect Belgium.

This RMBS is subject to interest of 0.60% per annum above 3-month Euribor (including floor at 0%) up to the first optional redemption date, and interest of 1.20% per annum above 3-month Euribor (including floor at 0%) from the first optional redemption date being March 2028, payable quarterly. All bonds are redeemable at par and shall become due for final redemption in May 2060, however, MeDirect Belgium reserves the right to redeem the bond in particular circumstances specified in the base prospectus.

An institutional investor acquired Class A notes of this RMBS equivalent to €369.0 million, having a senior ranking vis-à-vis all the junior tranches retained by MeDirect Belgium. MeDirect retains substantially all risks and rewards of the underlying securitised Dutch government-backed mortgage portfolio and accordingly controls Bastion 2022-1. As a result, the mortgage portfolio, the senior notes of Bastion 2022-1 held by the institutional investor and related income and expenditure are reflected in the Bank's financial statements.

On each of the Notes Payment Dates of Bastion 2022-1, falling on 20 February 2023, 22 May 2023, 21 August 2023 and 20 November 2023, amounts of €5.7 million, €5.9 million, €7.2 million and €7.2 million of Class A notes, pertaining to the senior tranche were redeemed.

18. Provisions for liabilities and other charges

	2024	2023
	€000	€000
Credit loss allowances in respect of loan commitments		
Year ended 31 December		
At beginning of year	80	152
Change in expected credit losses	40	(72)
At end of year	120	80

19. Accruals and deferred income

	2024	2023
	€000	€000
Accrued expenses	1,994	2,376
Deferred income	3,054	2,473
	5,048	4,849

20. Other liabilities

	2024	2023
	€000	€000
Amounts due to immediate parent company	2,232	1,047
Indirect taxes payable	670	480
Lease liabilities	1,636	1,425
Other liabilities	1,783	4,328
	6,321	7,280

Amounts due to immediate parent company

Amounts due to immediate parent company are unsecured, interest free and repayable on demand.

Lease liabilities

The lease liabilities associated with the recognised right-of-use assets are analysed below.

	2024	2023
	€000	€000
Non-current		
Premises	557	787
Computer equipment	33	63
Other equipment	-	1
Computer software	357	143
	947	994
Current		
Premises	229	222
Computer equipment	103	45
Other equipment	-	1
Computer software	357	163
	689	431
Total	1,636	1,425

The extension options in leases relating to premises, with the last extension covering till March 2028, have been included in the lease liability as the lease term reflects the exercise of such options.

The Bank determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Bank has certain lease contracts that include extension and termination options. The Bank applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Bank reassesses the lease term if there is a significant event or change in circumstances that is within its control that affects its ability to exercise or not to exercise the option to renew or to terminate.

As at 31 December 2024 and 2023, the total amount of lease liabilities for computer equipment, other equipment and computer software were attributable to arrangements with MeDirect Tech Limited, a related party.

The contractual undiscounted cash flows attributable to lease liabilities are analysed in Note 2.3.4.

The movement in the carrying amount of these liabilities is analysed in the following table:

	2024	2023
	€000	€000
Year ended 31 December		
At beginning of year	1,425	2,372
Additions	134	247
Modification of lease	1,124	122
Payments	(1,144)	(1,421)
Interest charge	97	105
At end of year	1,636	1,425

The statement of comprehensive income reflects the following amounts relating to leases:

	2024	2023
	€000	€000
Interest expense (Note 21)	96	105

Other liabilities

Other liabilities mainly consist of settlement accounts.

21. Net Interest Income

	2024	2023
	€000	€000
Interest income		
Loans and advances to financial institutions	55,990	44,966
Loans and advances to customers		
- interest on loans and advances to customers	94,158	77,680
- losses representing ineffective portion of fair value hedges	(300)	(1,300)
Investment securities		
- interest on investment securities	7,255	5,870
- amortisation of net premiums on investment securities	(448)	(2,171)
Total interest income	156,655	125,045
Interest expense		
Amounts owed to financial institutions	41,366	43,249
Amounts owed to customers	58,776	31,918
Lease liabilities	96	105
Total interest expense	100,238	75,272
Net interest income	56,417	49,773

For the macro hedging relationships comprising interest rate swaps hedging interest rate risk on a portfolio of the Bank's fixed rate mortgages, fair value losses of €40.1 million (2023: losses of €86.4 million) arising on derivatives designated in fair value hedge relationships and gains of €39.8 million (2023: gains of €85.1 million) representing net decrease (2023: decrease) in the fair value of the hedged items attributable to the hedged risk are included within the Bank's net interest income. The net results are reflected within interest arising from loans and advances to customers, where interest on the hedged items is presented.

Within interest income, the Bank is netting-off amounts of €11.3 million (2023: €5.7 million) relating to interest expense on interest rate swaps used to hedge the Mortgage portfolios.

	2024	2023
	€000	€000
Macro hedging:		
Losses on hedging instruments	(40,100)	(86,400)
Gains on hedged items attributable to the hedged risk – basis adjustment to Mortgage portfolio (see Note 7)	39,800	85,100
Net losses representing ineffective portion of fair value hedges	(300)	(1,300)

22. Net fee and commission income

	2024	2023
	€000	€000
Fee and commission income		
Corporate secured lending fee income	48	6
Banking transactions fee income	21	18
Investment services fee income	5,171	4,252
Other fee income	389	349
Total fee and commission income	5,629	4,625
Fee and commission expense		
Banking transactions fee expense	280	235
Investment services transaction and custody fee expense	1,772	1,207
Other fee expense	118	73
Total fee and commission expense	2,170	1,515
Net fee and commission income	3,459	3,110

23. Net trading (losses)/income

	2024	2023
	€000	€000
Net (losses)/income from foreign exchange activities	(3)	41
	(3)	41

24. Personnel expenses

Personnel expenses incurred are analysed as follows:

	2024	2023
	€000	€000
Personnel expenses		
- remuneration and direct company benefits	10,767	9,271
- employers contribution for social security	1,151	1,042
- other staff charges	361	313
- retirement and survivors' pensions	201	195
	12,480	10,821

The weekly average number of persons employed during the year, including Executive Directors, was as follows:

	2024	2023
	No.	No.
Executive and senior management	11	9
Other managerial, supervisory and clerical	61	54
	72	63

The number of persons employed by the Bank as at the reporting date, including Executive Directors, was 72 (2023: 62).

25. Other administrative expenses

Other administrative expenses are analysed as follows:

	2024	2023
	€000	€000
IT support and telecommunication costs	6,798	6,199
Legal, professional and marketing expenses	7,210	10,367
Regulatory expenses	7,123	4,677
Indirect taxation	2,521	2,750
Other expenses	5,593	6,604
	29,245	30,597

Included in other administrative expenses are fees charged by the Bank's independent auditors for the year as follows:

	2024	2023
	€000	€000
Audit services	365	377
Other assurance services	58	28
Tax related services	79	104
Other non-audit services	-	25

Other non-audit services are compatible with the independence rules of the auditors.

Share-based payments, not exceeding €0.1 million (2023: €0.1 million) included within Other expenses above, are granted to certain executive directors under a performance bonus plan. Under this plan, executive directors are entitled to share-linked instruments the value of which is based on changes in the fair value of the ordinary shares of MDB Group Limited but which are settled in cash and hence do not entitle the employees to shares or any interest in or right over such shares. Therefore, share-linked instruments comprise a number of notional ordinary shares of MDB Group Limited determined at award date by reference to the related bonus amounts taking cognisance of the fair value of the shares at that date.

The plan contemplates upfront share-linked awards and deferred share-linked awards that are subject to a deferral period of not less than twelve months but not greater than five years. Deferred share-linked awards attributable to performance bonuses vest immediately, but are also subject to a deferral period. Settlement amounts are determined on the basis of the fair value of the ordinary shares at settlement date, which is the end of the deferral period.

An assessment of performance over the relevant period is used to determine the amount of the deferred performance bonus award to be granted. The share-based payment is classified as cash-settled since the share-based payment transactions with the directors are settled through a cash payment.

26. Change in expected credit losses and other credit impairment charges

	2024	2023
	€000	€000
Change in expected credit losses		
Loans and advances to customers, including credit-related commitments		
- International Corporate Lending portfolio (including accrued income)	(7,387)	897
- Dutch Mortgage portfolio	34	(100)
- Belgian Mortgage portfolio	(200)	(204)
Investments measured at amortised cost		
- Securities portfolio	(23)	26
- Securitisation portfolio	6	(3)
- Asset-Backed Securitisation Investment portfolio	(86)	-
Other credit impairment charges		
Amounts written off on loans and advances to customers		
- International Corporate Lending portfolio	(3,095)	-
	(10,751)	616

27. Tax expense

	2024	2023
	€000	€000
Current tax expense		
- current year tax charge	820	2,014
Income tax charge	820	2,014

The tax recognised in profit or loss on the Bank's profit before tax differs from the theoretical amount that would arise using the applicable tax rate in Belgium, which is the Bank's country of incorporation, as follows:

	2024	2023
	€000	€000
Profit before tax	4,226	9,822
Tax at the applicable rate of 25%	1,057	2,456
Tax effect of:		
Non-deductible expenses	786	634
Deduction of tax losses carried forward (Note 11)	(927)	(291)
Other	(96)	(785)
Income tax charge	820	2,014

28. Cash and cash equivalents

Balances of cash and cash equivalents as shown in the statements of cash flows are analysed below:

	2024	2023
	€000	€000
Analysis of cash and cash equivalents:		
Call deposits	44,234	25,622
Target 2 overnight deposits	113,971	154,801
Amounts owed to financial institutions with original maturity of less than 3 months	(179,634)	(278,689)
<i>Per Statement of cash flows</i>	(21,429)	(98,266)
Adjustments to reflect:		
Other balances with central banks	28,281	21,887
Deposits with original maturity of over 3 months and encumbered deposits	241,485	291,916
<i>Per Statement of financial position</i>	248,337	215,537

		2024	2023
	Notes	€000	€000
Analysed as follows:			
Balances with central banks	4	142,252	176,688
Loans and advances to financial institutions	6	285,719	317,538
Amounts owed to financial institutions	15	(179,634)	(278,689)
		248,337	215,537

29. Commitments

Commitments to lend

Commitments to lend represent undrawn formal standby facilities, credit facilities and other similar commitments to lend. As at 31 December 2024, the Bank had undrawn commitments of €15.9 million (2023: €8.1 million) under international lending revolving credit facilities. In addition, lending commitments in relation to the Bank's Dutch Mortgage portfolio amounted to €32.4 million (2023: €94.5 million) and Belgian Mortgage portfolio amounted to €8.0 million (2023: €28.7 million).

As at 31 December 2023, the Bank had undrawn commitments of €22.0 million under revolving credit facilities with the Bank's parent company.

The expected credit losses on the above commitments to lend are disclosed in Note 18 and Note 26.

30. Related parties

Immediate and ultimate parent company

The ultimate controlling party of the Bank is AnaCap Financial Partners II L.P.

The ultimate parent company of the Bank is Medifin Investments Limited, a non-cellular company incorporated and registered in Guernsey.

The immediate parent company of the Bank is MeDirect Bank (Malta) plc, a public limited liability company incorporated and registered in Malta.

Related parties of the Bank include the ultimate controlling party, the ultimate parent company, the intermediate parent company, the immediate parent company, subsidiary, all entities controlled by the ultimate parent company, Key Management Personnel, close family members of Key Management Personnel and entities which are controlled or jointly controlled by Key Management Personnel or their close family members.

Transactions with Key Management Personnel

Key Management Personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, being the directors of MDB Group Limited, MeDirect Malta and MeDirect Belgium.

The Bank also provides non-cash benefits to Key Management Personnel, including health and life insurance premiums and pensions.

Related party balances and transactions

During the course of its activities, the Bank conducted business on commercial terms with related parties.

The following table provides the total amount of the Bank transactions which have been entered into, and Bank balances with, related parties of the Bank for the relevant financial year:

Related party	Year ended 31 December 2024		As at 31 December 2024		Transaction/ balance type
	Income from related parties	Expenses charged by related parties	Amounts owed by related parties	Amounts owed to related parties	
	€000	€000	€000	€000	
Immediate parent company	11	-	-	-	Commitment fee income
	-	885	-	-	IT Support and Security Service level agreement
	-	285	-	-	Commitment fee expense
	-	-	6,624	-	Loans and advances to financial institutions
	-	-	-	2,232	Other liabilities
Other group companies	-	661	-	-	IT and other support

Related party	Year ended 31 December 2023		As at 31 December 2023		Transaction/ balance type
	Income from related parties	Expenses charged by related parties	Amounts owed by related parties	Amounts owed to related parties	
	€000	€000	€000	€000	
Immediate parent company	140	-	-	-	Interest income
	217	-	-	-	Commitment fee income
	-	880	-	-	IT Support and Security Service level agreement
	-	283	-	-	Commitment fee expense
	-	-	1,189	-	Other assets
	-	-	5,532	-	Loans and advances to financial institutions
	-	-	-	1,047	Other liabilities
Other group companies	-	2,179	-	-	IT and other support
Key management personnel	-	-	-	8	Amounts owed to customers

In 2024, there are also payments to other group companies relating to leases treated in accordance with IFRS 16 requirements amounting to €1.1 million (2023: €1.4 million). In line with IFRS 16, the Bank recognised lease liabilities in respect of lease arrangements with related parties (refer to Note 20).

Throughout the financial year MeDirect Malta recharged employee compensation and benefits to MeDirect Belgium amounting to €5.7 million (2023: €5.0 million).

31. Assets held on a nominee basis

As part of its Wealth Management proposition, the Bank acts as a nominee holder of financial instruments on behalf of customers. Assets held on a nominee basis are not assets of the Bank and are not recognised in the statements of financial position. Accordingly, the Bank is not exposed to any credit risk relating to such placements, as it does not guarantee these investments.

At 31 December 2024, the total assets held by the Bank on behalf of customers amounted to €1,170.6 million (2023: €920.9 million).

32. Events after the reporting date

On April 30, 2025, the Bank successfully closed Bastion 2025-1 NHG, its fourth and largest Dutch Residential Mortgage-Backed Securities transaction, backed by a portfolio of Dutch prime NHG mortgage loans.

The Bank retained both the Class A1 notes and the Class A2 notes amounting to €616.7 million and €76.6 million respectively, providing the Bank with a contingency funding source and offering the potential to secure external funding through future remarketing. These notes have been assigned a AAA(sf) rating by DBRS and a AAA(sf) rating by Fitch. Furthermore, on the first optional redemption date at the end of April 2025, the Bank fully redeemed the remaining outstanding notes of its first RMBS transaction, Bastion 2020-1 NHG, equivalent to €278.8 million.

There were no other events after the reporting date that would have a material effect on the financial statements.

33. Comparative financial information

With effect from the current financial period, the accrued interest element is being aggregated to the respective financial asset or financial liability rather than classified within “Prepayments and accrued income” and “Accruals and deferred income” respectively.

In this respect, comparative figures disclosed in the main components of these financial statements and the notes have been reclassified to conform with the current period's presentation for the purpose of fairer presentation.

34. Additional information

The Communication issued by the Banking, Finance and Insurance Committee to credit institutions governed by Belgian law, dated 19 August 2004, implies that a consolidation obligation triggers the requirement to prepare consolidated financial statements in accordance with IFRS as adopted by the EU. This reporting framework would determine the

scope of consolidation and the rules with which the consolidation will be implemented, that is which entities should be included in those consolidated accounts and how they should be included.

Under the Royal Decree dated 5 December 2004, unlisted banks and other credit institutions in Belgium have been required to use IFRS in their consolidated financial statements under the EU Accounting Regulation.

Therefore, the requirements applicable under International Financial Reporting Standards as adopted by the EU ("adopted IFRS") is the reporting framework applied by MeDirect Belgium in these statutory IFRS financial statements.

This financial information has been prepared on the basis of the recognition and measurement requirements of IFRSs in issue that are endorsed by the EU and effective (or available for early adoption) at 31 December 2024.

The Bank's IFRS financial statements are published in French, English and Dutch in the following webpage <https://www.medirect.be/about-medirect/investor-relations/>. The English and Dutch versions are a translation of the original French version and are published as a courtesy to stakeholders. In the event of any disparity between these versions, the French language version takes precedence. This Annual Report is available at the NBB's Central Balance Sheet Office.

35. Statutory information

MeDirect Bank SA/NV is a public limited liability company and is incorporated in Belgium.

The ultimate controlling party of the Bank is AnaCap Financial Partners II L.P., a limited partnership registered in Guernsey with its registered address at 2nd Floor, Windsor House, Lower Pollet, St Peter Port, Guernsey, GY1 1WF.

The ultimate parent company of the Bank is Medifin Investments Limited, a non-cellular company, which is incorporated and registered in Guernsey, with its registered address at 2nd Floor, Windsor House, Lower Pollet, St Peter Port, Guernsey, GY1 1WF. The term of this partnership expired on 31 May 2024, following which it entered into dissolution. Its general partner was appointed as liquidating trustee and the partnership was placed into liquidation. The liquidation process will remain ongoing to permit the orderly exit of MDB Group Limited.

The immediate parent company of the Bank is MeDirect Bank (Malta) plc, a public limited liability company, incorporated and registered in Malta, with its registered address at The Centre, Tigné Point, Sliema, TPO 0001, Malta. MeDirect Bank (Malta) plc prepares consolidated financial statements of the group of which the Bank forms part. These consolidated financial statements will be filed and available for public inspection at the Registrar of Companies in Malta.

MeDirect Bank (Malta) plc is a wholly owned subsidiary of MDB Group Limited. MDB Group Limited prepares consolidated financial statements of the group of which MeDirect Bank (Malta) plc and the Bank, form part. These consolidated financial statements will be filed and available for public inspection at the Registrar of Companies in Malta and on the Group's website <https://www.medirect.com.mt/about-us/investor-relations>. The registered office of MDB Group Limited is situated at The Centre, Tigné Point, Sliema, TPO 0001, Malta.

Independent auditor's report to the general meeting of MeDirect Bank nv/sa for the year ended 31 December 2024

In the context of the statutory audit of the Consolidated Financial Statements) of MeDirect Bank nv/sa (the "Company") and its subsidiaries (together the "Group"), we report to you as statutory auditor. This report includes our opinion on the statement of financial position as at 31 December 2024, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year ended 31 December 2024 and the disclosures including material accounting policy information (all elements together the "Consolidated Financial Statements") as well as our report on other legal and regulatory requirements. These two reports are considered one report and are inseparable.

We have been appointed as statutory auditor by the shareholders' meeting of 30 May 2022, in accordance with the proposition by the Board of Directors following recommendation of the Audit Committee. Our mandate expires at the shareholders' meeting that will deliberate on the Consolidated Financial Statements for the year ending 31 December 2024. We performed the audit of the Consolidated Financial Statements of the Group during 3 consecutive years.

Report on the audit of the Consolidated Financial Statements

Unqualified opinion

We have audited the Consolidated Financial Statements of MeDirect Bank nv/sa, that comprise of the statement of financial position on 31 December 2024, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows of the year and the disclosures including, material accounting policy information, which show a consolidated balance sheet total of € 4.112.234 thousand and of which the consolidated income statement shows a profit for the year of € 3.406 thousand.

In our opinion, the Consolidated Financial Statements give a true and fair view of the consolidated net equity and financial position as at 31 December 2024, and of its consolidated results for the year then ended, prepared in accordance with the IFRS Accounting Standards as adopted by the European Union and with applicable legal and regulatory requirements in Belgium.

Basis for the unqualified opinion

We conducted our audit in accordance with International Standards on Auditing ("ISA's") applicable in Belgium. In addition, we have applied the ISA's approved by the International Auditing and Assurance Standards Board ("IAASB") that apply at the current year-end date and have not yet been approved at national level. Our responsibilities under those standards are further described in the "Our responsibilities for the audit of the Consolidated Financial Statements" section of our report.

We have complied with all ethical requirements that are relevant to our audit of the Consolidated Financial Statements in Belgium, including those with respect to independence.

We have obtained from the Board of Directors and the officials of the Company the explanations and information necessary for the performance of our audit and we believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the Consolidated Financial Statements of the current reporting period.

These matters were addressed in the context of our audit of the Consolidated Financial Statements as a whole and in forming our opinion thereon, and consequently we do not provide a separate opinion on these matters.

Credit risk with regard to the loan portfolio

Description of the key audit matter

As at 31 December 2024, the credit portfolio of the Bank amounts to € 2,517,920 thousand (gross, valued at amortized cost), which represents 61% of the balance sheet total, and the related impairments amount to € 10,299 thousand (negative). Impairments represent the Bank's best estimate of the expected credit losses at the balance sheet date. They are calculated based on the default risk over different time horizons, depending on whether the borrower's credit risk has increased significantly since the credit has been granted:

- ▶ The impairments of the exposures of which the credit risk has not increased significantly ('stage 1') are based on the expected credit losses over a period of 12 months;
- ▶ The impairments of the exposures of which the credit risk has increased significantly or which are credit-impaired ('stage 2' and 'stage 3') are based on the expected credit losses over the lifetime of the credit.

Expected loss calculations are probability-weighted estimates of the present value of the cash deficits, using models, applying scenarios, and taking into account the impact of historical losses on the one hand and forward-looking information on the other. The inputs for these models are based, among other things, on historical loss rates, credit terms and cash flow projections, assessed subjectively to determine the assumptions used to calculate the

impairment losses. Important subjective evaluations in the process are:

- ▶ The criteria to determine exposures with a significant increase in credit risk (and the corresponding 'stage');
- ▶ the assumptions used in the expected credit loss model such as the borrower's financial condition (and its corresponding default risk), and the credit loss that would be incurred in the event of default (which depends on the expected recovery value of the collateral, if any);
- ▶ the inclusion of forward-looking information (probability-weighted macro-economic scenarios);
- ▶ manual adjustments applied where the model parameters or calculations were not deemed representative by management, based on the current risks and conditions of the portfolio.

Considering that the loans and advances and related impairments are significant to the consolidated balance sheet and income statement, and given the degree of subjective judgment involved and the related uncertainty of impairment estimates, we consider this to be a key audit matter.

Summary of procedures performed

- ▶ We have assessed the design and effectiveness of the controls related to the credit issuance, the credit risk management (including periodic credit review, monitoring of the borrower's credit quality using indicators such as days in arrears and forbearance, and the determination of the rating), the flow of information between the source systems and the expected credit loss calculation tool, and the model development and monitoring (specifically the independent validation process).
- ▶ We compared the inventory of credits for which expected credit losses were calculated with the amounts included in the Consolidated Financial Statements.

- ▶ In respect of the models for expected credit losses, we engaged our experts to assess the appropriateness of the model methodology (in accordance with IFRS requirements).
- ▶ For the specific impairments determined at individual file level, we have discussed the Corporate loans in stage 2 and stage 3 with management and we performed a detailed inspection of the credit file, whereby we have assessed that:
 - ▶ The credit risk policy has been applied;
 - ▶ The credit quality and the 'stage' have been determined correctly;
 - ▶ The collateral (if any) has been properly valued;
 - ▶ The recoverability of the credit and the impairment have been determined correctly.
- ▶ To assess the reasonableness of the forward-looking information incorporated in the expected credit loss models, we reviewed the outlook and the probability weights applied to the different scenarios, and compared them with supporting information (external economic information), if applicable. In particular, we considered whether this forward-looking information is in line with expectations for GDP and unemployment rates as published by regulators and takes into account the effect of the macro-economic environment.
- ▶ We have analysed the results of the regulator's On-Site Inspection regarding leveraged loans and assessed the impact on the provisioning levels for these loans.
- ▶ To assess the appropriateness of the manual adjustments applied by management, we considered the possibility that impairment losses may have been impacted by events or trends not reflected in the Bank's models, or by limitations in data.

- ▶ Finally, we have evaluated that the notes to the Consolidated Financial Statements (note 7) are complete, accurate and in accordance with IFRS requirements.

Valuation of derivatives and hedge accounting

Description of the key audit matter

The Group has concluded interest rate swaps (IRS) to hedge its interest rate risk. These derivatives are carried at fair value, with changes in fair value through profit or loss.

In order to limit the effect of these changes in fair value through the profit and loss accounts, the Group has allocated these derivatives to hedging relationships on the interest rate risk of portfolios of financial assets ("portfolio fair value hedging"), so that these portfolios of assets are also remeasured to the extent of the hedged risk.

At 31 December 2024 the derivatives used for hedging had positive and negative fair values of € 174,513 thousand and € 31,849 thousand, respectively. The revaluations of the financial portfolios of hedged assets amounted to € 142,246 (negative). An ineffectiveness of € 300 thousand (loss) was recognized in the income statement.

The audit risk resides on the one hand in the valuation of the derivatives (via valuation techniques) and on the other hand in the correct accounting treatment of the hedging relationships (the documentation has to comply with IAS 39 requirements and the effectiveness tests are based on a number of assumptions regarding expected future early redemptions and renegotiations of certain types of loans), therefore we consider this a key audit matter.

Summary of procedures performed

- ▶ We compared the fair values of the derivatives with the fair values as confirmed by the external counterparties, in the context of so-called "collateralization". We recalculated the fair value for a sample of derivatives;

- ▶ We assessed the existing hedging documentation to determine whether it meets the criteria as described in the “carved-out” version of IAS 39 as adopted by the European Union, and we assessed the effectiveness tests performed by the Group to verify whether the hedging relationships were still effective and whether the ineffectiveness was calculated correctly. In particular, we compared the volume of hedging derivatives with the projected volume of hedged mortgage (and other) loans over future time buckets, taking into account the assumptions regarding expected early repayments and renegotiations, in order to identify any over-hedging situations, that could partially jeopardize the application of hedge accounting;
- ▶ We examined the model used by the Group to forecast future early repayments and renegotiations of mortgage loans, and assessed its correct functioning in recent financial years;
- ▶ We tested the spreadsheets used by the Group to monitor the hedging models, in order to verify the correctness of the hedge accounting entries, and whether the derivatives, of which the fair value was not zero at the start of the hedging relationship, have been accounted for correctly. We have verified the reconciliation of these spreadsheets with the underlying source systems on the one hand and with the Consolidated Financial Statements on the other hand;
- ▶ Finally, we have evaluated that the notes to the Consolidated Financial Statements (notes 5, 7 and 21) are complete, accurate and in accordance with IFRS requirements.

Responsibilities of the Board of Directors for the preparation of the Consolidated Financial Statements

The Board of Directors is responsible for the preparation of the Consolidated Financial Statements that give a true and fair view in

accordance with the IFRS Accounting Standards and with applicable legal and regulatory requirements in Belgium and for such internal controls relevant to the preparation of the Consolidated Financial Statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of Consolidated Financial Statements, the Board of Directors is responsible for assessing the Company’s ability to continue as a going concern, and provide, if applicable, information on matters impacting going concern. The Board of Directors should prepare the financial statements using the going concern basis of accounting, unless the Board of Directors either intends to liquidate the Company or to cease business operations, or has no realistic alternative but to do so.

Our responsibilities for the audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance whether the Consolidated Financial Statements are free from material misstatement, whether due to fraud or error, and to express an opinion on these Consolidated Financial Statements based on our audit. Reasonable assurance is a high level of assurance, but not a guarantee that an audit conducted in accordance with the ISA’s will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Consolidated Financial Statements.

In performing our audit, we comply with the legal, regulatory and normative framework that applies to the audit of the Consolidated Financial Statements in Belgium. However, a statutory audit does not provide assurance about the future viability of the Company and the Group, nor about the efficiency or effectiveness with which the board of directors has taken or will undertake the Company’s and the Group’s business operations. Our responsibilities with regards to the going concern assumption used by the board of directors are described below.

**Audit report dated 26 May 2025 on the Consolidated Financial Statements
of MeDirect Bank nv/sa as of and for the year
ended 31 December 2024 (continued)**

As part of an audit in accordance with ISA's, we exercise professional judgment and we maintain professional skepticism throughout the audit. We also perform the following tasks:

- ▶ identification and assessment of the risks of material misstatement of the Consolidated Financial Statements, whether due to fraud or error, the planning and execution of audit procedures to respond to these risks and obtain audit evidence which is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting material misstatements resulting from fraud is higher than when such misstatements result from errors, since fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- ▶ obtaining insight in the system of internal controls that are relevant for the audit and with the objective to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;
- ▶ evaluating the selected and applied accounting policies, and evaluating the reasonability of the accounting estimates and related disclosures made by the Board of Directors as well as the underlying information given by the Board of Directors;
- ▶ conclude on the appropriateness of the Board of Directors' use of the going-concern basis of accounting, and based on the audit evidence obtained, whether or not a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's or Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the Consolidated

Financial Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on audit evidence obtained up to the date of the auditor's report. However, future events or conditions may cause the Company to cease to continue as a going-concern;

- ▶ evaluating the overall presentation, structure and content of the Consolidated Financial Statements, and evaluating whether the Consolidated Financial Statements reflect a true and fair view of the underlying transactions and events.

We communicate with the Audit Committee within the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Because we are ultimately responsible for the opinion, we are also responsible for directing, supervising and performing the audits of the subsidiaries. In this respect we have determined the nature and extent of the audit procedures to be carried out for group entities.

We provide the Audit Committee within the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee within the Board of Directors, we determine those matters that were of most significance in the audit of the Consolidated Financial Statements of the current period and are therefore the key audit matters. We describe these matters in our report, unless the law or regulations prohibit this.

Report on other legal and regulatory requirements

Responsibilities of the Board of Directors

The Board of Directors is responsible for the preparation and the content of the Board of Directors' report on the Consolidated Financial Statements.

Responsibilities of the auditor

In the context of our mandate and in accordance with the additional standard to the ISA's applicable in Belgium, it is our responsibility to verify, in all material respects, the Board of Directors' report on the Consolidated Financial Statements, as well as to report on these matters.

Aspects relating to Board of Directors' report

In our opinion, after carrying out specific procedures on the Board of Directors' report, the Board of Directors' report is consistent with the Consolidated Financial Statements and has been prepared in accordance with article 3:32 of the Code of companies and associations.

In the context of our audit of the Consolidated Financial Statements, we are also responsible to consider whether, based on the information that we became aware of during the performance of our audit, the Board of Directors' report contains any material inconsistencies or contains information that is inaccurate or otherwise misleading. In light of the work performed, there are no material inconsistencies to be reported.

Independence matters

Our audit firm and our network have not performed any services that are not compatible with the audit of the Consolidated Financial Statements and have remained independent of the Company during the course of our mandate.

The fees related to additional services which are compatible with the audit of the Consolidated Financial Statements as referred to in article 3:65 of the Code of companies and associations were duly itemized and valued in the notes to the Consolidated Financial Statements.

Other communications.

- This report is consistent with our supplementary declaration to the Audit Committee as specified in article 11 of the regulation (EU) nr. 537/2014.

Brussels, 26 May 2025

EY Bedrijfsrevisoren BV
Statutory auditor
Represented by



Jean-François Hubin *
Partner
*Acting on behalf of a BV/SRL

25JFH0168