MeDirect Bank S.A./N.V.

Pillar 3 disclosures – Annual report
31 December 2021

Contents

1 Introduction

(Article 431 (1), (2) CRR)

These Pillar 3 Disclosures ("the Disclosures") are aimed at providing the stakeholders of MeDirect Bank S.A./N.V. ("MeDirect Belgium" or "the Bank"), with a Legal Entity Identifier ("LEI") code of 0553851093, further insight to its capital structure, adequacy, and risk management practices. This Pillar 3 report provides disclosures for the Bank as required by the global regulatory framework for capital and liquidity, which was established by the Basel Committee on Banking Supervision, also known as Basel III. The Basel III capital adequacy framework consist of three complementary pillars:

- Pillar 1 ('minimum capital requirements') provides a framework for measuring minimum capital requirements for the credit, market and operational risks faced by banks;

- Pillar 2 ('supervisory review') addresses the principles of the supervisory review process, emphasising the need for a qualitative approach to supervising banks. This requires banks to estimate their own capital through an Internal Capital Adequacy Assessment Process (ICAAP). The ICAAP and Internal Liquidity Adequacy Assessment Process (ILAAP) are subject to supervisory review from the Regulator, through the Supervisory Review and Evaluation process (SREP).

- Pillar 3 ('market discipline') requires banks to publish a range of qualitative and quantitative disclosures to the market aimed at providing further insight on the capital structure, capital adequacy and risk management practices.

The Bank is not a 'large institution' but as a small and non-complex subsidiary of MDB Group Limited (together "the Group"), MeDirect Belgium is subject to mandatory, though limited, Pillar 3 Disclosures (Market Discipline) by the local regulatory supervisor, whereas Pillar 3 is being implemented in full at the Group level. MeDirect Belgium is exempt from full disclosure requirements as laid down in Part Eight of the Capital Requirements Regulation ("CRR"), but only limited to disclosure requirements in terms of Article 13 and Article 433b of the CRR, on the basis that such disclosures are required at an MDB Group Limited consolidated level. MDB Group Limited publishes full Pillar 3 Disclosures Annual Report are available on the Group's Investor Relations website.

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

The MeDirect Belgium Disclosures have been 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 following disclosures as per Article 433b CRR on an annual basis:

- Points (a), (e) and (f) of Article 435 (1);

- Point (d) of Article 438;

- Points (a) to (d), (h), (i), (j) of Article 450 (1); and

- The key metrics referred to in Article 447.

Despite the Bank is only required to disclose the above, in order to provide comprehensive information to the Bank's stakeholders, it was decided to make certain additional disclosures on a voluntary basis in relation to the following:

- Certain information specified in Articles 437, 438, 440, 442, 450, 451, 451a and 453.

A reference has been added in cases where the information addressing Pillar 3 requirements is included in other parts of the Annual Report. The frequency of Pillar 3 disclosures is determined by the Commission Implementing Regulation (EU) 2021/637 of 15 March 2021 laying down implementing technical standards with regard to public disclosures by institutions. In this respect, refer to the Group's Semi-Annual and Quarterly Pillar 3 disclosure reports. Given that MeDirect Belgium is categorised as a small and non-complex institution and is not listed, is not required to publish Semi-Annual and Quarterly Pillar 3 disclosure reports.

Appendix A contains a list of tables and templates disclosed and indicates the section in which they are integrated into the report. All tables and templates are defined according to the names as per EBA guidelines. Appendix B contains a list indicating the location of the information disclosed in the Pillar 3 Disclosures or the Annual Report and Financial Statements, in accordance with the relevant articles of Part Eight of the CRR or why such disclosure is not applicable for the Bank.

1.1 Pillar 3 Disclosure Policy

(Article 431 (3) CRR)

As required under Article 431 (3) of CRR, the Group maintains a Pillar 3 Disclosures Policy, in order to comply with the requirements laid down in Part Eight of the CRR and any associated EBA guidelines, National Bank of Belgium ("NBB") circulars and technical standards. The Pillar 3 Disclosures Policy defines overall objectives, roles, and responsibilities with regards to preparation, verification, and approval processes. The policy is reviewed every twelve months, last approved in July 2021.

Basis of preparation

This Pillar 3 Disclosures Annual Report (the "Disclosures") has been prepared in accordance with the Group's Pillar 3 Disclosures Policy, which requires that this report be prepared in accordance with requirements of Part Eight of the CRR and other associated EBA guidelines and technical standards, under Article 434 of the CRR 2: 'Final draft ITS on institutions' public disclosures of the information referred to in Titles II and III of Part Eight of Regulation (EU) No 575/2013'. The latter guidelines provide detailed disclosure requirements for credit risk, counterparty credit risk, market risk and capital requirements.

The information provided in this Pillar 3 report is unaudited. Refer to Section 'Governance Process – verification and sign-off'.

Unless otherwise states the amounts have been rounded to euro millions. Due to rounding, numbers presented throughout this document may not add up precisely to the totals provided and percentages may not precisely reflect the absolute figures. In the tables, parts that have been greyed out indicate information that is not required.

All the tables were compiled on the basis of regulatory reporting submissions, that as at 31 December 2021 were prepared on BE GAAP values.

In all tables where the term 'capital requirements' is used; this represents the minimum total capital charge set at 8% of risk weighted assets ('RWAs') by article 92 of the Capital Requirements Regulation.

Scope of application

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

The Group is regulated under the Single Supervisory Mechanism ("SSM"). The SSM is the system of banking supervision in Europe, the main aim of which is to ensure the safety and soundness of the European banking system and to increase financial integration, stability and consistency of supervision. Under the SSM, the Group is regulated by a Joint Supervisory Team comprising the European Central Bank ("ECB"), the National Bank of Belgium and the Malta Financial Services Authority ("MFSA").

Frequency of disclosures (Article 433 and 433a CRR)

In December 2020, EBA published the final Implementing Technical Standards (ITS) on institutions' public disclosures as per its mandate under Article 434 of the CRR 2 to introduce uniform formats and associated instructions for disclosure requirements in order to optimise the Pillar 3 policy framework.

The new ITS aims to reinforce market discipline, by increasing consistency and comparability of institutions' public disclosures, and to implement the CRR 2 regulatory changes in alignment with the revised Basel Pillar 3 standards. These requirements introduced a comprehensive set of disclosure templates, tables and related instructions in order to ensure alignment and consistency with the Basel Committee's updated Pillar 3 framework.

In December 2020, the EBA has updated the mapping of quantitative disclosure data and supervisory reporting, which aims at facilitating institutions' compliance and improving the consistency and quality of the information disclosed. The EBA also published a file summarising the frequency at which each type of institution should disclose each template and table, in accordance with the CRR 2.

Disclosures in this Pillar 3 include comparative periods in accordance with the requirements of EBA ITS. For those disclosures required only on an annual basis, the comparative period will be to the prior year, except for newly adopted disclosures as of 31 December 2021, whereby the Bank does not provide comparative information.

In line with regulatory requirements and the Group's policy, the Pillar 3 Disclosures are published on the Bank's website within a reasonable period after the publication of the Bank's annual financial statements.

Means of disclosures *(Article 434 CRR)*

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

Non-material, proprietary or confidential information *(Article 432 CRR)*
In line with the Group's Policy based on Article 432 CRR and CRR II, the Bank may omit certain disclosures due to these disclosures being immaterial, proprietary, or confidential. No information was omitted due to being considered proprietary or confidential.

COVID-19 disclosure templates

In June 2020, EBA published the "Guidelines on reporting and disclosure of exposures subject to measures applied in response to the Covid-19 crisis" (NBB's Circular NBB_2022_02 of and NBB_2020_28 of 14 July 2020). These additional reporting and disclosure requirements were introduced, on a temporary basis, and at present extended until 31 December 2022, to introduce standardised reporting on exposures with a specific Covid-19 classification. In scope of these templates are the loans and advances that are subject to legislative and non-legislative moratoria (also referred to as subject to 'EBA compliant moratoria') and the (newly originated) loans and advances that are subject to public guarantee schemes introduced in response to the Covid-19 crisis. These three templates were not included in this Pillar 3 report as they were not applicable for the Bank.

Governance process – verification and sign-off

Consistent with the banking regulations, these Disclosures are not subject to external audit except where they are included within the Financial Statements. However, these Disclosures have been appropriately verified and approved internally by the Bank's management; reasonable assurance has been provided by the Bank's Internal audit function as required by the Group's Pillar 3 Disclosures Policy, including the review and approval of these disclosures by the Board of Directors of the Bank's Audit Committee. Subsequent to the approval of the Audit Committee, these disclosures are then submitted to the Board of Directors for authorisation prior to public dissemination.

1.2 Key metrics

(Article 447 (a - g) and Article 438 (b) CRR)

In the following table EU KM1 we provide key regulatory metrics and ratios as well as related input components as defined by the amended versions of CRR and CRD. They comprise own funds, RWAs, capital ratios, additional requirements based on SREP, capital buffer requirements, leverage ratio, liquidity coverage ratio and net stable funding ratio. They serve as high level metrics and form part of our holistic risk management across individual risk types in addition to the Bank's specific internal risk metrics. Based on this they are fully integrated across strategic planning, risk appetite framework and stress testing concepts and are reviewed and approved by our Management Board at least annually.

		a
	Amounts in €millions	31-Dec-21
	Available own funds	
1	Common Equity Tier 1 (CET1) capital	171
2	Tier 1 capital	171
3	Total capital	174
	Risk-weighted exposure amounts	
4	Total risk exposure amount	601
	Capital ratios (as a percentage of risk-weighted exposure amount)	
5	Common Equity Tier 1 ratio (%)	28.5%
6	Tier 1 ratio (%)	28.5%
7	Total capital ratio (%)	28.9%
	Additional own funds requirements to address risks other than the risk of excessive leverage **(as a percentage of risk-weighted exposure amount)**	

EU 7a	Additional own funds requirements to address risks other than the risk of excessive leverage (%)	3.00%
EU 7b	of which: to be made up of CET1 capital (percentage points)	1.7%
EU 7c	of which: to be made up of Tier 1 capital (percentage points)	2.3%
EU 7d	Total SREP own funds requirements (%)	11.0%
	Combined buffer and overall capital requirement (as a percentage of risk-weighted exposure amount)	
8	Capital conservation buffer (%)	2.5%
EU 8a	Conservation buffer due to macro-prudential or systemic risk identified at the level of a Member State (%)	0.0%
9	Institution specific countercyclical capital buffer (%)	0.02%
EU 9a	Systemic risk buffer (%)	0.0%
10	Global Systemically Important Institution buffer (%)	0.0%
EU 10a	Other Systemically Important Institution buffer (%)	0.0%
11	Combined buffer requirement (%)	2.5%
EU 11a	Overall capital requirements (%)	13.5%
12	CET1 available after meeting the total SREP own funds requirements (%)	22.5%
	Leverage ratio	
13	Total exposure measure	2,462
14	Leverage ratio (%)	7.0%
	Additional own funds requirements to address the risk of excessive leverage (as a percentage of total exposure measure)	
EU 14a	Additional own funds requirements to address the risk of excessive leverage (%)	0.0%
EU 14b	of which: to be made up of CET1 capital (percentage points)	0.0%
EU 14c	Total SREP leverage ratio requirements (%)	3.0%
	Leverage ratio buffer and overall leverage ratio requirement (as a percentage of total exposure measure)	
EU 14d	Leverage ratio buffer requirement (%)	0.0%
EU 14e	Overall leverage ratio requirement (%)	3.0%
	Liquidity Coverage Ratio	
15	Total high-quality liquid assets (HQLA) (Weighted value -average)	552
EU 16a	Cash outflows - Total weighted value	252
EU 16b	Cash inflows - Total weighted value	50

16	Total net cash outflows (adjusted value)	202
17	Liquidity coverage ratio (%)[1]	273.7%
	Net Stable Funding Ratio	
18	Total available stable funding	2,236
19	Total required stable funding	1,359
20	NSFR ratio (%)	164.6%

1.3 Attestation by the Directors

We confirm that this Pillar 3 Disclosures Annual Report, to the best of our knowledge, complies with Part Eight of the CRR 2, including, where relevant, any associated NBB circulars, EBA guidelines and technical standards, and has been prepared in compliance with the Bank's internal governance process, formal policies and internal processes, systems and control.

On behalf of the Board of Directors

Tim Rooney
Director and Chief Executive Officer

Marcel Berkhout
Director and Chief Financial Officer

[1] The liquidity coverage ratio (LCR) uses the simple average of the preceding 12 monthly periods ending on the quarterly reporting date as specified in the table.

2 Risk management, objectives and policies

(Article 435 (1) (a) CRR)

2.1 General information on risk management, objectives and policies

Risk management is an integral part of the Bank's strategic planning and management processes. Risks are identified in the context of the business model and strategy of the Bank, and within the parameters of the approved risk appetite using methodologies developed to identify the exposure of the Bank to risk and uncertainty. The Bank's Risk Management Function is actively involved in all material risk management decisions and is adequately structured to deliver a holistic view of the whole range of risks faced by the Bank in its strategic decision-making.

The Bank operates within the 'Three Lines of Defence' model as a core part of its approach to risk management; each of these three lines plays a distinct role within the Bank's wider governance framework.

Risk strategy

Amongst the list of responsibilities of the Board is the setting, approval and oversight of the overall risk strategy, including the risk appetite and risk management framework. The Chief Risk Officer ("CRO") is entrusted with the responsibility to devise the risk strategy of the Bank that is presented to the Risk Committee for discussion and review, and ultimately approved by the Board.

The risk strategy of the Bank evolves around the following objectives:

PROMOTE SUSTAINABLE GROWTH	To protect and act as guardians for the sustainability of the Bank's financial standing, capital and liquidity adequacy, reputational standing, operational continuity, and customer and stakeholder protection
ENABLE STRATEGIC OBJECTIES	To enable the Bank to prudently deliver its strategic objectives, within its defined risk appetite
STRONG RISK CULTURE	Instil a sound risk culture through clearly defined risk policies, balanced objectives, risk-adjusted retunrs practices, alongside communication, training and awareness programmes across all stakeholders.
ROBUST RISK MANAGEMENT PRACTICES	Develop, maintain and continually enhance effective risk management practices, tools and systems, on a proportional and risk-based approach.
SOUND RISK IDENTIFICATION	Ensure suitable systems, methodologies and quantification tools are in place to appropriately assess and identify current and emerging inherent risks.

FIGURE 1: RISK STRATEGY

The Risk Management Function, under the guidance of the CRO is responsible for the execution of the risk strategy, ensuring that this is communicated to the relevant stakeholders across the Bank, of which Business lines and other internal control functions such as the Compliance and the Internal Audit Functions.

The Risk Management Function ensures that each component of the risk strategy is subject to an appropriate governance and escalation process. The governance processes are primarily described and documented in the following documents:

- The Risk Management Framework ("RMF").
- The Risk Appetite Framework ("RAF").
- Corporate Governance Framework ("CGF").
- ICAAP & ILAAP Governance Framework; and
- Stress Testing Framework ('STF').

Other frameworks and policies may also apply as referenced in each of the documents mentioned above.

The Board Risk Committee is delegated with the authority from the Board to monitor the execution of the risk strategy, with the Board oversight through the review of Management Information ("MI") packs and verbal updates from the Chair of the Risk Committee and the CRO.

2.1.1 Risk Management Function

The responsibilities of the Risk Management Function are to protect and enable the Bank to deliver sustainable income through facilitating and monitoring the implementation of effective risk management practices and assisting risk owners in defining and controlling risk exposures.

The Bank's risk management function falls under the responsibility of the CRO who is independent from the business lines. The CRO is responsible for a number of sub-functions that represent different risk areas namely, credit risk, operational Risk, risk analytics, financial and market risk, IT and information security risk, and data protection.

The CRO is a standing attendee of the Board Risk Committee and also has the unchallenged authority to meet members of the Board Risk Committee or other Non-Executive Directors without the presence of the CEO or other Executive Directors. Among the list of responsibilities, the CRO is:

- Responsible for ensuring that the Risk Management Function is adequately resourced, taking into account the complexity and risks of the Bank as well as its RAF and strategy;
- Actively involved in key decision-making processes from a risk perspective, challenges management's decisions and recommendations, and retains a right of veto for declining transactional decisions such as credit risk originations;
- Involved in the design and setting of risk appetite, risk limits, notification thresholds and key risk indicators; and
- One of the key contacts for regulatory matters, including supervisory dialogues.

The Risk Management Function is adequately resourced, and has the right knowledge, experience and expertise to provide relevant independent risk oversight, analysis and expert judgement on risk matters faced by the Bank. Each of the risk sub-functions represents a specific risk area, each having the appropriate subject matter expertise. The effectiveness of the Risk Management Function is assessed by the Board Risk Committee.

In line with the EBA guidelines on internal governance, the Risk Management Function has direct access to the members of the Board and the Board Risk Committee, as well as all business lines and other internal units that have potential to generate risk as well as oversight of all relevant subsidiaries. Nevertheless, the Risk Management Function is independent of the business lines and units whose risks it controls.

The CRO for MeDirect Belgium is based in Belgium and reports directly to the Board of Directors for MeDirect Belgium. The MeDirect Belgium CRO works closely with the MeDirect Malta CRO in order to ensure adequate flow of information within the Group structure.

As at 31 December 2021, the risk management function comprised of the following teams under the management of the CRO. Their responsibilities were divided as follows:

Risk Management Function	Main responsibilities
Risk Analytics	The team provides risk management oversight of the capital and liquidity risk through complementary reporting for both Board level and Executive level audiences, as well as stress testing and performance tracking of the asset and liability portfolios, including off-balance sheet commitments. The function is also responsible for management of capital and liquidity risk policies, and for the development and maintenance of risk measurement tools and models, in particular those used for stress testing purposes. The team is responsible for key internal capital and liquidity risk management documents, specifically the ICAAP, ILAAP and Recovery Plan. Risk Analytics are also responsible for developing and tracking a dashboard of relevant Climate & Environmental Risk ("CER") within the existing risk reporting frameworks, with continuous enhancement over time.
Financial & Market Risk	The Financial and Market Risk team oversees all Interest Rate Risk in the Banking Book (IRRBB) and FX risk, including assessment and analysis of respective asset and liability behavioural modelling related assumptions. It is responsible for leading the ongoing development of market risk models including model design, calibration, stress testing and shock analysis of both earnings and income related interest rate risk scenarios, risk reporting and related model governance. Its main focus includes the development of the IRRBB framework, stress testing methodologies, scenario assumptions and market risk capital utilisation. The team actively interacts with Risk Analytics, the ALM department and the ALCO and provides insight into capital planning, funding plans and product pricing. In a broader extent, the market and financial risks management are overseen by the ALCO committee that is responsible for identifying, managing and controlling all of the Bank's balance sheet risks and capital management in executing its chosen business strategy. Balance sheet risks are managed by setting limits, monitoring exposures and implementing controls across the dimensions of capital, credit, FX, funding and liquidity. They are responsible for the implementation of ALCO strategy and policy for the Bank's balance sheet. Financial and Market Risk are also responsible for tracking top and emerging market risks relevant Climate & Environmental Risk (CER) within the existing risk management framework.
Credit Risk	The Credit Risk function highlights and analyses the core risk issues on each investment ahead of approval under the Delegated Credit Authority Limits Policy and/or the Management Credit Committee. The Credit Risk function is additionally responsible for reviewing and assigning internal credit classifications, making recommendations for credit provisioning and/or write offs and the annual review of the credit policy and associated credit framework. Credit Risk are also responsible for tracking top and emerging risks relevant to CER within the existing risk management framework, ensuring CER are embedded into Credit Policy for origination and portfolio monitoring activities. The International Corporate Lending team based in London is also responsible for the management and monitoring of the structured finance portfolio. The credit risk function based in Belgium is also responsible for the oversight of the Dutch mortgages related credit risk.
Operational Risk	The Operational Risk Management function provides the framework for the business to identify, assess and mitigate operational risks. It therefore manages the operational risk landscape of the Bank. The team is responsible for the ongoing management of the Operational Risk Management Framework covering five main pillars, namely: the identification and categorisation of operational risks, measurement and monitoring of operational risks, reporting of operational risks, incident management process and business continuity. The function also facilitates the risk & control self-assessments ("RCSAs") process and the control testing methodology. The Operational Risk Management Function is also responsible to manage the Reputational Risk Management Framework and the Anti-Fraud Policy. This function also supports the Bank in other key risk deliverables such as the ICAAP, ILAAP and Recovery Plan, Risk Appetite and Internal Controls Reporting. Operational Risk are also responsible for tracking top and emerging operational risks relevant to CER within the existing risk management framework, including business continuity and incident management procedures.
IT Security Risk	The team is primarily responsible for implementing the Information security strategy of the Bank by ensuring that the Bank adheres to international information security best practices, which includes identifying and keeping visibility of IT security risks affecting the Bank. Responsibilities include the implementation and ongoing management of IT security technologies, coordinating and following up on vulnerability assessments and penetration tests, and managing information security incidents. The IT Security function also carries out security reviews to ensure that the Bank is in line with the IT Security policy requirements, delivers information security awareness and liaises with external auditors and regulatory bodies where necessary.
Data Protection Risk	The Data Protection function holds the responsibility of the Data Protection Officer ("DPO") who is responsible for the Group's Data Protection Policy, the Group Voice and Teams Recording Policy and the Group's Data Retention and Archiving Policy. It focusses on advising the Bank and all its employees about their obligations to comply with Data Protection Regulations, namely 'GDPR', train its staff and conduct internal controls. This function shall maintain a data inventory for all its key business processes where there is extensive processing of personal data. This function is also responsible for tracking top and emerging risks relevant to CER within the existing risk management framework.

2.1.2 Overview of the management of key risks

Risks are identified in the context of the business model and strategy of the Bank, and within the parameters of the risk appetite of the Board. Other objectives should also be taken into consideration, such as operational objectives and business targets; financial reporting objectives and compliance objectives.

The Risk Management Function relies on a number of techniques and methodologies to identify risk. Both normative and economic perspectives are taken into account during the risk identification process. Relevant risks are taken into consideration for the Bank's ICAAP and ILAAP, while capital is allocated to cover those risks that are identified as material following a comprehensive risk assessment. The relevant risks for the Bank are categorised under Financial and Non-Financial Risks:

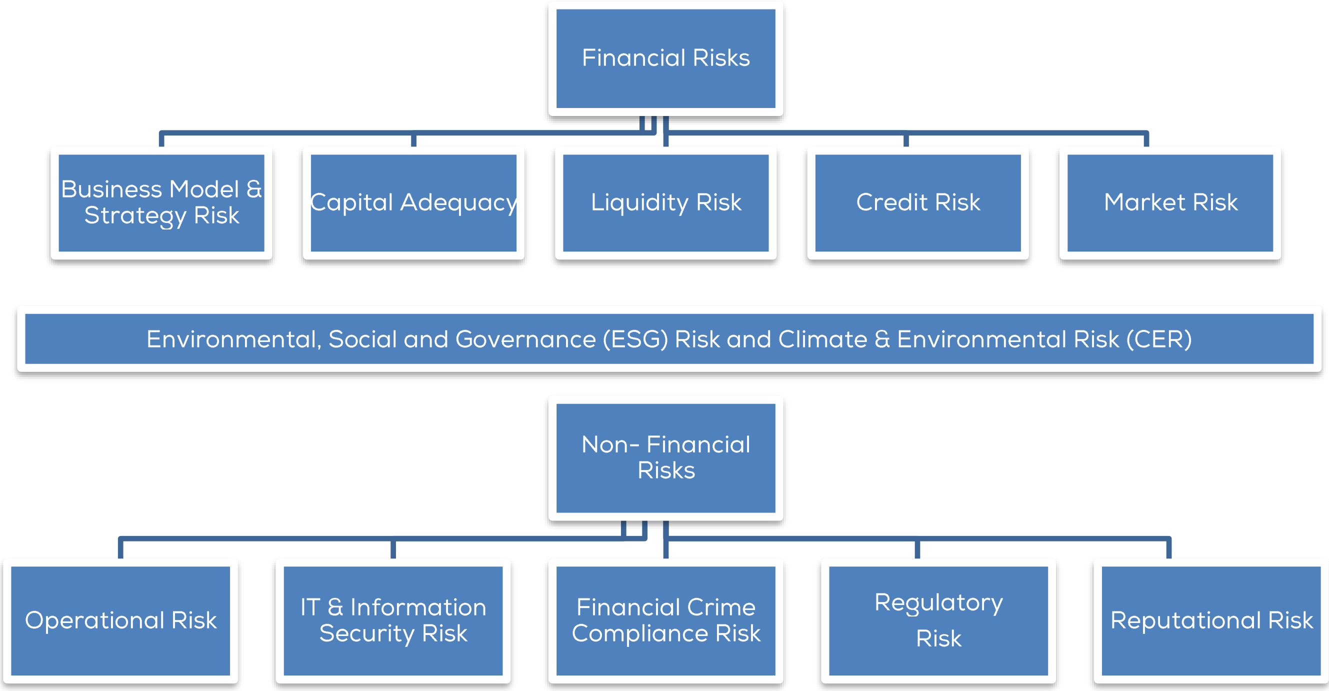

FIGURE 2: FINANCIAL AND NON-FINANCIAL RISKS

Where deemed applicable, the Risk Management Function integrates climate-related and environmental risks within its risk identification process as an overarching theme through both its Financial and Non-Financial Risks. By doing this, the Bank will comprehensively analyse the ways in which climate-related and environmental risks drive the different risk areas.

The Risk Management Function has developed methodologies to identify the exposure to risk and uncertainty. Each of the Bank's risk functions are responsible for assessing and identifying key risks and themes within their areas of responsibility. Once the key risk exposures and themes are identified, then each respective risk function also evaluates the ability of the Bank to adequately control or mitigate the risk, avoid the risk, or transfer the risk where possible. The Risk Management Function also actively involves both business lines and functions to ensure a holistic assessment of risk identification is undertaken, otherwise referred to as top-down and bottom-up approaches.

2.1.3 Risk appetite

The risk appetite is established by the Board of Directors, and it defines the type and quantum of risks the Bank is willing to accept in achieving its strategic objectives. It ensures that business activities provide an appropriate balance of return for the risks assumed, and that they remain within a suitable level for the Bank.

The Bank has in place a Risk Appetite Framework ("RAF") that outlines the overall approach, governance processes, controls and systems through which risk appetite, risk limits and thresholds are established, communicated and monitored. The RAF aligns to the main risks the Bank manages in pursuit of its strategy.

2.1.4 Risk appetite triggers

The main component of the RAF is the Risk Appetite Statement ("RAS") which is interlinked with the Bank's strategic and financial plans, as well as remuneration practices. In line with the Group's Risk Appetite Policy, the RAS evaluates material risks of the Bank in order to produce both qualitative and quantitative metrics, covering financial risks and non-financial risks and providing both entity and business lines specific details.

Risk appetite limits define the quantitative levels of the risk appetite expressed for specific risks, where quantification is viable, to ensure that the actual levels of risk are within the agreed-upon risk appetite. The Risk Appetite notification thresholds determine the level of risk exposure above which risks are addressed and below which risks may be accepted at Executive Management level.

Capital adequacy	
Risk Metric	Actual (December 2021)
CET 1 Capital Ratio	**28.5%**
Tier 1 Capital Ratio	**28.5%**
Total Capital Ratio	**28.9%**
Leverage Ratio	**7.0%**
Liquidity	
Risk Metric	Actual (December 2021)
Liquidity Coverage Ratio (LCR)	**273.7%**
Net Stable Funding Ratio (NSFR)	**164.6%**

Performance and adherence to risk appetite is performed at the Board Committee level (supported by the Board Risk Committee, Audit Committee, and Nomination and Remuneration Committee) and at Executive Committee level, including the Management EXCO, MCC, ALCO, and OpsCo. The Bank has also implemented early warning notification thresholds to allow sufficient notification time for corrective measures being implemented where required.

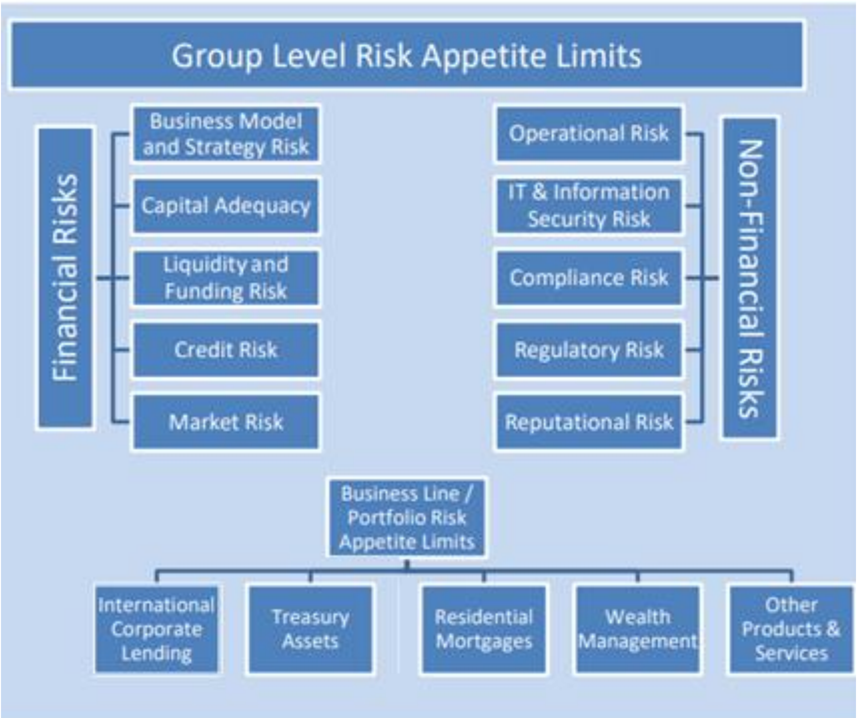

FIGURE 3: RISK APPETITE LIMITS

The Bank has also established a set of Key Risk Indicators ("KRIs") that are additional risk metrics intended to supplement the risk appetite limits. These are monitored as part of its holistic risk management across risk types and are intended to measure and reflect the negative impact on the Bank's performance.

In all circumstances, the Bank sets its RALs within its Risk capacity, meaning it limits its appetite within the maximum level of risk the Bank is able to assume given its capital base, its risk management and control capabilities, and its regulatory constraints.

2.1.5 Risk monitoring and reporting

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

The risk reporting for MeDirect Belgium is conducted by the Group Risk Management function with oversight and direction from the MeDirect Belgium CRO. The monitoring of each risk pillar falls under the responsibility of specific teams within the Risk Management Function. Currently each risk team reviews and updates policies and associated risk frameworks that include information on internal processes and risk reporting responsibilities.

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

The Risk Management Function is actively working on enhancing aggregated risk data that reflects the Bank's exposures to climate-related and environmental risks in the Risk Management Report to include such data, where applicable.

<u>Board oversight</u>

The Board Risk Committee is responsible for reviewing the Bank's risk in sufficient detail that it can assess whether they are consistent with the Bank's risk appetite, and for reviewing management's proposed course of action if not. It may then endorse these plans or require them to be altered, as appropriate. It is also responsible for assessing the Bank's high-level controls, limits, and risk aggregation and reporting framework to ensure that these are sufficient to maintain the level of risk within its appetite.

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

<u>Reporting to the Board and Board Risk Committee</u>

The Board and Board Risk Committee receive a comprehensive Group risk report for each month, compiled by the Risk Management Function with an executive summary written by the CRO. The CRO's executive summary is qualitative in nature and covers each of the material risks. This commentary is also supported by a much more detailed report, the risk management report. The risk management reports are mainly divided into two sections: Risk shaping matters and Risk Oversight.

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

Financial Risks:

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

Non-Financial Risks:

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

2) **IT and information security risk:** includes a risk commentary and assessment of the major IT Security risk areas monitored and reported by the Risk Management function, covering systems and technology; policies; monitoring and testing; and user awareness. A sub-risk under IT and Information Security Risk is the Data Protection Risk, which includes the risk of failing to comply with Data Protection Regulations, namely 'GDPR'. The risk of data protection and data leakage is a prominent area of risk for banks to manage, both in terms of electronic data; such as customer databases or market sensitive internal reporting; and physical information; such as printed copies of customer details or physical copies of confidential documents or contracts.

3) **Compliance risk:** provides information on the compliance monitoring plan and other management information covering requests from the regulator and the number of suspicious transaction reports raised during that month.

4) **Regulatory risk:** provides a runway of the major regulatory changes and regulatory deadlines expected over the next quarters. It also provides a brief overview of the main regulatory updates that have been announced during that month. It tracks regulatory submissions, queries and/or requests for information from various regulatory bodies and supervisors received during the month. as well as supervisory dialogues for the reporting month and for the following month. Finally, it provides an overview of supervisory reviews and inspections.

5) **Reputational risk:** currently the risk management function is introducing a group-wide reputational risk management framework that will also include a number of KRIs and incident management for risk monitoring purposes.

Risk management special papers are also presented to the Board Risk Committee at each meeting. These special papers cover emerging risks and other hot topics or regulatory announcements that could result in a material impact to the Bank. Important correspondence from the regulator is also brought to the attention of senior management and the Board members. Items requiring specific attention by the Board Risk Committee or deeper dives on risk themes are included within such special papers, with actions and decisions taken as necessary as a result.

Other regular reports

Alongside the monthly Bank risk management report, the EXCO members also receive a risk report on a weekly basis outlining the status of key risks of the Bank, including changes from the previous week. These Risk reports prove that the Bank has a comprehensive risk reporting structure in place covering all the relevant risks. These also act as a centralised and critical means for reporting enterprise-wide risks facing the Bank.

Flash reports are also distributed internally with the ALCO members and senior management on a daily and weekly basis. These reports include details of the liquidity position of the Bank such liquidity asset buffer, liquidity and capital ratios, off balance sheet commitments, movements in deposits and maturity of deposit outflow notices.

Aside from internal reporting requirements, the Bank is also subject to regulatory reporting such as Common Reporting ("CoRep") and Financial Reporting ("FinRep") as well as public disclosure requirements as stipulated in Part Eight of the CRR 2.

Risk culture

A strong risk-aware culture is defined as all employees of the Bank being aware of their responsibilities towards the clients, colleagues and the institution itself, and their ability to manage risks on a day-to-day basis, taking into account the institution's policies, procedures and controls. The Bank is aware that instilling a risk culture is key to delivering sustainable growth and profitability and strives to continuously improve its risk culture through policies, communication and training of staff, which is done through a number of initiatives. These are namely, continuous training events, risk awareness notifications and campaigns, eLearning and mandatory Employee Training programmes, as well as embedding a culture of speaking-up being encouraged across the institution.

2.1.6 MDB Group's Risk management framework

The MDB Group's risk management framework and the risk policies and procedures are applied uniformly across the Group and its subsidiaries, including MeDirect Belgium. Using its position as controlling shareholder, if necessary, the MDB Group adopts the following key principles when managing the risk of its subsidiaries:

- Subsidiaries will not take on any risk that is outside the MDB Group's consolidated risk appetite, as expressed in its Group RAS, unless prior consent and dispensation is provided by the Group Board;
- The MDB Group's risk reporting and evaluation processes will include risks borne within the subsidiaries in the same way as risks borne within the Group itself: such reports will be produced and reviewed on a consolidated basis (notwithstanding those additional reports may be produced at subsidiary level as described below);
- The MDB Group will not take any action at subsidiary level without support from the relevant body of the subsidiary in question; and
- To the extent possible, subsidiaries will adopt risk management policies, processes, and reports that are consistent with those of the MDB Group itself: in particular, subsidiaries will follow the day-to-day operational risk management (i.e., control) processes of the Group, although they may of course supplement these with additional control processes if they feel this is necessary or if local regulations and customs dictate.

Where risk reports are produced for management purposes, or regular analysis is performed, in respect of MeDirect Belgium, the form of these reports and analysis will be kept as close as possible to that of the Group-level equivalents.

2.2 Information on risk management, objectives and policies by category of risks

Risks are identified in the context of the business model and strategy of the Bank, and within the parameters of the risk appetite of the Board. Other objectives are also taken into consideration:

- *Financial reporting objectives:* these relate to the preparation of reliable published financial statements and regulatory reporting;
- *Operational objectives and business targets:* these relate to the achievement of the Bank's mission statement and address the effectiveness and efficiency of the Bank's operations; and
- *Compliance objectives*: these relate to adherence to laws, rules and regulations to which the Bank is subject, as well as prudential regulatory requirements.

The Risk Management Function has developed methodologies to identify the exposure of the Bank to risk and uncertainty. Each of the risk functions are responsible for assessing and identifying key risks and themes within their areas of responsibility. Once the key risk exposures and themes are identified, each respective risk function also evaluates the ability of the Bank to adequately control or mitigate the risk, avoid the risk, or transfer the risk where possible. The Risk Management Function also actively involves both business lines and functions to ensure a holistic assessment of risk identification is undertaken, otherwise referred to as top-down and bottom-up approaches

2.2.1 Credit risk

(Article 435(1) - As required by Annex XV for the Template EU CRA: 'General qualitative information about credit risk')

Credit risk is the risk of loss for the business or of an adverse change in the financial position, resulting from fluctuations in the credit standing of issuers of securities, counterparties and any debtors in the form of default or other significant credit loss event (e.g., downgrade or default). The willingness to take on credit risk is focussed on risk-adjusted returns, in that the interest margin received after operational costs will outweigh any credit losses incurred, is a key part of the Bank's business model.

Credit risk profile

The Bank's credit risk emanates from four main sources: from its corporate lending activities, its mortgage lending activities, its investment in the Securitisation portfolio and from its treasury activities. The corporate lending activity is composed of its international syndicated corporate loans portfolio.

Credit risk arises primarily in the form of deterioration in credit quality leading to an obligor defaulting on debt instruments held in the Bank's investments portfolio or on loans extended to corporate counterparties or mortgage borrowers in the Netherlands.

Apart from these main sources of credit risk, the Bank does take on credit risk in other areas too; these are listed in the following table along with the key risk mitigants. To the extent that new products and services are offered to the Bank's customers that involve the extension of credit, the Bank's approach is to require similar controls and mitigants to be put in place.

Source	Mitigant
Secured financing (high-quality liquid asset securities)	Being a securities lender/cash borrower: intrinsically a risk mitigant since correlation leads to a "right-way" exposure.
	Execution under market-standard Global Master Repurchase Agreement ("GMRA") documentation with major counterparties, or at Eurex or NBB; with daily margining.
	Concentration limits embedded in the Risk Appetite Statement.
Secured financing and revolving credit facilities (less liquid assets)	Execution only with top-tier international counterparties.
	Limits by counterparty.
Exposure to hedging counterparties	Execution under market-standard International Swaps and Derivatives Association ("ISDA") documentation with major counterparties; daily margining. All Interest rate swaps are cleared through Eurex Clearing (CCP) which limits counterparty risk.
	All hedging instruments are highly liquid and based on easily observable market data.
Residential mortgage lending in the Netherlands	Lending against residential real estate collateral, and loans are covered by the Nationale Hypotheek Garantie ("NHG") which covers up to 90% of the losses that remain after a foreclosure.
Encroachment (Group effects a foreign-currency client payment before euro funds have cleared)	Exposure very short-term in nature.

Counterparty credit risk

The CRR defines counterparty credit risk ("CCR") as the risk that the counterparty to a transaction could default before the final settlement of the transaction's cash flows.

Limits on counterparty exposure are established by the Treasury Management Credit Committee. Such limits relate to net exposure, after application of cash (and cash equivalent) collateral, as provided in industry-standard documentation such as the ISDA and GMRA agreements, and the Group Policy.

The Bank has not established any credit reserves in relation to counterparty credit risk.

Credit risk quantification and assessment

The Bank adopts the standardised approach to credit risk as outlined in the CRR in order to apply its capital requirement for credit risk.

Besides allocating capital against its Pillar I risks that are based on the Bank's accounting records, the Bank carries out an assessment of any additional capital that is necessary to be set aside in order to withstand economic effects of risk-taking activities based on a capital add-on to the Pillar 1 capital requirements. This assessment is carried out at least on an annual basis as part of the ICAAP.

Credit risk management and control

The lending activities are governed by the credit risk policy and associated credit frameworks, covering the international corporate loan portfolio, treasury portfolio (including AAA CLO investments) and the Dutch Mortgages portfolios. The MDB Group's Corporate Credit Framework, the Credit Risk Policies and procedures are applied uniformly across the Group and its subsidiaries.

The Credit policy sets out a series of controls on how the Bank mitigates its credit risk, covering:

- Credit governance;
- Credit approvals;
- Credit classifications and staging criteria;
- Credit monitoring;
- Deteriorating credits and forborne exposures; and
- Non-performing and default exposures.

All credit frameworks are approved by the Chief Risk Officer and overseen by the Board Risk Committee. At minimum, all credit frameworks incorporate the following credit risk themes:

- asset restrictions and definitions, including minimum credit quality, permitted obligor domiciles as well as any required structural features such as seniority or collateral type;
- any limits, restrictions or conditions to the MCC's or delegated approval authority;
- proposed credit monitoring processes and frequency;
- any specific provisioning approaches over and above the Bank's standard credit provisioning policy, including the treatment of non-performing, default and forborne loans;
- to the extent that the Bank has discretion in this regard, details on the method or methods used to calculate the risk weights applied to exposures for prudential reporting purposes; and
- documentation standards, including in particular the expected contents of credit memorandum and the extent (in respect of obligors with a public credit rating) to which third-party credit ratings may be used as a substitute for, or support the business unit's own analysis.

The Bank also operates with a Management Credit Committee (MCC) that is responsible for approving credit and investment recommendations and making other credit and investment decisions within its authority as delegated by the Board. It's purpose is to approve credit and investment recommendations and oversee the credit and investment strategies and objectives of the Bank's lending portfolios.

Internal policies and frameworks are reviewed at least on an annual basis to keep abreast with ever changing market conditions and regulatory landscape. During the year ended 31 December 2021, improvements to credit processes have focussed on 1) addressing residual findings from the ECB on-site inspection on credit risk that were not addressed in 2019-20, which included; Enhancing the loan management system to increase the level of loan portfolio reporting and controls, 2) to reflect evolving EBA and other relevant regulatory guidelines in relation to COVID-19 and 3) the initial findings raised by the ECB off-site inspection on credit risk conducted during Q2 2021.

The Treasury Credit Framework governs the oversight and management of credit risk associated with the high-quality liquid assets held in the treasury portfolio, including the semi-annual portfolio review process that assesses the related credit risk arising from macroeconomic and geopolitical risks.

<u>*Collateral valuation*</u>

Dutch Mortgages Portfolio

The Bank is active in the Dutch residential mortgage loans market through a collaboration with Blauwtrust Group ("BTG"). Both BTG and its subsidiaries are well-established in the Dutch market and originate, manage and service the portfolio of mortgage receivables that the Bank purchases up to a maximum amount agreed between the parties.

Since September 2019, the Bank is acquiring newly originated residential mortgage loan receivables through silent assignment, a technique commonly used in the Netherlands. Dutch Mortgage Portfolio Management BV ("DMPM"), a wholly owned subsidiary of BTG, has been selected as our outsourcing partner ("regiepartij"). DMPM offers investors like MeDirect Belgium a platform to invest in Dutch residential mortgage loans. Other BTG entities focus on third party servicing (Quion Groep), marketing (Conneqt) and distribution (De Hypothekers Associatie) of mortgages. The Lender of Record (LoR) HollandWoont is an entity owned and directed by DMPM and operates under their legal responsibility.

The newly originated mortgage loans by HollandWoont are prime Dutch mortgage loans, secured by a residential (owner occupied) property. In addition, the loans benefit from the Nationale Hypotheek Garantie ("NHG"), a guarantee provided by a private non-profit fund (Waarborgfonds Eigen Woningen or "WEW"), itself guaranteed by the Dutch government.

To benefit from the NHG, borrowers have to comply with certain conditions. For the lenders, the NHG covers up to 90% of the losses that remain after a foreclosure. It covers outstanding principal, accrued unpaid interest and disposal costs minus the sales revenue ("residual losses"). Coverage amount is set at 100% of the total eligible loan, based on a 30-year amortizing loan profile.

Notwithstanding, there are scenarios in which the NHG does not apply such as:
- Unsecured exposure risk, amortisation profile risk, underwriting risk, fraud risk;
- Reduction in the amount of NHG-eligible collateral; and
- Default of the WEW or the WEW losing government backing

The properties securing the mortgage loans are valued either by independent valuers and based on full internal inspection of the property, or by (model) desktop valuations, which are validated by a valuation agent. All valuation reports must comply with the terms and conditions of the NHG (in order to become NHG-eligible). In case of a newly build property, the property value is derived from the cost of the new build property (construction costs plus the land purchase price). The values of the collateral are indexed on a quarterly basis using regional property price indices, resulting in indexed property values.

From a legal point of view, the LoR faces the borrowers and is responsible for all outsourced activities, including underwriting and execution of the processes related to approval and management of the mortgage loans. MeDirect Belgium carries the credit risk and must ensure the outsourced activities meet its standards.

<u>*Credit governance and approval process*</u>

A) International Corporate Lending Portfolio

The Bank has in place a governance process outlining roles and responsibilities, authorities, limitations and escalation processes for approving and reviewing credit exposures across the Bank's lending portfolios.

Management of the Bank's credit risk is the joint responsibility of the departments that originate this risk and of its Risk Management Function, under the oversight of the MCC and of the Board Risk Committee.

The Bank adopts a typical three-lines-of-defence approach to credit risk management that utilises an independently run Risk Management Function as a second-line of defence as well as the Internal Audit Function acting as an independent third-line of defence for credit audits and reviews.

With these objectives in mind, responsibilities around the origination of new assets (origination of international corporate loans was ceased during the first three quarters of 2021 in line with the MDB Group de-risking strategy but recommenced in Q4 2021) are divided as follows:

- Business units are responsible for identifying and sourcing lending opportunities and for all discussion with external parties, whether the proposed borrower itself or an intermediary such as the lead bank in a lending syndicate. They are also responsible for performing primary credit analysis on a proposed extension of credit (to include an impartial summary of all relevant information), for recommending a course of action and for co-ordinating the decision-making process. Where public investment-grade (i.e., BBB-/Baa3) credit ratings are available in respect of a bond issuer or other obligor, business units may reflect the underlying rating agency analysis in lieu of performing their own detailed independent credit analysis where this is permitted by the associated credit framework.

- The Risk Management Function is responsible for reviewing this primary credit analysis, for ensuring that any open items are discussed and resolved in advance of the formal decision-making forum and for providing its own recommendation on the appropriate course of action. For avoidance of doubt, the Risk team may not rely on external credit ratings as a substitute for performing its own credit analysis and assessment.

- The Internal Audit Function is responsible for periodic and thematic reviews of credit policies and the associated credit processes, in order to assess and review their effectiveness and adherence to them by both the business units (1st line of defence) and the Risk Management Function (2nd line of defence). The Internal Audit Function may also, at its own discretion, seek the involvement of third-party audit firms to support any internal credit audits and reviews related activities.

The MCC is responsible for approving credit recommendations and making other credit decisions under their delegated authority, as defined in each associated credit frameworks. This includes:

- Whether to approve an extension of credit, and under what conditions;
- How to classify individual credits for risk and performance monitoring purposes;
- Whether to recommend Board approval for extensions of credit beyond its delegated authority;
- Consideration of any hedging strategies and whether to recommend them for Board approval;
- Review impairments and provisioning; and
- Monitor and provide oversight over the risk performance of the portfolio.

B) CLO Activities

The Bank has investments in CLOs managed by other institutions ("3rd party CLOs").

The investment approval process involves the Corporate Credit team acting as the 1st line of defence by identifying and sourcing investment opportunities and performing primary credit analysis. Acting as the 2nd line of defence, the Credit Risk team reviews and challenges the credit analysis and provides an opportunity to identify potential due diligence areas for investigation ahead of Management Credit Committee ('MCC'). The MCC is responsible to approve or otherwise the limits within which the Corporate Credit team can invest, in line with the Risk Appetite Statement. Once approved, a funding request is sent and actioned by the Treasury Function.

All credit decisions approved or otherwise, applicable for the International Corporate Lending portfolio (including the CLO activities) are documented and retained, with suitable MCC minutes recorded or approval comments where decisions are made under delegated credit authorities. Retention of credit decisions are maintained for the lifetime of the credit facility, subject to any data retention regulation as outlined in the Data and Retention Policy.

C) Dutch Mortgages Portfolio

i) Operating model

As from September 2019, MeDirect Belgium started investing in Dutch NHG (government guaranteed) mortgages, as part of its strategy to diversify the Bank's credit portfolio and expand its presence to a third European market. MeDirect Belgium operates in the residential Dutch mortgage market through the purchasing of the receivables of newly originated Dutch mortgage loans through HollandWoont B.V., a multi-investor mortgage platform and a subsidiary of Dutch Mortgage Portfolio Management BV (DMPM) ('Lender of Record'), which is part of Blauwtrust Groep (BTG). BTG is a well–established provider of services to the Dutch Mortgage market and is best known under the name of its servicing subsidiary Quion.

Within BTG several entities act as subservicers for MeDirect Belgium:

- Distribution management/marketing through Conneqt Mortgage Distribution;
- Lender of record ('LoR') activities through HollandWoont, a subsidiary of DMPM;
- Mortgage origination and underwriting through Quion;
- Mortgage primary servicing through Quion; and
- Special servicing through Quion.

DMPM acts as a portfolio manager and monitors the activities of the different sub-servicers. All subservicers have reporting obligations to the investor. The outsourced activities have been agreed in a servicing agreement between HollandWoont and the sub-servicers, including Service Level Agreements per entity.

NHG provides detailed instructions on underwriting and servicing of mortgage loans. Non-compliance to the instructions, registered in the 'Conditions & Norms' will lead to a complete or partial loss of compensation in case of a default. The 'Conditions & Norms' set the maximum borders of the credit policy a mortgage lender can apply, but it is up to the lender to accept the full scheme or apply a more prudent credit policy.

HollandWoont will only originate new mortgages that are covered by NHG. The operating model below shows the process from loan origination to full loan settlement:

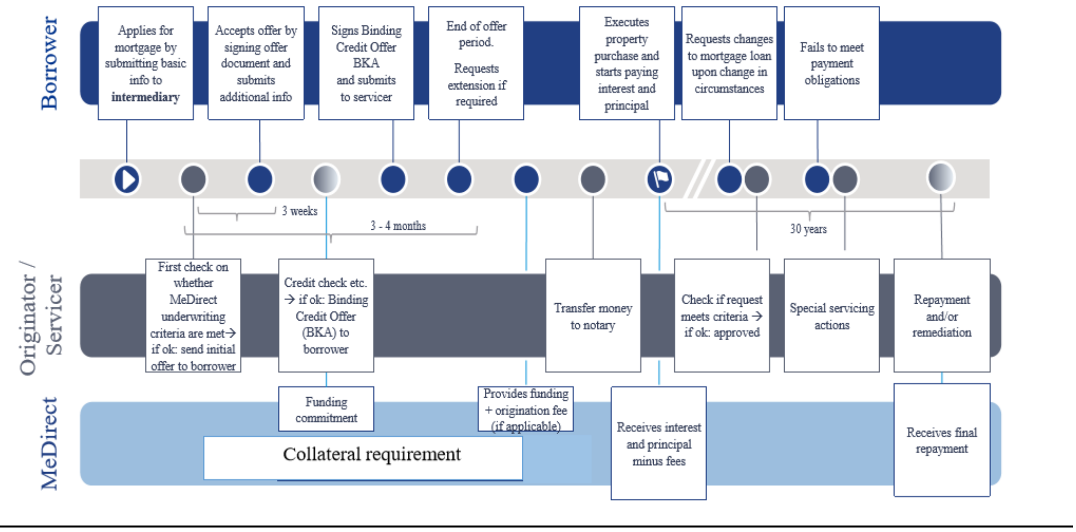

FIGURE 4: DUTCH MORTGAGES OPERATING MODEL

ii) Pricing

As a Lender of Record HollandWoont is responsible for setting the market rates and investors in the platform set the minimum interest rates the investor is willing to accept to buy the mortgage receivables. In case the LoR decides to set the market rates at a level below the minimum rates of the investor no more new applications will be allocated to the investor.

Existing borrowers can apply for an increase of their mortgage or a second lien mortgage. They can also use the option to port their loan to a new property. In these cases the loan can (partly) loose the guarantee of NHG and becomes (partly) non-NHG eligible. For mortgages moving into the non-NHG space an add-on to the interest rate is applied to cover the additional risk the investor (MeDirect Bank) accepts. This additional spread will be added to the regular NHG-rates and is based on the Loan to Value (LTV).

iii) Subscription and Pricing Committee

A Subscription and Pricing Committee ('SPCO') is convened periodically to set the amount of mortgages that the Bank is willing to purchase for a specific time frame and sets the specific minimum pricing. The SPCO is a sub-committee of the Asset and Liability Committee ('ALCO') and is primarily responsible for:

- Reviewing and setting the investment appetite of the Bank for mortgages and setting subscription amounts for applications to be allocated during the upcoming quarters;
- Reviewing and setting of the minimum pricing of the mortgage asset classes;
- Monitoring of the Dutch mortgage market;
- Monitoring of the existing portfolio of mortgages and managing the performance of the existing portfolio against market offerings and internal forecasts; and
- Asset and liability management in the context of the growth of this portfolio.

iv) New loans

Situations may occur that the NHG conditions require interpretation or an exception needs to be applied. In these instances, the Credit Officer of the Portfolio Manager (DMPM) will review and provide guidance to the servicer (Quion, responsible for underwriting). The investor/MeDirect Bank is not involved in these decisions, and it must be noted that these decisions always need to comply with the 'Norms and Conditions' of NHG.

v) Special servicing

In cases related to Special Servicing (default management) and specified in a Portfolio Management Procedure, the Credit Officer of DMPM will draft a Summary Proposal highlighting the specific situation and a brief summary of the requested or proposed solution. This Summary Proposal will not include privacy sensitive data and will be sent by email to MeDirect. MeDirect is requested to provide a credit recommendation by signing the Summary Proposal and returning it by email within two Business Days to the Portfolio Manager.

Within the mandates described in the Dutch Mortgage Credit Framework, the Head of Dutch Mortgages, CEO, CFO and CRO are authorised to provide the credit recommendation on behalf of MeDirect Belgium.

Credit classification and staging criteria

Credit exposures are classified into credit classification categories as part of the credit approval process. The classification decision is ultimately the responsibility of the MCC unless otherwise stated, and should be continuously ratified as part of the credit monitoring process.

The Bank adopts a five-scale internal credit classification rating scale. This aligns to the Bank's standardised approach to credit risk and provides alignment and consistency.

Internal Credit Classification		
Internal Rating		**Internal Rating Definition**
1	**Regular**	No material credit concerns
2	**Focus**	No immediate prospect that a credit loss will ultimately be suffered, but worthy of closer credit oversight
3	**Under Surveillance**	Significant increase in credit risk with identified concerns and some prospect that a credit loss may ultimately be suffered
4	**Doubtful or defaulted**	Likely that the contractual terms of the debt will not be met and that a credit loss will be suffered, or an actual event of default has been evidenced
5	**Write-off**	Full or partial credit impairment suffered, with little prospect of recovery

Credit hedging

To provide additional credit risk mitigation, the Bank may also consider managing credit risk through credit hedges. Entry into any such hedges will also be subject to prior approval by the Board of Directors.

Throughout the financial year, the Bank did not enter into any credit derivative hedges.

Credit monitoring

As part of the Bank's robust approach to credit risk management, the Bank ensures that close and continuous oversight of each of its respective lending and treasury portfolios is undertaken.

The Risk Management Function is responsible for ensuring that all significant credit risks are appropriately being identified and managed by the respective business functions (1st line of defence) and clearly incorporated into the risk management and reporting framework. Additionally, the risk management function is responsible for overseeing that appropriate monitoring of the credit performance of each lending portfolio, including, amongst other things, monitoring portfolio risk and concentration risk, monitoring credit quality trends and provision levels and reviewing and taking appropriate action in connection with any violations of credit limits and policies.

The CRO assigns ownership and responsibility for the monitoring of such risks and is responsible for ensuring that adequate controls are in place to ensure that risk management is in compliance with regulatory requirements and with the Bank's risk appetite as approved by the Board of Directors.

Besides from allocating specific concentration limits for each asset portfolio it manages, the Bank has in place a number of quantitative credit risk metrics to monitor its lending portfolios. Post the Covid-19 outbreak in March 2020, the Bank temporarily ceased any new market originations for the International Corporate Lending portfolio but maintained limits for assets already held on its' books, including:

- Single name limits;
- Portfolio limits;
- Leverage limits; and
- Incremental lending limits.

A) International corporate lending portfolio

The Bank maintains portfolio-related Key Risk Indicators (KRIs) for the International Corporate Lending portfolio as follows:

- Covenant limits;
- Single financial sponsor limits;
- Sector concentration limits; and
- Geographical concentration limits.

At the start of Q4 2021, the Bank recommenced investing in assets for the International Corporate Lending Portfolio as part of the wider de-risking strategy. This strategy is focussed on reinvesting funds within a certain total portfolio limit “corridor” in order to; improve diversification, reduce commitments to under-performing credits and achieve a greater granularity in the portfolio.

B) Treasury and securitisation investments portfolio

With regards to the Treasury portfolio, the Bank seeks to invest in securities of the highest credit quality that are relatively protected from potential downgrades and highly liquid on the secondary market whilst abiding by the list of permitted activities and products as included in the Group’s Treasury Credit Framework. Preference is given to fixed income instruments that are deemed eligible marketable assets by the ECB, and eligible as high-quality liquid assets (“HQLA”) for LCR and NSFR purposes.

To support monitoring of risks associated with CLOs, the Bank has several dashboards in place, including an aggregate dashboard covering 3rd party CLO investments.

Risks are monitored on an ongoing basis and in a timely manner, including performance information, exposure type, the percentage of loans at each rating level in particular proportion of CCC assets, default rates, prepayment rates, amongst others. Collateral Quality Tests (such as WARF and Diversity Score), Portfolio Profile Tests and Coverage Tests will also be closely monitored.

In addition to the qualitative risk statement, risk appetite for investment in the senior tranches of CLOs managed by 3rd parties is expressed through the following limits and indicators:

- Only CLO tranches in Euro will be considered; and
- Only AAA rated tranches that are rated by at least 2 reputable rating agencies will be considered.

C) Dutch mortgages portfolio

The Bank has a ‘high’ risk appetite to invest in prime NHG-backed Dutch residential mortgage loans and actively seeks to take on this risk as an important driver of revenues. Failure to adequately manage the risks involved in this business activity can result in a high cost of risk. As a result, strong control have been applied.

KPIs and KRIs used to monitor the Dutch Mortgages Portfolio

The Bank has also in place a number of KPIs and KRIs to monitor the Dutch NHG-Backed Mortgages as part of the daily and monthly reports that are received from the lender of record:

- Loan-to-value (“LTV”) ratio;
- Loan-to-income (“LTI”) ratio;
- Cost of Risk;
- Interest-Only loans ratio; and
- Non NHG eligible loan ratio.

For the Dutch Mortgages portfolio, as a professional provider of outsourcing services to the financial industry, the vendor has a risk management framework in place, based on the 3LOD model and comprising RCSA, ISAE 3402, ISO 27001 and independent auditing of the portfolio.

The Bank’s oversight is primarily based on the existence of aforementioned standards, secondarily on monitoring via daily and monthly reports and thirdly on additional audits by subject matter experts within the Bank.

The following are the NHG scheme related risks:

- Unsecured exposure risk;
- Amortisation profile risk;
- Underwriting risk;
- Collateral valuation risk;
- Fraud risk; and
- NHG suspensory conditions.

i) Unsecured exposure risk

The credit risk associated with this business line is considered to be low, since Dutch mortgage loans are guaranteed by the Dutch national mortgage guarantee scheme (NHG), which protects borrowers from any residual debt after a foreclosure following a default on their mortgage loan. The NHG Guarantee covers the outstanding principal, accrued unpaid interest and disposal costs. Lenders/investors benefit from the guarantee as the loss will be covered by the NHG. 10% of the realised loss will be for the investor/lender.

ii) Amortisation profile risk

The NHG Guarantee assumes that a mortgage loan amortises over a 30-year period regardless of the actual loan amortisation profile. Consequently, the credit protection amount of the NHG guarantee on mortgage loans decreases over time, assuming repayment of the guaranteed residential mortgage loan within 30 years and according to the annuity method. Thus, depending on the NHG terms and conditions that apply to the individual mortgage loan, the credit protection provided by the NHG guarantee may only be partial and is decreasing over time.

The typical share of interest-only loans in existing NHG portfolios is about 30% of the total volume. HollandWoont (and MeDirect Belgium) aims at reaching a share of interest-only loans well below this figure given its negative impact on credit and interest rate risk.

iii) Underwriting risk

The NHG Guarantee has prescriptive eligibility rules. In the event that a loan is underwritten in breach of the NHG eligibility conditions, all or part of the claimed amount may not be covered by the NHG guarantee.

For the Bank, this risk is mitigated by a contractual provision in its agreement with HollandWoont that the Lender of Record is liable for losses on a mortgage loan due to non-compliance with the NHG eligibility criteria at the time of origination or when servicing the loan. The Lender of Record bears the responsibility for ensuring that each application meets the NHG criteria.

iv) Collateral valuation risk

Inaccurate / inappropriate valuation of collateral can lead to an increase in observed losses (additional losses on the secured part on the loan). Furthermore, the collateral value drives the amount that can be borrowed within the eligibility criteria of NHG, hence it is of paramount importance in the credit granting process.

v) Fraud Risk

In the case of proven fraud, the NHG Guarantee will not pay out any of the claimed amount. This risk is mitigated by the fraud detection controls put in place by the Lender of Record during the underwriting process.

vi) NHG suspensory conditions

Normally immediately after passing the deed the guarantee provided by NHG is valid. Under specific circumstances however coverage from NHG does not start until ‘conditions precedent’ have been fulfilled. In these cases, the ‘NHG suspensory conditions’ are applied.

The risk for a bank in these situations is always temporary, and specific underwriting guidelines will be applied on the individual situations mentioned above. Materiality of the risk is comparable to the risk of a non NHG mortgage. For the newly built houses an additional guarantee on finishing the construction is required.

Further advances

When extending additional lending limits to existing clients, the credit risk will be reassessed.

Other risks

The NHG portfolio is also susceptible to macro-economic risks such as the possibility that:

- The Homeownership Guarantee Fund (“WEW”) being insufficient to cover the losses on NHG-backed loans;
- The Dutch Government no longer backing the WEW; and
- NHG no longer considered as a credit risk mitigant following a change in the regulation.

The Internal Audit Function is responsible for ensuring that the credit portfolios are regularly reviewed from an audit perspective, as part of the internal audit plan.

Deteriorating credits and forborne exposures

The default internal credit classification at the point of origination is “Regular”. This applies across all business lines and all lending portfolios, regardless of the underlying credit risk or probability of default for each instrument. Each respective MCC as outlined in each credit framework is responsible for monitoring the credit performance of each credit exposure. The Bank has processes and procedures in place to identify deteriorating credit and forborne exposures.

For the International Corporate Lending Portfolio, the Bank uses an external credit risk-modelling provider that is appropriate for benchmarking its corporate lending portfolio.

The Bank adopts the usage of external public ratings for Treasury Assets, using public ratings (where available) from Moody’s, Standard & Poor’s and Fitch. Deterioration in the available public rating from the point of inception to non-investment grade (below BBB-/Baa3) will therefore be the primary quantitative SICR trigger for the treasury portfolio.

Forbearance measures consist of concessions extended to any exposure towards a debtor facing or about to face difficulties in meeting its financial commitments ("financial difficulties"). With reference to paragraph 178 of Annex V of Commission Implementing Regulation (EU) No 680/2014, a forborne exposure can be underperforming (Stage-2) or non-performing (Stage-3).

As prescribed by EBA standards, the regulatory forbearance classification shall be discontinued when all the following conditions are met:

- The contract is considered as performing, including if it has been reclassified from the non-performing category after an analysis of the financial condition of the debtor showed it no longer met the conditions to be considered as non-performing;
- A minimum 24-month probation period has passed from the date the forborne exposure was considered as underperforming or re-classified from non-performing to performing (under probation/'curing');
- Regular payments of more than an insignificant aggregate amount of principal or interest have been made during at least half of the probation period; and
- None of the exposures to the debtor is more than 30 days past due at the end of the probation period.

The Bank recognises that on occasion the application of these tests may be more ambiguous than for typical bilateral loans; the MCC is responsible for any interpretation required.

Non-performing and default exposures

The Credit policy outlines the approach to identifying non-performing, impaired and default exposures, as well as provisioning and write-off criteria as defined in accordance with EBA Guidelines Article 178 of Regulation (EU) No 575/2013, the ECB guidance to banks on non-performing loans (March 2017) and the EBA report for non-performing and forborne exposures (October 2018).

The Bank is required to identify Non-Performing Exposures ("NPEs") and to assess the recoverability of the recognised exposure. 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 unlikeliness to pay at the level of the debtor, irrespective of the different levels of losses that can be incurred in respect of the different facilities resulting from different levels of seniority. Therefore, the probability of default is measured at the level of the debtor, while the loss given default measures the loss incurred by the different tranches.

The governance of assessing NPEs and Default triggers is undertaken as part of the ongoing credit monitoring processes. Where NPEs or Default indicators are observed, immediate assessment by the respective MCC is required and a ratification of the internal credit classification conducted.

Definition of default

In accordance with the definition of defaulted exposures, provided under Article 178 of the CRR, the Bank identifies a "default" where a financial asset is 90-days past due its contractual repayment for any amount of principal, interest or fee that has not been paid at the date it was due. However, the Bank relies on the definitions of "Unlikeliness-to-Pay" for additional default criteria in terms of article 178 (3) of the CRR, which aligns closely with the definition of NPEs specified above.

Definition of impaired

Where a non-performing or default trigger has been identified and applied to a financial asset, the obligor's related facilities must also be assessed to determine whether they are also impaired for the same reason and/or are unlikely to pay.

According to the EBA guidelines on the application of the definition of default, in general one would expect that all exposures to the obligor are considered to be treated as credit impaired.

An impairment allowance requirement is determined based on the Bank's provisioning policy.

In light of the Covid-19 outbreak, the Bank adopted a revised approach to the assessment of UTP triggers taking guidance from the EBA statement on the application of the prudential framework regarding Default and Forbearance in light of Covid-19 measures dated 25 March 2020. As of Q3 2021, the Bank reverted to its pre-covid approach and triggers for UTP assessment which have been enhanced to categorise a number of UTP triggers as 'hard' triggers which automatically lead to a downgrade to Stage 3.

Financial assets purchased or originated at a deep discount, classified as Purchased or Originated Credit-Impaired ('POCI'), are seen to reflect incurred credit losses. A lifetime ECL is recognised on POCI assets. The Bank does not expect to originate or 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. As at 31 December 2021, there were no POCI on the Bank's balance sheet.

2.2.2 Capital adequacy

(Article 438 CRR)

Capital adequacy is a measure of the financial strength of the Bank. This is usually expressed as a ratio of its Core Equity Tier 1 Capital (CET1) capital, Tier 1 Capital (Tier 1), or its Total Capital (Tier 1 + Tier 2 capital) to its total risk weighted assets (RWA).

Capital adequacy requirements have increased in importance as regulators seek to ensure that banks and financial institutions have sufficient capital to keep them out of difficulty, even during periods of heightened cyclicality. The Bank has always sought to maintain an appropriate level and quality of capital to support its prudential requirements with sufficient contingency to withstand severe but plausible stress scenarios.

The MDB Group and MeDirect Belgium are subject to prudential requirements under the ECB Supervision Review and Evaluation Process ("SREP") and are bound by the terms of the capital requirements outlined within the SREP decision. The Bank's management has a significant level of control and oversight over its capital ratios. It uses the capital base as its main constraint for curbing asset growth in reaction to market changes whilst aiming to strike an appropriate balance between risk and sustainable returns.

The Bank has developed an ICAAP to consider the capital required given its businesses and risk profile, both from a normative and economic perspective. This is defined by sound, effective and comprehensive strategies and processes to assess and maintain on an ongoing basis the amounts, types and distribution of internal capital that the Bank considers adequate to cover its nature and level of risks to which it is or might be exposed to.

The Bank's ICAAP is aligned with regulatory requirements, as well as best commercial and governance practice, and are demonstrated through the Bank's internal reporting.

The Bank's risk appetite covers capital adequacy and has established a number of risk appetite limits and KRIs in order to manage and monitor this risk. Actual performance is monitored against these pre-set limits and are disclosed in the daily, weekly and monthly risk reports.

The Bank actively monitors the following capital ratios and leverage ratios, allocating specific risk appetites supported by quantitative risk appetite limits. The four ratios below represent the capital metrics the Bank is willing to commit to limiting its appetite to:

- CET 1 ratio;
- Tier 1 capital ratio;
- Total capital ratio;
- Leverage ratio; and
- Minimum Requirement for Own Funds and Eligible Liabilities (MREL).

The Bank has no appetite for breaches of the formal minimum capital ratios as set out by the Governing Council of the ECB under Article 26(8) of Council Regulation (EU) No 1024/20131, pursuant to Article 16 of that Regulation, to fulfil the prudential requirements and comply with the Pillar II requirements. In addition, the Bank has no appetite for breaching minimum capital requirements as part of the SREP process and designed to supplement any of these measures with institution specific (Pillar II) capital.

The Bank has zero tolerance for breaching its Overall Capital Requirement (OCR) plus the Pillar II Guidance (P2G) as a result of actions that are within its control. The Bank additionally has a very-low risk appetite for breaching its OCR in stressed conditions, although it accepts that in sufficiently adverse scenarios, it might not be able to meet its P2G and combined buffer requirements. The Bank therefore ensures that an adequate management buffer is in place to allow it to comply with the OCR and P2G in business-as-usual conditions, and to stay above its Total SREP Capital Requirement ("TSCR") under adverse conditions. The Bank adopts very stringent procedures and processes to ensure that these minimum requirements are met, and it has therefore set risk appetite limits above its OCR and P2G.

Moreover, under the Basel III framework, banks must meet a 3% leverage ratio minimum requirement at all times. The Bank has maintained a Leverage Ratio well above the Basel III minimum and it maintains very low appetite for even approaching this threshold.

The Bank is willing to accept some volatility to this ratio if suitable lending or investment opportunities arise, provided that the overall goal of maintaining significant headroom to the regulatory minimum is not threatened. The Bank anticipates that as strategic diversification business plans evolve, particularly into the residential mortgage market, it will run a lower leverage ratio than its peers, although conscious that this is due to a material exposure to a low-risk line of business.

2.2.3 Liquidity and Funding risk

<u>Liquidity risk management strategies and processes</u> (Article 435 (1) (a) CRR) (EU OVA & EU LIQA)

Liquidity risk is the risk of the Bank being unable to generate sufficient funding resources to meet financial obligations as they fall due in business as usual and stress scenarios. Funding risk arises from higher funding costs or lack of availability of funds.

The Bank's liquidity risk management principles are documented in the Liquidity Risk Management Policy. The Liquidity Risk Management Framework defines the related roles and responsibilities, liquidity and funding risk appetite and escalation process, key performance indicators, risk management techniques and how it is integrated within risk management and decision making of the Bank. It covers the oversight of liquidity risk across business lines and legal entities, risk analysis of the composition and maturity of assets and liabilities, oversight of intraday liquidity management and risk assumptions on the liquidity and marketability of assets.

Policies for hedging and mitigating liquidity risk (Article 435 (1) (d) CRR) (EU OVA & EU LIQA)

The Bank actively manages stable and efficient access to funding and liquidity to support its ongoing operations. The Bank's appetite for liquidity and funding risk is embedded through the Liquidity Risk Management Framework and Policy, which stipulates the funding restrictions of the Bank, and the approval thresholds for usage of certain funding instruments.

Liquidity and funding risk appetite limits inform the Bank of the potential for, or an actual deterioration of its capacity to meet its current and foreseen liquidity and funding needs. In addition, certain liquidity risk appetite metrics measure and oversee the contingency funding capacity and availability of such management actions, in order to assess and oversee that the Bank has appropriate liquidity buffers in place to mitigate both adverse and severe liquidity scenarios.

Liquidity risk management structure and organisation (Article 435 (1) (b) CRR) (EU OVA & EU LIQA)

Liquidity risk identification

The Risk Management Function is responsible for designing the risk appetite statement that is presented for discussion and challenge by the Board Risk Committee members, and ultimately approved by the Board of Directors. This process leads to the creation of granular liquidity risk appetite limits that are monitored across the internal functions of the Bank. Notification and escalation processes are in place in order to ensure timely and adequate flow of information up to Committee and Board levels.

The Bank makes use of Risk and Control Self-Assessments ("RCSAs") to identify, document and assess its key risk and controls, as is clearly described within the Bank's Risk Register. This bottom-up approach to risk identification is also applied to liquidity risks across the Bank. The RCSA results are then used to help identify KRIs and define risk appetite metrics.

The Bank has identified the following risk drivers related to liquidity:

- *Retail funding risk:* The risk of a potential demand on liquidity from customer deposit flight;
- *Wholesale funding risk:* The risk that wholesale funding is reduced or withdrawn suddenly;
- *Off balance sheet risk:* The risk of an unexpectedly heavy series of utilisation on committed undrawn credit facilities;
- *Maturity mismatch:* A mismatch occurs as banks borrow short-term and lend on a much longer-term basis;
- *Currency mismatch:* Liquidity risk exposures arising from the use of foreign currency deposits to fund domestic currency assets as well as the funding of foreign currency assets with domestic currency;
- *Intraday liquidity risk:* The risk that the Bank is unable to meet payment obligations at the time expected, thereby affecting its own liquidity and that of other parties;
- *Intragroup liquidity risk*: The risk that the entity that provides funding to another entity may be unable to continue providing this funding;
- *Contingency liquidity risk:* The risk of not having enough contingency funding options in stressed situations. It is also, the risk that assets cannot be sold in the market quickly or only by incurring a heavy discount, or the risk that funding cannot be raised against these assets, and the risk that committed funding lines are impacted/reduced/with higher haircuts;
- *Short-term liquidity risk:* The risk of an inadequate level of assets which the potential to be used as collateral or are eligible at central banks and as such may potentially be additional sources of liquidity; and
- *Funding concentration risk:* The risk that the Bank is overly reliant on one/small number of funding sources or tenor/structure.

Liquidity risk quantification and assessment

Following the identification of liquidity and funding risks, the Risk Management Function performs a risk analysis to assess the significance and likelihood of these risks. The Bank's assessment of risks to liquidity and funding is primarily done through the ILAAP.

For the ILAAP, the Bank models two liquidity stress scenarios on the basis of an idiosyncratic (extreme outflows) and a market-wide (severe outflows) stress scenario and a reverse liquidity stress test. This also form part of the Bank's risk reports. The Bank has also extended the range of liquidity stress scenarios in order to explore in more detail the range of liquidity sensitivities the Bank may experience in stress scenarios.

Principle 12 in the BCBS "Principles for Sound Liquidity Risk Management and Supervision" requires banks to maintain a cushion of unencumbered, high quality liquid assets to be held as insurance against a range of liquidity stress scenarios. The outcome of the liquidity stress testing is used to determine this cushion or liquidity buffer.

In line with Principle 17 in the BCBS guidelines, the Bank is also required to maintain a prudent funding structure drawn from diverse funding sources in the short-, medium- and long-term. The Bank's funding plan provides a detailed description and quantitative overview of the various funding sources. The Bank has also in place a liquidity contingency funding plan that identifies the various funding sources that the Bank can rely on during a distressed situation.

An analysis of asset encumbrance is also an important consideration and is critical to assess the ability of the Bank to handle funding stress, and its ability to switch from unsecured to secured funding under stressed conditions.

Mismatching of assets and liabilities, and currencies may also lead to a degree of liquidity risk.

Liquidity risk management and controls

The Bank has adequate internal controls to ensure the integrity of its liquidity risk management process. As described within the Risk Management Framework, the Bank has adopted a risk management and internal control structure, referred to as the Three Lines of Defence. In this model, the Treasury Function acts as the first line of defence towards liquidity risk, the Risk Management Function as the second line, and the Internal Audit Function as the third line.

The Bank has in place a Liquidity Risk Management Framework and Policy, that are complimented by other policies such as the Stress Testing Policy, the Liquidity Contingency Plan Policy, the Risk Appetite Policy and the ICAAP and ILAAP Policy. These policies set the standards and rules around liquidity risk management for the Bank. By definition, they provide a cornerstone of the Bank's Risk Management Controls.

Funding strategy

The Bank's funding profile has evolved over the years from a reliance on wholesale funding to deposit funding. The evolution of the funding profile was, in part, a result of a strategic shift on the asset side of the balance sheet. The Bank's intention going forward is to remain mainly deposit funded as it gives more long-term stability to the Bank. In 2020, the Bank entered into its diversification strategy by adding on balance sheet securitization as part of the funding plan of the new asset class - NHG mortgages, as well as developing a broader range of wholesale funding options for contingency funding capacity. MeDirect Belgium's €350 million transaction was the first Dutch residential mortgages securitisation placed with a third-party institutional investor during the peak of the COVID-19 outbreak. A second RMBS transaction, which raised €350 million at even more attractive funding cost levels, closed in early 2021. Over the coming 3 years securitization is expected to grow with the balance sheet. This new long-term funding source will diversify and compliment the Bank's experience with successful deposit funding in its home-markets. Other funding sources such as repo facilities and third-party warehouse lines on mortgages are to be used as bridging instruments to deposits or securitization in the short to medium-term. The Bank considers bilateral repurchase agreements (i.e., not executed via Eurex) and central bank facilities as alternative sources of funding, which are not intended to be utilised extensively under business-as-usual conditions.

For liquidity management purposes, the Bank's balance sheet, both assets and liabilities, is managed on a day-to-day basis by the Treasury and ALM function, under the leadership of the MeDirect Bank SA Chief Financial Officers. The Bank's funding strategy is that management of its day-to-day liquidity position should not require actions that potentially compromise its medium-term or long-term objectives.

The Bank should establish a funding strategy that provides effective diversification in the sources and tenor of funding. The Bank should diversify available funding sources in the short-, medium- and long-term as part of its funding plan, in conjunction with its budgeting and planning processes. Funding plans should take into account correlations between sources of funds and market conditions. The diversification strategy should include limits by counterparty, secured versus unsecured market funding, instrument type, securitisation vehicle, currency and geographic market.

The Bank's funding strategy for business-as-usual activities is facilitated by maintaining a positive funding gap and by monitoring the Bank's maturity ladder, which is used by the Bank to determine the availability of liquid assets to meet the liquidity gaps across a range of time buckets. The Bank ensures it maintains a significant buffer of HQLAs that can be readily converted into cash or are eligible to be pledged as collateral in order to raise wholesale repo funding to meet liabilities as they fall due. Additionally, the Bank may choose to widen the composition of its contingency buffer to hold other unencumbered liquid assets which ca be sold or used as collateral without resulting in excessive losses or discounts.

Liquidity risk management buffers

The Liquidity Risk profile is also a key consideration of the Bank's risk appetite limits and KRIs. The Bank controls the appetite it is willing to accept in terms of liquidity risk by ensuring adequate management buffers exist, in conjunction with early notification thresholds, to help avoid the Bank taking on liquidity risk outside of its agreed risk appetite. These liquidity management buffers are additionally embedded into the Liquidity and Funding Risk Appetite Statement to ensure regular oversight is in place.

Liquidity stress testing and Contingency funding planning

In conjunction with the above controls, the Risk Management Function performs regular stress testing of its liquidity profile, as well as the availability and viability of contingency funding options through both its ILAAP and monthly Maximum Cumulative Outflow ("MCO") report each month. These reinforce the Bank's oversight of liquidity risk, by not only focussing its risk reporting on the 'current' state, but also providing regular and timely reporting of the potential 'stress' liquidity profile of the Bank. The monthly MCO reports are also a standing agenda item at Executive level for the ALCO and Board Risk Committee.

Liquidity risk governance

The Bank's overall liquidity and funding position is managed in the normal course of business by its Treasury and Asset and Liability Management ("ALM") team, under the oversight of the ALCO, the Management Risk Committee ("MRC") and the Board Risk Committee.

The Risk Management Function ensures that all liquidity risks are identified, measured, overseen and appropriately reported. Additionally, the Risk Management Function has the responsibility of defining potential adverse liquidity scenarios that should be considered for assessing the exposure to these scenarios and for assessing the effectiveness of contingency funding plan measures. Risk is also responsible for ensuring that all significant risks related to liquidity are appropriately identified and clearly incorporated in the risk management and reporting framework. The Risk Management Function is actively involved in all material risk management decisions and is adequately structured to deliver a holistic view of the whole range of risks faced by the Bank in its strategic decision-making. Analysis of liquidity risk is the joint responsibility of the Treasury and Risk functions under the oversight of the ALCO and of the Board Risk Committee.

Scope and nature of liquidity risk measurement and reporting system (Article 435 (1) (d) CRR) (EU OVA & EU LIQA)

The Bank's intention is to be able to adhere to its risk appetite limits as well as satisfy any regulatory or statutory minimum liquidity requirements even during times of stress. The Bank also seeks to project key liquidity ratios forward through time. While acknowledging that the principal liquidity ratios cover a range of time horizons from one day to one year, the Bank does not solely rely on the regulatory liquidity ratios to ensure it has adequate liquidity when these ratios are above their minimum regulatory levels. In part, this reflects the fact that the Bank's own assumptions on deposit withdrawal or haircuts may differ and are generally more conservative than those mandated by the LCR and NSFR.

Consistent with its practice in other areas of risk analysis and reporting, and also consistent with Principle 10 of the Basel Committee's "Principles for effective risk data aggregation and risk reporting", the Bank performs and reports on these projections monthly, to allow for in-depth review and analysis at ALCO and the Board Risk Committee. Reliable management reporting provides the Executive Committee and the Board with timely and forward-looking information on its liquidity position. Reporting of risk measures is done on a frequent basis and compares current liquidity exposures to established limits to identify any emerging pressures and limit breaches.

The Bank has in place a number of quantitative risk appetite metrics to be able to monitor liquidity risk:

- LCR;
- NSFR;
- Core Liquid Asset Buffer;
- Net Deposit Outflows in 1 day and over 1 week;
- Encumbrance Ratio;
- Notices and fidelity maturities on savings accounts; and
- Cost of wholesale funding.

The Bank will at all times ensure that it is in full compliance with all applicable regulatory requirements.

Qualitative information on LCR (Article 451a CRR) (EU LIQ B)

The Liquidity Coverage Ratio

The LCR is intended to promote the short-term resilience of a bank's liquidity risk profile over a 30-day stress scenario. The ratio is defined as the amount of High Quality Liquid Assets ("HQLA") that could be used to raise liquidity, measured against the total volume of net cash outflows, arising from both contractual and modelled exposures, in a stress scenario.

This requirement has been implemented into European law, via the Commission Delegated Regulation (EU) 2015/61, adopted in October 2014, Compliance with the LCR was required in the EU from 1 October 2015.

All items in the Bank's LCR calculation have been included in the EU LIQ1 table.

Funding and liquidity sources

In line with Principle 17 in the BCBS guidelines, 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 customers;
- Secured bond issuance through RMBS structures;
- Issuance of capital instruments;
- Interbank funding (either secured, for example through repo or Total Return Swaps, or unsecured); 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).

The level of intragroup support between legal entities within the Group affects the extent to which failure of one entity poses contagion risk for other entities within the Group. Under stress or in a recovery situation, intragroup liquidity flows are important as they can provide MeDirect Malta or MeDirect Belgium with vital funding.

MeDirect Malta operates as a provider of equity capital to MeDirect Belgium. It also operates as a provider of liquidity management instruments by absorbing excess liquidity through inter-company.

MeDirect Belgium manages its own capital and liquidity position in a manner consistent with its own strategy and planned business growth and with local regulatory requirements, and within the context of the group-level strategy. Capital or liquidity requirements that are necessary to support planned growth, will normally be determined by the Board itself as part of the Bank's budgeting process. If the Board determines that an increase in capital or intercompany borrowing is desirable, either to address current weakness or to support future growth, then it would request such an increase from MeDirect Malta.

MeDirect Belgium holds its liquidity reserve with the National Bank of Belgium and correspondent banks. MeDirect Malta is provided liquidity from MeDirect Belgium through interbank deposit balances; however, intragroup liquidity management is thereby constrained due to the application of Large Exposure Rules under Articles 387-403 of the Capital Requirements Regulation (CRR).
In December 2021, the MeDirect Belgium and MeDirect Malta Boards agreed to wind down GH I through the sale of loans to MeDirect Belgium and MeDirect Malta. In line with the instructions for the disposal of collateral dated 23 December 2021, MeDirect Belgium and MeDirect Malta jointly instructed GH I and the Collateral Manager to dispose of all collateral loan assets of GH I. Such collateral was traded on 23 December 2021 and subsequently recognised on the balance sheets of the respective Lenders.

Derivative exposures

With respect to derivatives, as noted in the table EU LIQ1, as part of the Bank's liquidity outflows, an amount is included in relation to additional liquidity outflows corresponding to collateral needs from the impact of an adverse market scenario on derivative transactions, as required in Commission Delegated Regulation 2017/208. This amount corresponds to the largest absolute net 30-day collateral flow realised during the 24 months preceding the reporting date of the LCR calculation.

Currency mismatch in the LCR

The LCR is calculated for Euro which has been identified as significant currency (having liabilities >5% of total liabilities excluding regulatory capital and off-balance sheet liabilities, with approximately 99% of total liabilities being in Euro) in accordance with the Commission Delegated Regulation (EU) 2015/61. In this respect, the LCR Regulation only requires the LCR to be met on a total currency basis and is not required to be met on a currency-by-currency basis. The total LCR for the Bank as at 31 December 2021 amounted to 253%.

Other items in the LCR calculation that are not captured in the LCR disclosure template but that the institution considers relevant for its liquidity profile

The Pillar 3 disclosure obligations require Banks to disclose the 12 months rolling averages each quarter. We do not consider anything else relevant for disclosure.

<u>Quantitative information on LCR</u> (Article 451a CRR)

The following table provides an analysis of the data points used in the calculation of the liquidity coverage ratio:

EU LIQ1: Quantitative information of LCR

		a	b	c	d	e	f	g	h
	Amounts in €millions	Total unweighted value (average)				Total weighted value (average)			
EU 1a	Quarter ending on:	31 December 2021	30 September 2021	30 June 2021	31 March 2021	31 December 2021	30 September 2021	30 June 2021	31 March 2021
EU 1b	Number of data points used in the calculation of averages	12	12	12	12	12	12	12	12
HIGH-QUALITY LIQUID ASSETS									
1	Total high-quality liquid assets (HQLA)					552	527	497	473
CASH – OUTFLOWS									
2	Retail deposits and deposits from small business customers, of which:	2,013	1,950	1,901	1,863	143	134	125	119
3	*Stable deposits*	-	-	-	-	-	-	-	-
4	*Less stable deposits*	1,433	1,344	1,267	1,201	143	134	125	119
5	Unsecured wholesale funding	-	-	-	-	-	-	-	-
6	*Operational deposits (all counterparties) and deposits in networks of cooperative banks*	-	-	-	-	-	-	-	-
7	*Non-operational deposits (all counterparties)*	-	-	-	-	-	-	-	-
8	*Unsecured debt*	-	-	-	-	-	-	-	-
9	*Secured wholesale funding*					9	9	10	6
10	Additional requirements	197	203	183	140	96	94	87	70
11	*Outflows related to derivative exposures and other collateral requirements*	22	22	22	22	22	22	22	22
12	*Outflows related to loss of funding on debt products*	-	-	-	-	-	-	-	-
13	*Credit and liquidity facilities*	175	180	161	119	74	72	65	48
14	Other contractual funding obligations	7	6	4	4	4	3	1	2
15	Other contingent funding obligations	-	-	-	-	-	-	-	-
16	TOTAL CASH OUTFLOWS					**252**	**240**	**223**	**197**
CASH – INFLOWS									
17	Secured lending (e.g., reverse repos)	-	3	9	12	-	-	-	3
18	Inflows from fully performing exposures	38	41	43	35	38	41	40	35
19	Other cash inflows	12	13	18	15	12	13	18	15
EU-19a	(Difference between total weighted inflows and total weighted outflows arising from transactions in third countries where there are transfer restrictions or which are denominated in non-convertible currencies)					-	-	-	-
EU-19b	(Excess inflows from a related specialised credit institution)					-	-	-	-
20	TOTAL CASH INFLOWS	50	57	70	62	50	54	58	53
EU-20a	*Fully exempt inflows*	-	-	-	-	-	-	-	-
EU-20b	*Inflows subject to 90% cap*	-	-	-	-	-	-	-	-
EU-20c	*Inflows subject to 75% cap*	**50**	**57**	**70**	**62**	**50**	**54**	**58**	**53**
TOTAL ADJUSTED BUFFER									
EU-21	LIQUIDITY BUFFER					552	527	497	473
22	TOTAL NET CASH OUTFLOWS					202	186	165	144
23	LIQUIDITY COVERAGE RATIO					274%	284%	301%	329%

As at 31 December 2021, the Bank's LCR was well above both the regulatory minimum and the risk appetite set by the Bank.

The Net Stable Funding Ratio

The NSFR requires banks to maintain a stable funding profile in relation to their on- and off- balance sheet activities. The ratio is defined as the amount of Available Stable Funding (the portion of capital and liquidities expected to be a stable source of funding), relative to the amount of Required Stable Funding (a function of the liquidity characteristics of various assets held).

The following table provides an analysis of the data points used in the calculation of net stable funding ratio. The NSFR as of 31 December 2021 calculated in accordance with the CRR 2 stands at 164.6%, or €0.9 million of excess over regulatory minimum of 100%.

EU LIQ2: Net Stable Funding Ratio

		a	b	c	d	e
Amounts in €millions		Unweighted value by residual maturity at 31 December 2021				Weighted value
		No maturity	< 6 months	6 months to < 1yr	≥ 1yr	
Available stable funding (ASF) Items						
1	Capital items and instruments	**126**			**48**	**174**
2	*Own funds*	*126*			*48*	*174*
3	*Other capital instruments*					
4	Retail deposits		**1,916**	**29**	**201**	**2,024**
5	*Stable deposits*		*1,426*	*28*	*196*	*1,578*
6	*Less stable deposits*		*490*	*1*	*5*	*446*
7	Wholesale funding:		**24**	**-**	**-**	**-**
8	*Operational deposits*		-	-	-	-
9	*Other wholesale funding*		*24*	-	-	-
10	Interdependent liabilities					
11	Other liabilities:	**-**	**11**	**-**	**38**	**38**
12	*NSFR derivative liabilities*	-				
13	*All other liabilities and capital instruments not included in the above categories*		*11*	-	*38*	*38*
14	**Total available stable funding (ASF)**					**2,236**
Required stable funding (RSF) Items						
15	Total high-quality liquid assets (HQLA)					**121**
EU-15a	Assets encumbered for a residual maturity of one year or more in a cover pool		**-**	**-**	**-**	**-**
16	Deposits held at other financial institutions for operational purposes		**-**	**-**	**-**	**-**
17	Performing loans and securities:		**49**	**11**	**1,512**	**1,146**
18	*Performing securities financing transactions with financial customers collateralised by Level 1 HQLA subject to 0% haircut*		-	-	-	-
19	*Performing securities financing transactions with financial customer collateralised by other assets and loans and advances to financial institutions*		18	-	-	4
20	*Performing loans to non- financial corporate clients, loans to retail and small business customers, and loans to sovereigns, and PSEs, of which:*		17	-	140	102
21	*With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk*		-	-	-	-
22	*Performing residential mortgages, of which:*		14	11	930	664
23	*With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk*		11	11	821	545
24	*Other loans and securities that are not in default and do not qualify as HQLA, including exchange-traded equities and trade finance on-balance sheet products*		-	-	442	376
25	Interdependent assets					
26	Other assets:	-	**115**	**-**	**26**	**83**
27	*Physical traded commodities*				-	-
28	*Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs*		-	-	*1*	*1*
29	*NSFR derivative assets*		-	-	-	-
30	*NSFR derivative liabilities before deduction of variation margin posted*		*1*	-	-	-
31	*All other assets not included in the above categories*		*113*	-	*25*	*82*
32	Off-balance sheet items		**188**	**-**	**-**	**9**
33	**Total RSF**					**1,359**
34	**Net Stable Funding Ratio (%)**					**164.58%**

2.2.4 Business model and strategy risk

Strategic risk is directly linked to the business model of an institution and how effectively the institution manages to translate its budget and forecasts into actual performance. Another consideration is the challenging environment that banks operate in and the various factors that each bank has to face, such as declining margins, loss of market position or customers, and higher costs such as reorganisation costs.

The Bank acknowledges that reported earnings inherently carry some level of volatility and seasonality. Hence, even though they are not always the best indicator of the Bank's performance, they do represent a useful risk metric. As many of the risk factors have inter-dependencies and will be influenced primarily as a result of other risks covered elsewhere in the Risk Appetite Statement, KPIs are governed by the Financial KPI Policy.

The KPIs include what the Bank considers to be an adequate range of risk-adjusted-return indicators that are proportionate to the size and business model of the Bank. The KPIs are monitored and reported within the monthly financial reporting process and overseen by the Board of Directors. The monitoring of these measures ensures that the business model performance is consistent with the expectations of the stakeholders; to withstand unexpected shocks; and earnings (and cash flows) are consistent with funding strategies.

Different factors that could affect the business model and strategy of the Bank are also taken into consideration in the scenario analysis for the ICAAP.

2.2.5 Market risk
(Disclosures related to market risk according to EU MRA)

The Bank is exposed to the risk of an adverse change in its financial situation, resulting, directly or indirectly, from fluctuations in the level or volatility of market prices of assets and liabilities and from adverse movements in interest rates, credit spreads and FX rates. This can affect the Bank's profitability (Net Interest Income ("NII")) and capital measures.

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 fluctuate on a daily basis as a result of the changes in the market demand and liquidity for certain securities. Additionally, the Bank originates loans and gathers funds in foreign currencies (other currencies than Euro) that are not always offset, creating the exposure to the FX risk in the Bank.

The Bank does not run a Trading Book and accordingly has limited exposure to market risk in the normal sense that shifts in market variables drive the Bank's income. The Bank is, of course, not entirely immune to the effects of market movements and manages this exposure accordingly.

Market risk identification, quantification and assessment

The Bank assumes three types of market risk, namely:

A) Interest Rate Risk

Interest Rate Risk in the Banking Book ("IRRBB") refers to the current or prospective risk to the Bank's net Economic Value of Equity ("EVE"), capital and Net Interest Income ("NII") earnings arising from adverse movements in interest rates that affect the Bank's banking book positions.

Exposure to the IRRBB is differentiated by various sub-categories such as:
- Gap risk (repricing risk);
- Option risk;
- Basis risk; and
- Yield risk (exposure to the parallel and non-parallel interest rate curve shifts).

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 ∆NII, ∆EVE and PV01 sensitivity.

The exposure to interest rate risk arises predominantly from repricing risk emanating from its asset/liability structure. Specifically, a lag exists between the Bank's loans which reprice periodically (generally every three months), the mortgage loans portfolio characterised by its long-term structure and its associated hedging portfolio and the term structure of customer deposits. The 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. There is also a possible impacts of the Mark-to-Market ("MtM") value arising from fixed rate assets if the interest rates increase in case of realisation. As the balance sheet management strategy is not to realise those investments by setting an adequate liquidity and hedging strategy, the materialisation of this risk in the income statement remains low.

The presence of interest rate floors embedded in the majority of the loans enable the Bank to mitigate the repricing risk of its asset/liability structure.

The Bank considers the materiality of IRRBB to be relevant enough to assess the level of Internal Capital required to mitigate such risks. This risk is assessed separately within the IRRBB Internal Capital section of the ICAAP.

CSRBB is a risk that banks need to monitor and assess in their interest rate risk management framework. CSRBB refers to the risk driven by changes in the market perception about the price of credit risk, liquidity premium and potentially other components of credit-risky instruments inducing fluctuations in the price of credit risk, liquidity premium and other potential components, which is not explained by IRRBB or by expected credit/(jump-to-) default risk

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. The credit spread is an important market risk category for the Bank given the existence of the Treasury securities, mainly held for liquidity purposes. 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 oriented strategy of the Bank.

The table in section 2.4.3 of the Bank's financial statements, discloses the mismatch of the dates on which interest on financial assets and financial liabilities are next reset to market rates on a contractual basis or the dates on which the instruments mature, with the exception of debt securities in issue which reflect expected maturities. Actual reset dates may differ from contractual dates owing to prepayments and the exercise of options. In addition, contractual terms may not be representative of the behaviour in respect of financial assets and liabilities.

B) Foreign Exchange (FX) Risk

The Bank is mainly exposed to currency risk on foreign exchange movements relating to the GB Pound and US Dollar, originating from the Bank's corporate lending business. The Bank hedges this risk by ensuring that its foreign currency-denominated liabilities are matched with corresponding assets in the same currency. Any mismatches that arise are monitored closely within strict risk appetite limits.

FX risk is not considered sufficiently material to warrant the calculation of economic capital for Pillar II internal capital. The Bank's principal deposits, and credit portfolio are both concentrated in Euro and the Bank's appetite for taking on foreign exchange risk is very low. The Treasury function is responsible for maintaining FX risk for unhedged positions within tight limits set out in the risk appetite statement of the Bank. In substance, in the case of FX risk, the threshold is so tight that the associated economic capital requirement would be negligible.

C) CVA Risk

Under CRD V/CRR 2, institutions are required to hold additional own funds due to the CVA risk arising from Over-The-Counter ("OTC") derivatives, thus resulting in an additional capital charge when entering into such OTC trades. This charge is designed to cover losses arising from the situation where a counterparty's financial position would worsen and thereby the market value of its derivatives obligation would decline, even though there is no actual default. Thus, the CVA charge tries to cover the risk of deterioration in the creditworthiness of a counterparty.

Given the negligible level of Pillar I capital requirements for CVA, no economic capital calculation is performed and hence no add-on assigned. The Bank has no trading book and no derivatives of the various forms that led to the importance of CVA risk to be recognised.

Market risk management and controls

Treasury, under the oversight of the CFO, are responsible as first line of defence for managing interest rate risk within the prevailing interest rate risk strategy as set by the ALCO, and subject to internal limits. In order to manage its interest rate risk, the Bank may establish trading lines with counterparties that enable it to execute derivatives transactions approved for this purpose.

The Risk Management Function owns the IRRBB policy and control the policy is respected as second line of defence. The Risk Management Function is responsible for the model update, calibration and back testing. In addition, it must assure that IRRBB models have been reviewed and validated in line with the Model Governance Policy.

The Risk Management Function ensures that any updates in the IRRBB framework are promptly reflected in the Bank's IRRBB policy, metrics and regular reporting. The Bank has in place risk appetite limits and risk indicators to monitor IRRBB. The CRO recommends the Risk Appetite limits in line with the Board of Directors' risk appetite and escalates any potential limit breaches in line with the internal escalation process.

The Internal Audit function is responsible for periodic and thematic reviews of this policy in order to assess, review effectiveness and adherence to this policy.

Market risk monitoring and reporting

The Bank has established a number of metrics related to IRRBB that are monitored and reported to ALCO on a monthly basis and to the senior management on a weekly basis. Actual performance is assessed against the pre-set limits of these metrics. These metrics are also included in the monthly risk management reports that are circulated to the Board Risk Committee and Board members. The format, content and frequency of such reports was determined after discussions with the Board and Risk Committee Respectively.

The Bank monitors the following quantitative market risk metrics:

- Primary FX unhedged exposure;
- ∆NII under six regulatory scenarios and four management scenarios;
- ∆EVE under six regulatory scenarios and four management scenarios; and
- PV01 to Own Funds.

∆NII and ∆EVE metrics are both evaluated under six regulatory scenarios on both EVE and NII and four management scenarios.

On a monthly basis, the historical evolution of the ΔNII and ΔEVE are examined and reported in the monthly risk pack. The market risk metrics are presented with additional explanatory variables on the variations and sensitive areas to interest rate risks such as maturity and repricing gap analysis, sensitivities by time buckets and the effect of the hedging portfolio.

The market risk metrics also include primary FX unhedged exposures which is marginal.

Additionally in 2021, reports on the sensitivity of the positions classified as Fair Value through Other Comprehensive Income ("FVOCI") to spread shocks were developed as a consequence of the increase of this category.

2.2.6 Operational risk

(EU ORA: Qualitative information on Operational Risk as required by Annex XXXI)

Operational risks can arise from all business lines and from all activities which are carried out by the Bank. Failure to manage these risks 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.

Operational risk management encompasses the process of identifying operational risks, measuring the Bank's exposures to these risks, ensuring that effective capital planning and monitoring is in place, taking steps to control or mitigate risk exposures, and reporting the risk exposures and capital positions. It also ensures that the Bank's risk appetite for operational risk is translated in a form that can be implemented and managed in practice, by allocating risk appetite levels to the different sub-risk categories.

The Bank seeks to minimise operational risks through its control environment. This is primarily achieved through a collaborative approach to managing operational risks between the first, second and third lines of defence. An Operational Risk Policy is in place, which covers areas related to the identification and categorisation of operational risks, the measurement and monitoring of operational risk, control testing, operational risk reporting and business continuity.

Operational risk identification and categorisation

The Bank carries out a structured analysis of the current and emerging risks that the Bank is facing, in order to understand and manage these risks as appropriate. There are various operational risk subtypes, including but not limited to fraud (internal/external), business disruption due to reduced or non-availability of a 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.

Risk control self-assessments

RCSAs are used to identify the key operational risks. The Operational Risk function is primarily responsible for driving the completion of this process. The Operational Risk Policy lists the overall objectives of the RCSAs as follows:

- Identify the key current and emerging operational risks to the business, with risk identification based on both risks that the business has experienced in the past and plausible risks that the business has yet to experience;
- Understand and evaluate the main drivers of the operational risks;
- Consider market trends of top and emerging risks across the industry;
- Assess the operational risks in terms of their overall significance for the business – based on both the likelihood and impact (frequency and severity) of potential losses;
- Drive improvement actions to address control weaknesses; and
- Provide consistent information on operational risks that can be aggregated and reported to senior management to inform decision-making.

The outputs from the RCSA process are reviewed and challenged by the Operational Risk Management Function and shared with the CRO to provide a top-down challenge. This output is also shared with the Board Risk Committee annually.

During 2021, RCSA workshops were carried out with all the Business Units. Following the roll out in 2020, of the Enterprise, Risk and Compliance tool (ERIC) operational risk tool, the 2021 RCSAs were refreshed directly in the system by the respective business owners. The following operational risk themes were identified and discussed during the 2021 workshops:

- Fraud risk, which may arise from a number of activities, carried out internally or externally. Internal fraud is a civil or criminal activity carried out by at least one internal party, such as an employee or distribution associate, which is often as a result of collusion, rogue trading, insider trading, financial reporting fraud, misappropriation of assets, or identity theft. External fraud is the civil or criminal activity carried out by customers, contractors or third parties (excluding cyber-attacks) Examples of such type of fraud include: collusion, fraud, misuse of position, misappropriation of assets and identity theft.

- Infrastructure risk, which may arise from reduced or non-availability of any aspect of a fully functioning business environment including: corporate facilities, physical assets, human resources and/or technology, security, failures in licence management and insufficient software/application support. The Bank has identified two sub-categories within this risk: i) physical safety, which refers to the risk of damage to non-IT physical assets, physical data, corporate facilities or human resources, and ii) business continuity, which is required if the Bank experiences business disruption that may be experienced from reduced availability or non-availability of business activity due to issues related to facilities or human capital. System failures (hardware or software), disruption in telecommunication, power failure and other events impeding the normal day to day operations, can result in interrupted business and financial loss.

- Outsourcing and Oher Third Parties risk refers to the failure to establish and manage adequate outsourcing arrangements, transactions or other interactions to meet the expected or contracted quality of service with external parties such as independent brokers, fund managers insurers and other parties. This risk may have serious consequences such as business disruption and reputational impacts. Regulatory oversight of outsourcing arrangements has become more prominent, particularly since the institution is viewed as systemically important. This risk may also arise from internal parties, where the Bank fails to establish and manage adequate outsourcing arrangements, transactions or other interactions with service providers, for example: failure to meet agreed quality of service levels, inadequate contracting, poor relationship governance, service provider failure. The outsourcing policy provides guidelines in line with regulatory requirements, which amongst other things, defines responsibilities and what activities can be outsourced.

- People risk reflects the ability of the Bank to manage the capacity and capability levels of one of its core assets: its employees. The Bank assesses this risk in the context of recruitment of people with the right skill-set, development of its employees with the right training and behaviour, being able to retain key employees, as well as maintaining robust succession plans. It also includes remuneration considerations, such as having adequate structures and engagement levels that help align the conduct of employees with the risk and strategic objectives of the Bank.

- Process risk may arise from inadequate or failed business processes that deliver products and services in order to grow shareholder value. Inadequate or failed processes may relate to aggregation of data and reporting, inadequate or failed transaction processing (including delays as well as errors), governance or general process management, financial or risk modelling, product development, product introduction, mergers and acquisitions, and the execution risk of failure to deliver change programmes or key strategic and regulatory projects.

- Data and internal model risk arises from failure in a process designed to ensure data entry impacting the ability of the management to meet data standards (data governance) and from failures in the maintenance of, and lack of assurance of the accuracy and consistency of the data over its life cycle (data integrity). Additionally, data used in modelling and the governance of models presents concurrent risks related to the integrity of model construction, validation and oversight.

- Project execution risk arises from failure in delivering significant processes (mostly regulatory related). This risk has gained significant importance during the past few years, in light of the rapidly changing regulatory and structural environment in recent years, where financial institutions have been obliged to make wholesale changes to strategies, processes, systems, reporting, and even the way they choose to select and maintain relationships with customers.

<u>Operational risk assessment and measurement</u> (Article 446 CRR)

The results of the RCSA analysis are also used to assess and measure the various inherent risks and the effectiveness of the corresponding controls, to derive to the residual risks that the Bank is facing. The RCSAs are often presented as matrices of operational risks by business unit i.e. heat maps indicating where the greatest areas of operational risk lie at a given point in time.

The RCSA results and documentation are leveraged for creating KRIs. The risk themes identified during the RCSA process are also used when coordinating the Bank's ICAAP regulatory deliverable and to calculate the internal capital add-on for operational risk. One or more scenarios are assigned to each operational risk category. The operational risk team ensures that each scenario corresponds to plausible risk event or issue that the Bank could expect to face in a stressed environment.

<u>Operational risk control testing</u>

The primary responsibility for the development and implementation of controls to address operational risks is assigned to senior management within each business unit. This responsibility is supported by the development of overall Bank standards for the management of operational risk in the following areas:

- Requirements for appropriate segregation of duties, including the independent authorisation of transactions;
- Requirements for the reconciliation and monitoring of transactions;
- Compliance with regulatory and other legal requirements;
- Documentation of controls and procedures;
- Requirements for the periodic assessment of operational risks faced and the adequacy of controls and procedures to address the risks identified;
- Requirements for the reporting of operational losses and proposed remedial action;
- Development of contingency plans;
- Training and professional development; and
- Risk mitigation, including insurance where this is effective.

Control testing responsibilities fall dually within the remit of the risk owner (i.e., first line of defence) and the operational risk function (second line of defence). Following the periodic RCSA process, key controls linked to 'very high' and 'high' inherent risks are tested to assess their effectiveness. Testing of key controls associated to inherently medium and low risks is not mandatory. However, these are monitored to ensure that inherent risk rating remains low.

Control testing focuses on:

- The use of a risk-based approach;
- Prioritisation of material inherent operational risks and controls over less material ones;
- Documentation of roles and responsibilities for designing, implementing and monitoring controls; and
- Linkages for material risk controls and business recovery planning and disaster recovery processes.

First line of defence are required to provide mitigating actions to address any control weaknesses identified through the control testing. The Operational Risk team will in turn monitor the implementation of these mitigating actions.

Operational risk monitoring and reporting

Monitoring of operational risks is key to assessing how much the Bank could lose in terms of both the income statement and capital cost due to operational risk losses at various levels of certainty.

The Bank has in place a number of quantitative risk appetite limits to monitor operational risk, including:

- Significant operational losses;
- Fraud related incidents and losses;
- Outsourcing risk and SLA breaches;
- Staff attrition rates; and
- Critical system and single incident down time.

The actual performance against risk appetite limits and KRIs is tracked on a daily, weekly and monthly basis, and disclosed in the weekly and monthly risk management reports.

2.2.7 IT and information security risk

The Bank's definition of IT and Information Security Risk aligns to the EBA guidelines on ICT and Security Risk Management (EBA/GL/2019/04). IT and Information Security Risk is defined as the loss due to breach of confidentiality, failure of integrity of systems and data, inappropriateness or unavailability of systems and data or inability to change IT within reasonable time and costs when the environment or business requirements change. This includes security risks resulting from inadequate or failed internal processes or external events including cyber-attacks or inadequate physical security.

The Bank acknowledges its obligation to protect the data, security and privacy of its customers. Any breach due to misconfigured, weak and/or poorly managed security systems may cause serious reputational consequences.

The risk appetite towards information security risk covers the processes and methodologies designed and implemented to protect information of all types, including electronic, or any other form of confidential, private and sensitive information or data from unauthorised access use, misuse, destruction, modification, or disruption.

The quantitative IT and information security risk metrics, which the Bank is willing to commit to limiting its appetite to, are the following:

- Significant cyber security incident;
- Outstanding core access rights reviews;
- Malware detection on infrastructure and DDOS attempt identification;
- Data leakage and data protection breaches;
- Overdue high-risk findings resulting from external security assessments; and
- Overdue critical findings resulting from penetration testing exercises.

There is a probability that the Bank experiences reduced availability or non-availability due to technological issues, which can emanate from issues relating to systems supporting core activities/processes of the business, which could fail or otherwise negatively impact business continuity and scalability required to support the growth and changing needs of the business, or issues resulting from cyber-attacks.

Cyber risk is an increasing risk for banks and the Bank has identified cyber-security as one of the material inherent risks facing the Bank. The Bank remains highly vigilant of cyber risk trends and technologies. The Bank is obliged by law to protect the data of its customers, systems and infrastructure, any breach due to inappropriate security systems might result in significant fines as well as major reputational consequences.

The Bank has deployed a number of internal controls based on information security best practices to reduce technology risk across all layers, of which internal policies and qualitative risk appetite limits. Since May 2017, the MDB Group is also required to report significant cyber incidents to the ECB.

2.2.8 Financial crime risk

The Bank continued to demonstrate its commitment to the highest standards of financial crime risk management in 2021. High compliance standards in the banking system continue to be a source of strength and competitive advantage

In 2021, the Bank continued to focus on embedding its financial crime risk management control framework, and sustain its capability through ongoing training, oversight and governance. Additionally, through a program of monitoring and analytics, the Bank sought to proactively identify risks to safeguard both the bank and the financial system. We believe that the enforcement of high compliance standards is a competitive advantage, and essential to our success and that of the jurisdiction.

Anti-Money Laundering, Combatting Financing of Terrorism / Proliferation Financing (AMLCFT) and Sanctions risks

In 2021, we continued to improve our AML/CFT and sanctions risk management capabilities and to integrate those capabilities into our day-to-day operations:

- We continue investing in the next generation of tools to fight financial crime through the application of appropriate systems and analytics;
- We measure the risks by reference to identified metrics, incident assessments, regulatory feedback and the judgement and assessment of our financial crime risk team;
- We monitor performance against our financial crime risk appetite statements and metrics, the results of the monitoring and control activities of the second line of defence functions, and the results of internal and external audits and regulatory inspections;
- We manage the risks by establishing and communicating appropriate policies and procedures, training employees, including the Board of Directors, and monitoring activity to help ensure their observance; and
- We mitigate the risks through effective controls and/or remediation work where required.

Anti-bribery and corruption

The Bank remains committed to high standards of ethical behaviour and have zero tolerance towards bribery and corruption. The Bank has in place an Anti-Bribery and Corruption compliance programme and policy which require all employees including the Board of Directors and Associated Persons to comply with the principles in the policy in the performance of their services for or on behalf of the Bank. All individuals are required by the policy to apply controls in order to protect against bribery and corruption risks. All staff undergo mandatory anti-bribery and corruption training annually.

As part of its risk management, the Bank performs an annual assessment of its inherent and residual risk to understand if any new risks have been identified and ratings revisited accordingly. Risk evaluation takes into consideration various pillars and associated controls.

Regulatory compliance risk

Apart from Financial Crime Compliance Risk, the Bank also faces Regulatory Compliance Risk that it needs to monitor. Regulatory risk arises from the risks associated with breaching the Bank's duty to its customers and inappropriate market conduct, as well as breaches to regulatory licensing and rules. The Bank identifies risks in the below areas:

- MiFID risk: the risk associated with the provision of investment services by delivering poor or unfair outcomes to customers. In addition to this, the Bank must also abide by the non-conduct related MiFID matters.

- Market abuse: this risk arises from certain behaviour, such as "insider dealing" and market manipulation, which are considered to be abusive and harmful to market behaviour and are therefore deemed to be unlawful. Market Abuse is subject to the EU Market Abuse Regulation and firms are subject to various relevant obligations, such as the reporting of suspicious transactions through "Suspicious Transaction and Order Reporting" (STOR).

- Credit Mortgage risk: the risk of providing customers with mortgages which are not in line with their needs and wants.

2.2.9 Regulatory risk

Regulatory risk is the risk of both regulatory actions and reputational damage associated with non-compliance with regulatory obligations and requirements, as well as consequences from non-compliance with specific local or international rules, regulations, laws or standards. It has been observed across international financial markets that adherence to the complex and ever-increasing obligations of various regulators is a significant challenge and non-compliance can have significant financial and reputational consequences.

As part of the Bank's risk appetite, the Bank keeps track of all the regulatory deadlines and submissions, in order to prevent supervisory fines, sanctions, penalties and other restrictions that may be imposed by the regulator. The Bank also acknowledges that inability or failure to meet regulatory deadlines or misinterpretation of new and updates in regulation, as well as association with AML and financial crime, may result in major repercussions on the reputation of the Bank.

The Bank will not tolerate systemic failures to comply with the relevant laws, regulations and codes of conduct applicable to its business activities.

A total of three sub-categories of regulatory risk were identified:

- *Regulatory change risk* that may result from delayed implementation of a new regulation or misinterpretation of the requirements of a new regulation or an update to existing regulation.

- *Regulatory reporting risk*, which arises from failing to meet regulatory reporting requirements and deadlines. Reporting requirements are becoming more extensive, more frequent, and more complex, with regulators demanding more timely and accurate reporting.

- *Regulatory engagement risk,* which includes the lack of communication with the supervisor and regulatory bodies, inconsistencies in the submission of necessary information addressing regulatory requests, erroneous or inappropriate submission of data and documentation, and failure to meet regulatory deadlines.

The MDB Group and the Bank are subject to an annual supervisory review and evaluation process ("SREP") by the Joint Supervisory Team ("JST"). At the end of the process, a SREP decision letter is sent in which it sets out specific Qualitative Requirements and Recommendations that the Bank needs to implement and rectify by a specific date. The MDB Group and the Bank may also be subject to on-site inspections ("OSI") during the year, in which a formal letter including a number of recommendations will be sent by the OSI team.

The MDB Group has established a Regulatory Oversight Steering Working Group to ensure changes to regulations are captured, reviewed and embedded within the policies and processes. The purpose of this steering group is to oversee all regulatory compliance matters that may apply to the Bank as well as to the Bank's external environment, thereby ensuring that all regulatory obligations are appropriately assessed. The Steering group is made up of various individuals from different teams across the MDB Group (including representatives from MeDirect Belgium) and meets whenever deemed necessary by the Regulatory Affairs function. The Steering Working Group escalates material regulatory matters to the EXCO, whenever required.

2.2.10 Reputational risk

Reputational risk is the risk of loss resulting from damages to the Bank's reputation. Although this risk is difficult to quantify, it may result in lost revenue, increased operating, capital or regulatory costs, or destruction of shareholder value.

Reputational risk management strategies and processes (Article 435 (1) (a) CRR) (EU OVA)

MeDirect seeks to ensure that reputational risk is as low as reasonably practicable. Reputational risk cannot be precluded as it can be driven by unforeseeable changes in perception of our practices by our various stakeholders (e.g., public, clients, shareholders and regulators). MeDirect strives to promote sustainable standards that will enhance profitability and minimise reputational risk.

The Bank does not knowingly conduct business or organise its operations to put its reputation at risk and is also committed to manage climate and environmental risks (CER) and ESG risks. The Bank seeks to mitigate this risk by primarily avoiding activities that inherently attract higher risk of reputational damage.

The two sub-categories for reputational risk are the following:

- General public reputational risk and Jurisdiction risk; and
- Customer reputational risk.

Reputational risk management structure and organisation (Article 435 (1) (b) CRR) (EU OVA)

The Bank has in place a Reputational Risk Management Framework that is based on four main pillars: i) a Reputational Risk Policy that outlines the principles, classification, assessment and risk drivers; ii) a forward looking scenario assessment that is mainly driven by scenario workshops, RCSAs or other Bank events (lessons learnt); iii) monitoring of the reputational risk profile through a number of KRIs involving social media diagnostics and customer complaints, and iv) promoting a Bank-wide risk culture that boosts awareness of reputational risk and its impact on the Bank's business activities.

It is the collective responsibility of all employees of the Bank to identify, manage and mitigate reputational risks that may arise. Certain criteria should be considered in the assessment of Reputational risk when 1) material strategic decisions are taken 2) creating new products and services and 3) establishing or reviewing relationship with third party providers of critical and non-critical activities.

Reputational risk may also arise from external dependencies such as external service providers. The Bank has a 'Monitoring Framework for Third Party Outsourcing' in place to help manage and mitigate the risk arising from these third-party activities, as well as the Foreign Exchange (FX) Risk policy and the Risk Appetite Statement listing approved counterparties and associated limits.

Scope and nature of reputational risk measurement and reporting systems (Article 435 (1) (c) CRR) (EU OVA)

It is the responsibility of all business units and functions (i.e., the 1st Line of Defence) to ensure appropriate reputational Key Risk Indicators ("KRIs") are in place and regularly monitored, where high or very high reputational risks are identified. In addition, where material reputational risks exist, specific risk appetite limits should be considered and proposed as key-risk indicators within the Risk Appetite statement.

Where KRIs are implemented within the Risk Appetite statement, it is the responsibility of the Operational Risk Team (2nd Line of Defence) to oversee and monitor the risk levels and ensure appropriate oversight and escalation is in place.

Where material reputational risk incidents are observed, there should be prompt and timely escalation to the Operational risk team and the Chief Risk Officer. All reputational risk incidents should be recorded within the Operational Risk Incidents database.

<u>*Policies for hedging and mitigating reputational risk*</u> *(Article 435 (1) (d) CRR) (EU OVA)*

The Reputational Risk Framework is governed by the Reputational Risk Policy that is owned by the Operational Risk Management team. The purpose of the Reputational Risk Policy is to ensure an aligned Group wide approach to managing reputational risk. It aims to act as a unified framework adopted across all entities and business units.

Additionally, the Bank safeguards its reputation when considering launching new products and services (which are reviewed thoroughly in the OpsCo) and governed by the Products and Services Approval and Review Policy.

2.2.11 Sustainability, climate-related and environmental risks

The Bank and MDB Group have taken number of actions in the recent months to incorporate environmental, social and governance (‘ESG’) principles into daily business and develop sustainability-oriented organization.

MDB Group has started to incorporate sustainability in its internal governance framework including oversight of CER by the Group Board and ESG committee. The ESG Committee directly oversees ESG-related risks and opportunities, including climate-related and environmental risks while the Board maintains oversight via updates that are given during the routine board meetings. As a part of the ESG action plan, MDB Group intends to continue integrating C&E risks across the three lines of defence by updating the risk management framework, compliance monitoring plans and internal audit plan. The Group has recruited in 2022 the Head of Sustainability to be the primary coordination point amongst functions internally. The Board is kept updated on this topic via standing agenda items during routine board meetings that include updates on supervisory questionnaires on climate-related and environmental risks, the supervisory climate stress test and action plan that will be implemented by the Bank to enhance the embedding of ESG/CER in the strategy and risk management of the Bank.

MDB Group has started to develop ESG/CER competencies inside the organisation through organising ESG/CER trainings to the Board and its employees. Last year the Board participated in specific and detailed ESG/CER training and internal training was conducted on ECB CER Guide to risk community and top managers.

MDB participated in the 2022 ECB stress tests and questionnaires related to CER to meet supervisory requirements and track regulatory expectations.
MDB has also prepared two ESG/CER action plans on ECB CER expectations and SFDR requirements to be implemented going forward.

MDB Group has conducted an initial materiality assessment to analyse the main Climate & Environmental Risks (“CER”) that may impact its strategy, business model, asset portfolios, funding sources, wealth management services, as well as the business operating centres in which it operates. The assessment covers all balance sheet elements and off-balance sheet services, covering physical risks to assets (primarily credit risk), funding sources (primarily the availability and eligibility of such sources), transition risks (primarily regulatory change) and high-level impact horizons. Overall, MDB Group has relatively moderate overall inherent risk exposure to CER Risks, and low overall inherent risk exposure in the short-term, given the focussed nature of its strategy and business model, alongside the specific products and services it provides to its clients.

MDB Group has drafted key risk indicators (‘’KRI’’) to measure and monitor CER risks faced by the Bank and its core portfolios on a regular basis, based on a proportionality and risk-based approach.

The strategic plan is to continue to reduce corporate exposure which represents higher potential risk to CER for the Bank and in turn, increase residential mortgage lending activity in Belgium, based on origination criteria that includes CER related underwriting practices and the proposed launch of Green lending products and incentives for clients, as well to start embedding ESG in the Wealth Management Investment Processes, to assist customers with green investment trends.

MDB Group has updated and will adopt its risk management framework, ICAAP & ILAAP Governance and Stress Testing Frameworks with a view to managing, monitoring, and mitigating CER over a sufficiently long-term horizon. Where deemed applicable, the Risk Management function integrates climate-related and environmental risks within its risk identification process as an overarching theme through both its financial and non-financial risks. By doing this, MDB Group will comprehensively analyse the ways in which CER drive and potentially impact the different risk areas.

MDB Group has also incorporated climate-related scenarios in its stress testing processes which encompass both physical and transition risk over various time horizons. Stress Testing helps inform the management body about CER and their impact on the Bank using comparable metrics. MDB Group is in the process of developing new stress testing processes and enhancing existing ones to be able to conduct such Climate Risk Stress Testing which is still in early stages of implementation within the banking sector.

MDB Group has integrated adverse climate-related and environmental events into business continuity and incident management procedures, including relevant communication planning in the event of adverse physical and transition risks occurring. Further assessments of impacts of CER into BCP and incident response planning will be included within the annual refresh of these frameworks.

The Bank will continue incorporating sustainability in its business processes in order to track emerging in the business environment ESG and climate risks.

MDB Group has also prepared an action plan regarding its compliance with ECB Guide on climate-related and environmental risks based on eight pillars to be implemented going forward.

2.3 Risk statement

Declaration on the adequacy of risk management arrangements (Article 435 (1)(e) CRR) (EU OVA)

The Board confirms, for the purpose of Article 435 CRR, that our risk management arrangements are adequate with regard to our risk profile and strategy and maintains appropriate resources to implement selected enhancements.

Concise risk statement approved by the Board (Article 435 (1)(f) CRR) (EU OVA & EU LIQA)

The Board is committed to set the tone from above by instilling a risk-aware culture across the Bank where everyone is aware of the different risks that the Bank faces as well as the risk management processes that should be embedded in key decision-making.

During 2021, despite the challenging macroeconomic environment and COVID-19 uncertainty, MeDirect continued to be very successful in attracting high calibre talent in Belgium.

The risk management approach focuses on ensuring continued financial soundness and safeguarding the interests of our stakeholders, while remaining agile to seize value-creating business opportunities in a fast-changing environment. The Bank is committed to upholding high standards of corporate governance, sound risk management principles and business practices to achieve sustainable, long-term growth.

The Bank has a comprehensive risk management framework in place that is robust and fit-for-purpose, which outlines the steps to assess, manage and monitor all risks faced today and in the future. The risk management practices continue to evolve and improve to enable better outcomes for all stakeholders and to consider any changes and new and emerging risks. At the centre of the risk management framework is a strong risk culture and continuously increasing the overall maturity of risk awareness. The Bank has also intensified its focus on ESG initiatives with special focus on CER risks by integrating ESG principles into its business and raising awareness within the organisation.

Despite the challenges faced by the COVID-19 pandemic, MeDirect has ensured the ongoing effectiveness of its risk management framework, especially to support and enable the current diversification and transformation strategy. This risk management framework has ensured that new and proposed business lines, areas of growth, changes in technology and management decisions are well governed and sustainable. The risk management framework has been robustly delivered in 2021 despite the challenges faced and the capital and liquidity positions continue to be at healthy levels, well above the minimum regulatory requirements.

As part of its strategic transformation, MeDirect continued to transform is balance sheet by diversifying and optimising its lending portfolios through the transition from the historical pan-European International Corporate Lending business, that has been more exposed to the impact of COVID-19, to the residential mortgage market.

The Board is aware that it faces a heightened level of strategy execution risk, however the Board believes that the risk management process includes adequate policies, procedures, risk limits and risk controls that ensure timely and continuous identification, measurement and assessment, management, monitoring and reporting of these risks at the business line, consolidated and sub-consolidated levels.

Detailed information on the credit portfolio is found in section 2.2 – Information on risk management, objectives and policies by category of risks. Refer to Section 1.2 “Key metrics” and table EU KM1 within this section and Section 8 ‘Intragroup Interconnectedness’.

3 Scope of application of the regulatory framework

Reconciliation of regulatory own funds to the balance sheet according to BEGAAP (Article 437 (a) CRR)

The Bank issues individual financial statements based on BEGAAP requirements and consolidated financial statements in accordance with IFRS, whereas the prudential consolidation in the statement of capital is based on the CRR 2. The following table shows the balance sheet in the BEGAAP financial statements and under the regulatory scope of consolidation.

EU CC2: Reconciliation of regulatory own funds to balance sheet in the audited financial statements

		a & b	c
		Balance sheet as in published financial statements and under regulatory scope of consolidation	**Reference**
	Amounts in €millions	**As at 31 December 2021**	
Assets			
1	Cash on hand and claims on central banks and post offices	187	
2	Amounts receivable from credit institutions	75	
3	Amounts receivable from credit institutions	1,117	
4	Bonds and other fixed-income securities	934	
5	Formation expenses and intangible fixed assets	4	D
6	Other assets	74	
7	Deferred charges and accrued income	6	
8	**Total assets**	**2,397**	
Liabilities			
1	Amounts payable to credit institutions	5	
2	Amounts payable to customers	2,146	
3	Other amounts payable	60	
4	Accrued charges and deferred income	12	
5	**Total liabilities**	**2,223**	
Shareholders' Equity[2]			
1	Capital	225	A
2	Reserves	-	B
3	Profit (Loss) of the period brought forward	(51)	C
4	**Total shareholders' equity**	**174**	

[2] The balance sheet components are used in the calculation of the regulatory capital in table 4 (Own funds disclosure EU CC1). This table shows items at their accounting values which might be subject to adjustments in the calculation of regulatory capital.

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

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

4.1 Credit quality analysis

The following tables provide a comprehensive picture of the credit quality of the Bank's assets by exposure class as at 31 December 2021 in line with EBA guidelines on disclosures, by exposure class, industry and geography.

Performing and non-performing exposures and related provisions *(Article 442 (c) CRR)*

Table EU CR1, that replaced EBA-NPL 4, provides asset quality information of the Bank's Debt Instruments and Off-Balance Sheet exposures broken down by Supervisory Reporting counterparty classes.

The amounts shown are based on BEGAAP accounting values according to the regulatory scope of consolidation. The gross carrying amount reflects the exposure value including accumulated impairment, provisions and accumulated negative changes due to credit risk for non-performing exposures. An exposure is being classified as non-performing (defaulted) according to the criteria in Article 47a (3) (Article 178) of the CRR.

EU CR1: Performing and non-performing exposures and related provisions.

		a	b	c	d	e	f
	As at 31 December 2021	**Gross carrying amount/nominal amount**					
		Performing exposures			Non-performing exposures		
	Amounts in €millions		Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3
005	Cash balances at central banks and other demand deposits	285			-		
010	Loans and advances	1,105			24		
020	*Central banks*	-			-		
030	*General governments*	-			-		
040	*Credit institutions*	*6*			-		
050	*Other financial corporations*	*98*			*2*		
060	*Non-financial corporations*	*96*			*22*		
070	*Of which SMEs*	-			-		
080	*Households*	*904*			-		
090	Debt securities	935			-		
100	*Central banks*	-			-		
110	*General governments*	*57*			-		
120	*Credit institutions*	*437*			-		
130	*Other financial corporations*	*441*			-		
140	*Non-financial corporations*	-			-		
150	Off-balance-sheet exposures	287			-		
160	*Central banks*	-			-		
170	*General governments*	-			-		
180	*Credit institutions*	*99*			-		
190	*Other financial corporations*	*117*			-		
200	*Non-financial corporations*	*2*			-		
210	*Households*	*69*			-		
220	**Total**	**2,612**			**24**		

		g	h	i	j	k	l	m	n	o
		Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions						**Accumulated partial write-off**	**Collateral and financial guarantees received**	
		Performing exposures – accumulated impairment and provisions			Non-performing exposures – accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions				On performing exposures	On non-performing exposures
	Amounts in €millions		Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3			
005	Cash balances at central banks and other demand deposits	-			-			-	-	-
010	Loans and advances	(2)			(1)			-	904	-
020	*Central banks*	-			-			-	-	-
030	*General governments*	-			-			-	-	-
040	*Credit institutions*	-			-			-	-	-
050	*Other financial corporations*	*(1)*			-			-	-	-
060	*Non-financial corporations*	*(1)*			*(1)*			-	-	-
070	*Of which SMEs*	-			-			-	-	-
080	*Households*	-			-			-	*904*	-
090	Debt securities	-			-			-	-	-
100	*Central banks*	-			-			-		
110	*General governments*	-			-			-	-	-
120	*Credit institutions*	-			-			-	-	-
130	*Other financial corporations*	-			-			-	-	-
140	*Non-financial corporations*	-			-			-	-	-
150	Off-balance-sheet exposures	-			-				-	-
160	*Central banks*	-			-				-	-
170	*General governments*	-			-				-	-
180	*Credit institutions*	-			-				-	-
190	*Other financial corporations*	-			-				-	-
200	*Non-financial corporations*	-			-				-	-
210	*Households*	-			-				-	-
									-	-
220	**Total**	**(2)**			**(1)**			-	**904**	-

<u>Residual maturity breakdown of credit exposure</u> (Article 442 (g) CRR)

The table EU CR1-A, that replaced the table EU CRB-E, represents the net credit exposure by maturity and financial instrument. Here exposures refer to on-balance sheet items wherein the "net value of exposure" is calculated by deducting credit risk adjustments from the gross amount. The net exposure is split into 5 categories based on the residual contractual maturity. Below are the categories:

- On demand: where the counterparty has a choice of when the amount is repaid.
- Bucketing: 0 to 1 year, 1 to 5 years and more than 5 years
- No stated maturity: where an exposure has no stated maturity for reasons other than the counterparty having the choice of the repayment date.

The following table provides an ageing analysis of exposures as at 31 December 2021:

EU CR1-A: Maturity of exposures

As at 31 December 2021		a	b	c	d	e	f
		Net exposure value[3]					
	Amounts in €millions	On demand	<= 1 year	> 1 year <= 5 years	> 5 years	No stated maturity	Total
010	Loans and advances	7	31	185	904	-	1,126
020	Debt securities	92	248	555	40	-	935
030	**Total**	**99**	**279**	**740**	**944**	**-**	**2,061**

The Bank's NPL ratio as at 31 December 2021 amounted to 0.12%.

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

Quality of non-performing exposures by geography (Article 442 (c+e) CRR)

Table EU CQ4 provides asset quality information on the Bank's On-Balance Sheet exposures and Off-Balance Sheet exposures broken down by significant countries. The first column in this table represents the total Gross carrying/nominal amount and performing and non-performing exposures. The geographical distribution is based on the legal domicile of the counterparty or issuer.

The amounts shown are based on BEGAAP accounting values. The gross carrying amount reflects the exposure value including accumulated impairment, provisions and accumulated negative changes due to credit risk for non-performing exposures. An exposure is being classified as non-performing (defaulted) if it meets to the criteria in Article 47a (3) (Article 178) of the CRR.

The tables that follow are presented based on the EBA definitions of 'non-performing' and 'forborne' exposures.

EU CQ 4: Quality of non-performing exposures by geography *

As at 31 December 2021		a	c	e	f	g
		Gross carrying/nominal amount		**Accumulated impairment**	**Provisions on off-balance-sheet commitments and financial guarantees given**	**Accumulated negative changes in fair value due to credit risk on non-performing exposures**
	Amounts in €millions		Of which defaulted			
010	***On-balance-sheet exposures***	**2,064**	**24**	**3**		-
020	*Ireland*	*335*	-	-		-
030	*Germany*	*169*	*1*	-		-
040	*France*	*135*	-	-		-
050	*Netherlands*	*1,081*	-	*1*		-
060	*Austria*	*69*	-	-		-
070	*Other countries*	*275*	*23*	*2*		-
080	***Off-balance-sheet exposures***	**287**	**-**		-	
090	*Malta*	*198*	-		-	
100	*United States*	*14*	-		-	
110	*United Kingdom*	*2*	-		-	
120	*Netherlands*	*69*	-		-	
130	*France*	*4*	-		-	
140	*Other countries*	-	-		-	
150	**Total**	**2,351**	**24**	**3**	**-**	**-**

* In template EU CQ4 columns b and d apply to significant credit institutions with a gross NPL ratio of 5% or above. MeDirect Bank S.A. has a gross NPL ratio smaller than 5% and therefore these columns are not applicable.

The top 5 countries by exposure are listed in the table above, representing more than 85% of total exposure. Immaterial exposure to remaining countries is reflected in the 'other countries' category, with individual exposure of less than €275 million.

Credit quality of loans and advances to non-financial corporations by industry (Article 442 (c+e) CRR)

Table EU CQ5 provides asset quality information on the Bank's loans and advances to non-financial corporations broken down by industries. The first column in this table represents the total Gross carrying/nominal amount and performing and non-performing exposures. The industry classification is based on NACE codes. NACE is a European industry standard classification system for classifying business activities.

The amounts shown are based on BEGAAP accounting values. The gross carrying amount reflects the exposure value including accumulated impairment, provisions and accumulated negative changes due to credit risk for non-performing exposures. An exposure is being classified as non-performing (defaulted) if it meets to the criteria in Article 47a (3) (Article 178) of the CRR.

EU CQ 5: Credit quality of loans and advances to non-financial corporations by industry *

	As at 31 December 2021	a	c	e	f
		Gross carrying amount		**Accumulated impairment**	**Accumulated negative changes in fair value due to credit risk on non-performing exposures**
	Amounts in €millions		Of which defaulted		
010	Agriculture, forestry and fishing	-	-	-	-
020	Mining and quarrying	-	-	-	-
030	Manufacturing	19	-	-	-
040	Electricity, gas, steam and air conditioning supply	-	-	-	-
050	Water supply	-	-	-	-
060	Construction	-	-	-	-
070	Wholesale and retail trade	7	-	-	-
080	Transport and storage	-	-	-	-
090	Accommodation and food service activities	10	10	1	-
100	Information and communication	-	-	-	-
110	Real estate activities	52	-	-	-
120	Financial and insurance activities	-	-	-	-
130	Professional, scientific and technical activities	-	-	-	-
140	Administrative and support service activities	27	12	1	-
150	Public administration and defense, compulsory social security	-	-	-	-
160	Education	-	-	-	-
170	Human health services and social work activities	3	-	-	-
180	Arts, entertainment and recreation	-	-	-	-
190	Others	-	-	-	-
200	**Total**	**118**	**22**	**2**	**-**

* In template EU CQ5 columns b and d apply to significant credit institutions with a gross NPL ratio of 5% or above. MeDirect Bank S.A. has a gross NPL ratio smaller than 5% and therefore these columns are not applicable.

<u>Credit quality of forborne exposures</u> (Article 442 (c) CRR)

Table EU CQ1 provides an overview of asset quality information for forborne exposures broken down by supervisory reporting counterparty classes.

The amounts shown are based on BEGAAP accounting values. The gross carrying amount reflects the exposure value including accumulated impairment, provisions and accumulated negative changes due to credit risk for non-performing exposures. Exposures are being classified as forborne according to the criteria in Article 47b of the CRR. An exposure is being classified as non-performing (defaulted) according to the criteria in Article 47a (3) (Article 178) of the CRR.

EU-CQ1: Credit quality of forborne exposures

As at 31 December 2021		a	b	c	d	e	f	g	h
		Gross carrying amount/nominal amount of exposures with forbearance measures				**Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions**		**Collateral received and financial guarantees received on forborne exposures**	
		Performing forborne	Non-performing forborne			On performing forborne exposures	On non-performing forborne exposures		Of which collateral and financial guarantees received on non-performing exposures with forbearance measures
	Amounts in €millions			Of which defaulted	Of which impaired				
005	Cash balances at central banks and other demand deposits	-	-	-	-	-	-	-	-
010	Loans and advances	29	24	24	2	-	1	1	-
020	*Central banks*	-	-	-	-	-	-	-	-
030	*General governments*	-	-	-	-	-	-	-	-
040	*Credit institutions*	-	-	-	-	-	-	-	-
050	*Other financial corporations*	*9*	*2*	*2*	*2*	-	-	-	-
060	*Non-financial corporations*	*19*	*22*	*22*	-	-	*1*	-	-
070	*Households*	*1*	-	-	-	-	-	*1*	-
080	Debt Securities	-	-	-	-	-	-	-	-
090	Loan commitments given	-	-	-	-	-	-	-	-
100	**Total**	**29**	**24**	**24**	**2**	**-**	**1**	**1**	**-**

4.2 Impairment loss measurement guidelines

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

An exposure is “past due” when any amount of principal, interest or fee has not been paid at the date it was due.

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

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

The uncertainty in the macroeconomic environment increased substantially post the COVID-19 outbreak. The Bank’s provisioning approach is forward looking with a view of capturing current and future difficulties of borrowers. During 2020, the Bank carried out an intensive and comprehensive review of the resilience of its International Corporate Lending portfolio under various economic scenarios, taking into consideration both direct and indirect risks.

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

Throughput 2021, the Bank continued to monitor the evolution of COVID-19 and its impact on the macroeconomic environment and the Bank’s borrowers in order to assess the enduring impact of COVID-19 on the underlying business models.

Therefore, for loans in the International Corporate Lending, the Bank estimates ECL on an individual basis. 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.

In respect of the Dutch Mortgage portfolios, the key indicator of credit-impairment arises when exposures are past due by more than 90 days taking into account the materiality threshold for Retail exposures as per the EBA regulatory definition of default, with other unlikeliness to pay indicators, such as the extension of forbearance measures, also being taken into consideration. The ECL on Stage 3 exposures is equivalent to the LGD parameter multiplied by the exposure amount, with PD equivalent to 100%.

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

Financial assets purchased or originated at a deep discount, classified as Purchased or Originated Credit-Impaired ('POCI'), are seen to reflect incurred credit losses. A lifetime ECL is recognised on POCI assets. The Bank does not expect to originate or 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.

Credit quality of performing and non-performing exposures by past due days *(Article 442 (c-d) CRR)*

Table EU CQ3, that replaced EBA -NPL3, provides asset quality information of the Bank's on balance sheet exposures and off-balance sheet exposures by past due days broken down by Supervisory Reporting counterparty classes.

The amounts shown are based on BEGAAP accounting values. The gross carrying amount reflects the exposure value including accumulated impairment, provisions and accumulated negative changes due to credit risk for non-performing exposures.

EU CQ3: Credit quality of performing and non-performing exposures by past due days

As at 31 December 2021		a	b	c	d	e	f	g	h	i	j	k	l
		Gross carrying amount/nominal amount											
		Performing exposures			Non-performing exposures								
Amounts in €millions			Not past due or past due ≤ 30 days	Past due > 30 days ≤ 90 days		Unlikely to pay that are not past due or are past due ≤ 90 days	Past due > 90 days ≤ 180 days	Past due > 180 days ≤ 1 year	Past due > 1 year ≤ 2 years	Past due > 2 years ≤ 5 years	Past due > 5 years ≤ 7 years	Past due > 7 years	Of which defaulted
005	Cash balances at central banks and other demand deposits	285	285	-	-	-	-	-	-	-	-	-	-
010	Loans and advances	1,105	1,104	1	24	24	-	-	-	-	-	-	24
020	*Central banks*	-	-	-	-	-	-	-	-	-	-	-	-
030	*General governments*	-	-	-	-	-	-	-	-	-	-	-	-
040	*Credit institutions*	6	6	-	-	-	-	-	-	-	-	-	-
050	*Other financial corporations*	98	98	-	2	2	-	-	-	-	-	-	2
060	*Non-financial corporations*	96	96	-	22	22	-	-	-	-	-	-	22
070	*Of which SMEs*	-	-	-	-	-	-	-	-	-	-	-	-
080	*Households*	904	903	1	-	-	-	-	-	-	-	-	-
090	Debt securities	935	935	-	-	-	-	-	-	-	-	-	-
100	*Central banks*	-	-	-	-	-	-	-	-	-	-	-	-
110	*General governments*	57	57	-	-	-	-	-	-	-	-	-	-
120	*Credit institutions*	437	437	-	-	-	-	-	-	-	-	-	-
130	*Other financial corporations*	441	441	-	-	-	-	-	-	-	-	-	-
140	*Non-financial corporations*	-	-	-	-	-	-	-	-	-	-	-	-
150	Off-balance-sheet exposures	287			-								-
160	*Central banks*	-			-								-
170	*General governments*	-			-								-
180	*Credit institutions*	99			-								-
190	*Other financial corporations*	117			-								-
200	*Non-financial corporations*	2			-								-
210	*Households*	69			-								-
220	***Total***	***2,612***	***2,326***	***1***	***24***	***24***	-	-	-	-	-	-	***24***

As a result of the COVID-19 pandemic, assessments of lending portfolios and the underlying obligors continue to be made on an ongoing basis, and impairments revisited in light of the changed outlook.

Based on the Bank's detailed name by name portfolio analysis, provisions were taken on all borrowers whom have defaulted, as well as all non-defaulted borrowers that showed potential future characteristics of unlikeliness to pay. The Bank also amended provisions to reflect rating migrations and updates to the macroeconomic outlook. As a result of its forward-looking approach to impairments, the Bank believes that it has accounted for all currently expected credit losses for the financial year ended 31 December 2021.

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

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

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

The Bank operates a Standardised Approach for credit risk under its CRD V regulatory requirements. For the purpose of calculating its impairment allowances, the Bank used both:

- Moody's Risk Calc and Impairment Calc tools to generate internal implied rating; and
- Public ratings from the point of origination and through the lifetime of the financial asset for monitoring and capital calculation

The Corporate Lending Portfolio utilises a Discounted Cash Flow ("DCF") model for assessing Enterprise Value ("EV") and in turn expected recovery amounts and level of specific impairment provision. As outlined in the internal policy, exposures are rarely secured by assets with an easily observable value, moreover the most likely exit strategy for the distressed business is the sale of the enterprise as a Going Concern. With this in mind, the specific impairments are calculated based on the prudent assessment of a going concern EV rather than an estimation of any collateral held. The DCF model output is derived from the following inputs:

- Weighted Average Cost of Capital ("WACC");
- 3-year P&L and cashflow forecasts; and
- The current debt structure.

There are no other amounts apart from the impairment allowances that are classified as specific or general credit risk adjustments.

Changes in stock of non-performing loans and advances *(Article 442 (f) CRR)*

The following table, that replaced EBA-NPL 8, provides an analysis of the changes in stock of non-performing loans and advances throughout the financial year. The gross carrying value is inclusive of accrued interest.

EU CR2 - Changes in stock of non-performing loans and advances

	Year ended 31 December 2021 *Amounts in millions*	a **Gross carrying amount**
010	**Initial stock of non-performing loans and advances**	34
020	Inflows to non-performing portfolios	15
030	Outflows from non-performing portfolios	(25)
040	*Outflows due to write-offs*	(1)
050	*Outflow due to other situations*	(24)
060	**Final stock of non-performing loans and advances**	**24**

The decrease in the loans and debt securities that have defaulted or impaired since the last reporting period is attributable to a decrease in the impaired loans in the International Corporate Lending portfolio.

4.3 Exposures with renegotiated terms and the Bank's forbearance policy

The contractual terms of an exposure 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. 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') typically as part of a syndicate lender group, 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 EBA final draft Implementing Technical Standards (2014) and refers 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 Bank's Credit Committees regularly review underlying trading trends on obligors who have availed of on forbearance measures in order to assess potential 'curing' of such measures.

The Bank defines 'restructured exposures' 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 initially categorises a forborne exposure as performing and classifies the exposure as forborne non-performing at a later date once unlikely-to-pay indicators are evidenced, as outlined in the Non-Performing and Default Exposure section of the Bank's Credit Policy.

4.4 Credit risk mitigation

<u>*General qualitative information on credit risk mitigation*</u> *(Article 453 (a-e) CRR) (EU CRC)*

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

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

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

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

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

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

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

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

4.4.1 Capital allocation and capital buffers for credit risk

The Bank adopts the standardised approach to calculate its capital requirement for credit risk. The Bank's credit framework contains enough detail specifying how the Bank calculates the risk weights of the exposures covered by the framework, wherever the regulatory framework permits elections or other choices to be made.

Besides allocating capital against its Pillar I risks that are based on the Bank's accounting records, the Bank also carries an assessment of the extra capital proportionate to Pillar II risks as part of its annual ICAAP. The ICAAP chapter on economic capital for credit risk, describes the Bank's approach for allocating capital for this risk. Since the Bank is not rated, it is not required to allocate internal capital or allocate collateral in the eventuality of a downgrade in its credit rating.

4.4.2 Use of On- and off-balance sheet netting and set-off

(Article 453 (a) CRR)

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 the intention to settle on a net basis or realise the asset and settle the liability simultaneously. The level of offsetting within the Bank is deemed to be minimal. Further information regarding the offsetting policies of the Bank can be found in note 2.2.9 of the MeDirect Bank SA Annual Report and Financial Statements for the financial period ended 31 December 2021.

4.4.3 Main types of collateral, guarantor and credit derivative counterparties

(Article 453 (c-d) CRR)

The Bank holds collateral against mortgage loans under the Dutch mortgage portfolio in the form of hypothecary rights over immovable assets.

The financial guarantees received by the Bank relates to the Dutch mortgage portfolio business as the loans are covered by the Nationale Hypotheek Garantie ("NHG") which covers up to 90% of the losses that remain after a foreclosure. The NHG Guarantee assumes that a mortgage loan amortises over a 30-year period regardless of the actual loan amortisation profile. Consequently, the credit protection amount of the NHG guarantee on mortgage loans decreases over time, assuming repayment of the guaranteed residential mortgage loan within 30 years and according to the annuity method. Thus, depending on the NHG terms and conditions that apply to the individual mortgage loan, the credit protection provided by the NHG guarantee may only be partial and is decreasing over time.

The Bank was not involved in any credit derivative transactions during the year.

4.4.4 Collateral evaluation and management

(Article 453 (b) CRR)

Most of the immovable property collateral received is in the Netherlands (in the frame of the Dutch Mortgage business). This collateral is considered as part of the credit decision process by the LoR, but not in the pricing, as the pricing is based on the NHG guarantee. In the event of a default, the LoR may utilise the collateral as a source of repayment. Collateral has a significant financial effect in mitigating exposure to credit risk. The Bank follows Articles 123 to 125 of the CRR in order to determine whether exposures are fully and completely secured by immovable property, and which risk weight to apply in order to calculate the own funds requirement.

Overview of credit risk mitigation techniques (Article 453 (f) CRR)

The following table EU CR3 shows a breakdown of unsecured and secured credit risk exposures and credit risk exposures secured by various credit risk mitigants for all loans and debt securities including the carrying amounts of the total population which are in default. Unsecured exposures represent the carrying amount of credit risk exposures (net of credit risk adjustments) that do not benefit from a credit risk mitigation technique, regardless of whether this technique is recognised in the CRR. Secured exposures represent the carrying amount of exposures that have at least one CRM mechanism (e.g., collateral and financial guarantees) associated with them. Exposure secured by various credit risk mitigants analysed in the other columns are the carrying amount of exposures (net of credit risk adjustments) partly or totally secured by collateral and financial guarantees (no credit derivatives in place), whereby only the secured potion of the overall exposure is presented. No overcollateralization is considered.

EU CR3 – CRM techniques overview: Disclosure of the use of credit risk mitigation techniques

As at 31 December 2021		**Unsecured carrying amount**	**Secured carrying amount**			
				Of which **secured by collateral**	Of which **secured by financial guarantees**	Of which **secured by credit derivatives**
	Amounts in €millions	a	b	c	d	e
1	Loans and advances	508	904	904	-	-
2	Debt securities	935	-	-	-	-
3	Total	**1,443**	**904**	**904**	**-**	**-**
4	*Of which non-performing exposures*	23	-	-	-	-
EU-5	*Of which defaulted*	23	-			

Quantitative information on the use of the standardised approach

Standardised approach exposure by risk weight before and after credit risk mitigation (Article 444 (e) CRR and Article 453 (g-i) CRR)

The following table shows our credit risk exposure before, and post credit conversion factors and credit risk mitigation obtained in the form of eligible financial collateral and guarantees (no credit derivatives in place) based on the exposure at default values (EAD) in the standardised approach as well as related RWA and average risk wights broken done by regulatory exposure classes and a split in on- and off-balance sheet exposures.

EU CR4: Standardised approach – Credit risk exposure and CRM effects

	Exposure classes *(Amounts in €millions)*	**Exposures before CCF and before CRM[4]**		**Exposures post CCF and post CRM**		**RWAs and RWAs density**	
	As at 31 December 2021	**On-balance-sheet exposures**	**Off-balance-sheet exposures**	**On-balance-sheet exposures**	**Off-balance-sheet exposures**	**RWAs**	**RWAs density (%)**
	(Amounts in €millions)	a	b	C	d	e	f
1	Central governments or central banks	205	-	1,041	8	-	0%
2	Regional government or local authorities	36	-	36	-	-	0%
3	Public sector entities	14	-	14	-	-	0%
4	Multilateral development banks	30	-	30	-	-	0%
5	International organisations	-	-	-	-	-	0%
6	Institutions	133	99	105	49	52	33%
7	Corporates	194	20	194	10	246	121%
8	Retail	92	34	60	3	47	75%
9	Secured by mortgages on immovable property	812	35	36	6	15	35%
10	Exposures in default	24	-	24	-	36	150%
11	Exposures associated with particularly high risk	-	-	-	-	-	0%
12	Covered bonds	368	-	368	-	37	10%
13	Institutions and corporates with a short-term credit assessment	-	-	-	-	-	0%
14	Collective investment undertakings	-	-	-	-	-	0%
15	Equity	-	-	-	-	-	0%
16	Other items	9	-	9	-	9	100%
17	**TOTAL**	**1,917**	**188**	**1,917**	**76**	**442**	**22%**

The preceding table does not cover derivative instruments exposures and CCP exposures as at 31 December 2021 with an exposure value of €25 million post CCF and CRM, of which the respective RWAs amounted to €6.9 million.

4.5 Settlement risk

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

Mitigation of settlement risk

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

[4] **Exposures before CCF and CRM**: This represents the Group's on-balance-sheet and off-balance exposures (respectively) under the regulatory scope of consolidation (in accordance with Article 111 in the CRR), net of specific credit risk adjustments (as defined in the Commission Delegated Regulation (EU) No 183/2014) and write-offs (as defined in the applicable accounting framework), but before (i) the application of CCFs as specified in the same article and (ii) the application of CRM techniques specified in Part Three, Title II, Chapter 4 of the CRR.

5 Own funds

<u>Own Funds composition, prudential filters and deduction items</u> *(Article 437 (a, d-f) CRR)*

5.1 Total available capital

The Bank adopts the appropriate processes to ensure that the minimum regulatory requirements are met at all times, through the assessment of its capital resources and requirements given current financial projections. The Bank has a strong track record of robust capital ratios and is confident that it will be positioned to maintain its overall capital strength. For regulatory purposes, the Bank's capital base is divided in two main categories, namely Common Equity Tier 1 ("CET1") capital and Tier 2 capital.

5.1.1 Common Equity Tier 1 capital – composition

Common Equity Tier 1 capital includes:

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

5.1.2 Common Equity Tier 1 capital – terms and conditions

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

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

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

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

Refer to Section 1.2 "Key metrics" and table EU KM1 within this section.

5.1.3 Tier 2 capital

Tier 2 capital consists of the contribution to the internal security fund. This fund is specific to credit risk, and it mainly represents an amount on the international corporate lending, and to a lesser extent on the Dutch Mortgage portfolio and the Treasury portfolio, that the directors on a voluntary basis provide for. Refer to Section 1.2 "Key metrics" and table EU KM1 within this section.

5.2 Own funds – other disclosures

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

5.2.1 Composition of Own Funds

(Article 437 (a, d-f) CRR)

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

EU CC1 – Composition of regulatory own funds

		a		b
	Amounts in €millions	**31-Dec-21**	**31-Dec-20**	**Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation**
	Common Equity Tier 1 (CET1) capital: instruments and reserves			
1	Capital instruments and the related share premium accounts	225	225	A
2	Retained earnings	(25)	3	C
3	Accumulated other comprehensive income (and other reserves)	-	-	B
EU-3a	Funds for general banking risk	-	-	
4	Amount of qualifying items referred to in Article 484 (3) CRR and the related share premium accounts subject to phase out from CET1	-	-	
5	Minority interests (amount allowed in consolidated CET1)	-		
EU-5a	Independently reviewed interim profits net of any foreseeable charge or dividend	-	-	
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**200**	**228**	
	Common Equity Tier 1 (CET1) capital: regulatory adjustments			
7	Additional value adjustments (negative amount)	-	-	
8	Intangible assets (net of related tax liability) (negative amount)	(3)	(2)	D
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38 (3) CRR are met) (negative amount)	-	-	
11	Fair value reserves related to gains or losses on cash flow hedges of financial instruments that are not valued at fair value	-	-	
12	Negative amounts resulting from the calculation of expected loss amounts	-	-	
13	Any increase in equity that results from securitised assets (negative amount)	-	-	
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	-	-	
15	Defined-benefit pension fund assets (negative amount)	-	-	
16	Direct, indirect and synthetic holdings by an institution of own CET1 instruments (negative amount)	-	-	
17	Direct, indirect and synthetic holdings of the CET 1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	-	-	
18	Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	-	
19	Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	-	
EU-20a	Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative	-	-	
EU-20b	of which: qualifying holdings outside the financial sector (negative amount)	-	-	
EU-20c	of which: securitisation positions (negative amount)	-	-	
EU-20d	of which: free deliveries (negative amount)	-	-	
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability where the conditions in Article 38 (3) CRR are met) (negative amount)	-	-	
22	Amount exceeding the 17,65% threshold (negative amount)	-	-	
23	of which: direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities	-	-	

25	of which: deferred tax assets arising from temporary differences	-	-	
EU-25a	Losses for the current financial year (negative amount)	(26)	(28)	C
EU-25b	Foreseeable tax charges relating to CET1 items except where the institution suitably adjusts the amount of CET1 items insofar as such tax charges reduce the amount up to which those items may be used to cover risks or losses (negative amount)	-	-	
27	Qualifying AT1 deductions that exceed the AT1 items of the institution (negative amount)	-	-	
27a	Other regulatory adjustments	-	-	
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	**(29)**	**(30)**	
29	**Common Equity Tier 1 (CET1) capital**	**171**	**198**	
	Additional Tier 1 (AT1) capital: instruments			
30	Capital instruments and the related share premium accounts	-	-	
31	of which: classified as equity under applicable accounting standards	-	-	
32	of which: classified as liabilities under applicable accounting standards	-	-	
33	Amount of qualifying items referred to in Article 484 (4) CRR and the related share premium accounts subject to phase out from AT1	-	-	
EU-33a	Amount of qualifying items referred to in Article 494a (1) CRR subject to phase out from AT1	-	-	
EU-33b	Amount of qualifying items referred to in Article 494b (1) CRR subject to phase out from AT1	-	-	
34	Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interests not included in row 5) issued by subsidiaries and held by third parties	-	-	
35	of which: instruments issued by subsidiaries subject to phase out	-	-	
36	**Additional Tier 1 (AT1) capital before regulatory adjustments**	**-**	**-**	
	Additional Tier 1 (AT1) capital: regulatory adjustments			
37	Direct, indirect and synthetic holdings by an institution of own AT1 instruments (negative amount)	-	-	
38	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	-	-	
39	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	-	
40	Direct, indirect and synthetic holdings by the institution of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)	-	-	
42	Qualifying T2 deductions that exceed the T2 items of the institution (negative amount)	-	-	
42a	Other regulatory adjustments to AT1 capital	-	-	
43	**Total regulatory adjustments to Additional Tier 1 (AT1) capital**	-	-	
44	**Additional Tier 1 (AT1) capital**	-	-	
45	**Tier 1 capital (T1 = CET1 + AT1)**	**171**	**198**	
	Tier 2 (T2) capital: instruments			
46	Capital instruments and the related share premium accounts	3	2	
47	Amount of qualifying items referred to in Article 484(5) CRR and the related share premium accounts subject to phase out from T2 as described in Article 486(4) CRR	-	-	
EU-47a	Amount of qualifying items referred to in Article 494a (2) CRR subject to phase out from T2	-	-	
EU-47b	Amount of qualifying items referred to in Article 494b (2) CRR subject to phase out from T2	-	-	
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties	-	-	
49	of which: instruments issued by subsidiaries subject to phase out	-	-	
50	Credit risk adjustments	-	-	
51	**Tier 2 (T2) capital before regulatory adjustments**	**3**	**2**	
	Tier 2 (T2) capital: regulatory adjustments			
52	Direct, indirect and synthetic holdings by an institution of own T2 instruments and subordinated loans (negative amount)	-	-	
53	Direct, indirect and synthetic holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	-	-	
54	Direct, indirect and synthetic holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	-	
55	Direct, indirect and synthetic holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)	-	-	

EU-56a	Qualifying eligible liabilities deductions that exceed the eligible liabilities items of the institution (negative amount)	-	-	
EU-56b	Other regulatory adjustments to T2 capital	-	-	
57	**Total regulatory adjustments to Tier 2 (T2) capital**	-	-	
58	**Tier 2 (T2) capital**	**3**	**2**	
59	**Total capital (TC = T1 + T2)**	**174**	**200**	
60	**Total Risk exposure amount**	**601**	**550**	
	Capital ratios and requirements including buffers			
61	Common Equity Tier 1 capital	28.5%	36.0%	
62	Tier 1 capital	28.5%	36.0%	
63	Total capital	28.9%	36.4%	
64	Institution CET1 overall capital requirements	8.7%	8.7%	
65	of which: capital conservation buffer requirement	2.5%	2.5%	
66	of which: countercyclical capital buffer requirement	0.02%	0.01%	
67	of which: systemic risk buffer requirement	-	-	
EU-67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer requirement	-	-	
EU-67b	of which: additional own funds requirements to address the risks other than the risk of excessive leverage	1.7%	1.7%	
68	**Common Equity Tier 1 capital (as a percentage of risk exposure amount) available after meeting the minimum capital requirements**	**22.3%**	**29.9%**	
	Amounts below the thresholds for deduction (before risk weighting)			
72	Direct and indirect holdings of own funds and eligible liabilities of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	-	-	
73	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 17.65% thresholds and net of eligible short positions)	-	-	
75	Deferred tax assets arising from temporary differences (amount below 17,65% threshold, net of related tax liability where the conditions in Article 38 (3) CRR are met)	-	-	
	Applicable caps on the inclusion of provisions in Tier 2			
76	Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)	-	-	
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	-	-	
78	Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap)	-	-	
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	-	-	
	Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2014 and 1 Jan 2022)			
80	Current cap on CET1 instruments subject to phase out arrangements	-	-	
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	-	-	
82	Current cap on AT1 instruments subject to phase out arrangements	-	-	
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	-	-	
84	Current cap on T2 instruments subject to phase out arrangements	-	-	
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	-	-	

The Bank’s CET1 and Tier 1 capital ratios were 28.5% and its total capital ratio was 28.9% as at 31 December 2021. The Bank’s total capital ratio of 28.9% remains well above the Total SREP Capital Requirements benchmark of 11%.

The intangible assets in the above table, were in particular recalculated in terms of the Regulation 2020/2176 of 12 November 2020, whereby a portion of the prudential valued software asset would be risk-weighted at 100% and the remainder is subject to a CET1 deduction. Under the old rules, software assets were deducted in full from common equity tier 1 (‘CET1’).

In line with Article 437 (e) of the regulation (EU) No 575/2013 MeDirect confirms that no restrictions have been applied to the calculation of own funds.

Furthermore, as shown in the table above, there were no other items requiring deduction that were not deducted from the own funds in accordance with Section 3, Chapter 2, Title I, Part Two of CRR. In particular, in terms of article 48 and 473a (7) of CRR, the Bank's deferred tax assets dependent on future profitability and arising from temporary differences did not exceed the 10% threshold and therefore were not required to be deducted from own funds. The Bank does not have any systemic risk buffer as at 31 December 2021.

Capital ratios different to CRR (Article 437 (f) CRR)

The own funds capital ratios of the Bank are built upon the CRR regulations.
Main features of capital instruments (Article 437 (b-c) CRR)

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

EU CCA: Main features of regulatory own funds instruments and eligible liabilities instruments

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

6 Capital requirements

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

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

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

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

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

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

- Counterparty credit risk – The Bank reported the CCR calculations under the new approach namely the Original Exposures Method (as defined in CRR II, Article 282).

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

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

Overview of capital requirements (Article 438 (d) CRR)

The following table provides an overview of the total Risk Weighted Assets ("RWAs") and the capital requirement for credit risk (derived from the RWA by an 8% capital ratio) split by the different exposure classes as well as capital for securitisation positions, operational risk and credit valuation adjustment risk. No capital is allocated to foreign exchange risk, as mentioned before, and to market risk as the Bank does not operate a trading book. Moreover, the capital allocated to settlement risk and commodities risk is nought. The exposure value is equal to the total on-balance sheet and off-balance sheet net of value adjustments and provisions and post CCF. The most significant changes between the two periods were due to a decrease in RWA in the International Corporate Lending portfolio.

EU OV1 – Overview of total risk exposure amounts

Amounts in €millions		Total risk exposure amounts (TREA)		Total own funds requirements
		a	b	c
		31 December 2021	31 December 2020	31 December 2021
1	Credit risk (excluding CCR)	441	262	35
2	Of which the standardised approach	441	262	35
3	Of which the Foundation IRB (F-IRB) approach	-	-	-
4	Of which slotting approach	-	-	-
EU 4a	Of which equities under the simple risk weighted approach	-	-	-
5	Of which the Advanced IRB (A-IRB) approach	-	-	-
6	Counterparty credit risk - CCR	11	15	1
7	Of which the standardised approach	-	-	-
8	Of which internal model method (IMM)	-	-	-
EU 8a	Of which exposures to a CCP	2	9	-
EU 8b	Of which credit valuation adjustment - CVA	4	1	-
9	Of which other CCR	5	5	-
15	Settlement risk	-	-	-
16	Securitisation exposures in the non-trading book (after the cap)	120	238	10
17	Of which SEC-IRBA approach	-	-	-
18	Of which SEC-ERBA (including IAA)	-	-	-
19	Of which SEC-SA approach	120	238	10
EU 19a	Of which 1250% / deduction	-	-	-
20	Position, foreign exchange and commodities risks (Market risk)	-	-	-
21	Of which the standardised approach	-	-	-
22	Of which IMA	-	-	-
EU 22a	Large exposures	-	-	-
23	Operational risk	29	35	2
EU 23a	Of which basic indicator approach	29	35	2
EU 23b	Of which standardised approach	-	-	-
EU 23c	Of which advanced measurement approach	-	-	-
24	Amounts below the thresholds for deduction (subject to 250% risk weight)	-	-	-
29	**Total**	**601**	**550**	**48**

Capital buffers (Article 440 CRR)

Minimum capital requirements and additional capital buffers

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

MeDirect Belgium is required to meet a total SREP capital requirement ("TSCR") of 11% on a consolidated level. The TSCR of 11% is composed of a minimum own funds requirement of 8% to be maintained at all times in accordance with Article 92(1) of the CRR 2, and an own funds requirement of 3% required to be held in excess of the minimum own funds requirement and to be maintained at all times. In view of the current COVID-19 pandemic, on the 12 March, the ECB announced that as part of the extraordinary measures banks are allowed to partially use capital instruments that do not qualify as CET1, to meet the P2R. This brings forward a measure which was initially scheduled to come into effect in January 2021 as part of the revision of the Capital Requirements Directive, implying that institutions shall meet the additional own funds requirements imposed by the ECB with own funds that satisfy the following conditions: i) at least 75% shall be met with Tier 1 capital; and ii) at least 56.25% with CET1 capital. The Bank is also subject to the Overall Capital Requirement (OCR), in addition to TSCR, which includes the Combined Buffer Requirement.

The 2020 SREP decision also included a Pillar II Guidance (P2G) in addition to the OCR. The ECB has stated that it expects banks to meet the Pillar 2 guidance although it is not legally binding, and failure to meet the Pillar 2 guidance does not lead to automatic restrictions of capital distributions.

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

In addition to the measures above, CRD V sets out a 'systemic risk buffer' for the financial sector as a whole, or one or more sub-sectors, to be deployed as necessary by each EU member state with a view to mitigate structural macro-prudential risk. The 'systemic risk buffer' may range between 0% and 5%.

Geographical distribution of credit exposures *(Article 440 (a) CRR)*

CRD V also contemplates a countercyclical buffer in line with Basel III, in the form of an institution-specific countercyclical buffer and the application of increased requirements to address macro-prudential or systemic risk. This is expected to be set in the range of 0 - 2.5% of relevant credit exposure RWAs, whereby the rate shall consist of the weighted average of the 'countercyclical buffer' rates that apply in the jurisdiction where the relevant exposures are located.

The Bank held a countercyclical buffer requirement of 0.02% as at 31 December 2021. In light of the COVID-19 developments during 2020, most of the countries, including United Kingdom, France, Norway and Sweden have announced the full release of the countercyclical capital buffers in a bid to encourage lending throughout the coronavirus crisis. As at 31 December 2021, Norway had set a countercyclical buffer rate of 1%, Luxembourg had set a rate of 0.25%, while both Bulgaria and Czech Republic had a rate of 0.50%. The rest of the countries had set the rates at 0%.

The following table represents the Bank's geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer at 31 December 2021.

EU CCyB1: Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer*

As at 31 December 2021		**General credit exposures**	**Securitisation exposures**		**Own funds requirement**					
		a	*e*	*f*	*g*	*h*	*j*	*k*	*l*	*m*
		Exposure value for SA	*Exposure value for SA*	*Total exposure value*	*of which: general credit exposures*	*of which: securitisation exposures*	*Total*	*Risk weighted exposure amounts*	*Own funds requirement weights*	*Counter cyclical capital buffer rate*
	Amounts in €millions								**%**	**%**
010	**Breakdown by country:**									
	Austria	37	2	39	-	-	-	4	0.8%	0.0%
	Australia	-	-	-	-	-	-	-	0.0%	0.0%
	Belgium	-	3	3	-	-	-	1	0.1%	0.0%
	Bulgaria	-	-	-	-	-	-	-	0.0%	0.5%
	Canada	-	1	1	-	-	-	-	0.0%	0.0%
	Czech Republic	-	-	-	-	-	-	-	0.00%	0.5%
	Denmark	11	4	15	-	-	-	2	0.3%	0.0%
	Finland	18	4	22	-	-	-	3	0.5%	0.0%
	France	137	71	208	4	1	5	63	11.5%	0.0%
	Germany	126	45	171	3	1	4	43	7.9%	0.0%
	Ireland	20	7	27	-	-	-	4	0.8%	0.0%
	Italy	39	12	51	3	-	3	40	7.3%	0.0%
	Japan	-	-	-	-	-	-	-	0.0%	0.0%
	Luxembourg	16	28	44	1	1	2	19	3.4%	0.5%
	Malta	78	1	79	4	-	4	43	7.9%	0.0%
	Netherlands	986	136	1,122	10	5	15	182	33.2%	0.0%
	Norway	17	2	19	-	-	-	2	0.4%	1.0%
	Poland	24	-	24	-	-	-	2	0.4%	0.0%
	Portugal	-	1	1	-	-	-	-	0.0%	0.0%
	Singapore	-	-	-	-	-	-	-	0.0%	0.0%
	Slovenia	-	-	-	-	-	-	-	0.0%	0.0%
	Spain	15	15	30	1	-	1	19	3.5%	0.0%
	Sweden	21	14	35	1	-	1	15	2.7%	0.0%
	Switzerland	-	4	4	-	-	-	1	0.1%	0.0%
	United Kingdom	60	52	112	6	1	7	82	15.0%	0.0%
	United States	10	41	51	1	1	2	22	3.9%	0.5%
020		**1,615**	**443**	**2,058**	**34**	**10**	**44**	**547**	**100%**	

* Missing columns since the Bank does not use the IRB approach and does not hold a trading book.

Institution specific countercyclical buffer *(Article 440 (b) CRR)*

The following table shows an overview of our institution specific countercyclical exposure and buffer requirements:

EU CCyB2: Amount of institution-specific countercyclical capital buffer

		As at 31 December 2021
		a
1	Total risk exposure amount (€millions)	601
2	Institution specific countercyclical buffer rate (%)	0.02%
3	Institution specific countercyclical buffer requirement (€millions)	-

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

The ICAAP ensures that:

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

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

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

7 Leverage

Leverage ratio according to CRR/CRD framework

Article 429 of CRR 2 requires financial institutions to calculate a non-risk based leverage ratio, to supplement risk-based capital requirements. The leverage ratio measures the relationship between the capital resources of the organisation and its total assets. The leverage ratio is a regulatory supervisory tool for the Regulator, to constrain the build-up of excessive leverage in the banking sector – one of the drivers of the banking crisis – previously not captured within Basel II. It helps to avoid destabilizing deleveraging processes which can damage the broader financial system and the economy, and to reinforce the risk-based requirements with a simple non-risk based "backstop measure".

The leverage ratio is calculated by taking capital as a proportion of total exposures at the end of each quarter. Capital is defined as Tier 1 capital in line with Article 25 of the CRR 2, whilst total exposure relates to the total on and off-balance sheet exposures, less deductions applied to Tier 1 capital.

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

Our total leverage ratio exposures include derivatives, securities financing transactions (SFTs), off-balance sheet exposure and other on-balance sheet exposure (excluding derivatives and SFTs).

Leverage ratio (Article 451 (1) (a-c), (2) and (3) CRR)

The following table provides a summary of the Bank's leverage ratio exposure and the leverage ratio calculation as at 31 December 2021, determined in accordance with the requirements stipulated by Implementing Regulation (EU) 2016/200.

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

EU LR1- LRSum: Summary reconciliation of accounting assets and leverage ratio exposures

		a
	Amounts in €millions	**31 December 2021**
1	Total assets as per published financial statements	2,396
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of prudential consolidation	-
3	(Adjustment for securitised exposures that meet the operational requirements for the recognition of risk transference)	-
4	(Adjustment for temporary exemption of exposures to central banks (if applicable))	-
5	(Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the total exposure measure in accordance with point (i) of Article 429a (1) CRR)	-
6	Adjustment for regular-way purchases and sales of financial assets subject to trade date accounting	-
7	Adjustment for eligible cash pooling transactions	-
8	Adjustment for derivative financial instruments	23
9	Adjustment for securities financing transactions (SFTs)	-
10	Adjustment for off-balance sheet items (i.e., conversion to credit equivalent amounts of off-balance sheet exposures)	76
11	(Adjustment for prudent valuation adjustments and specific and general provisions which have reduced Tier 1 capital)	-
EU-11a	(Adjustment for exposures excluded from the total exposure measure in accordance with point (c) of Article 429a (1) CRR)	-
EU-11b	(Adjustment for exposures excluded from the total exposure measure in accordance with point (j) of Article 429a (1) CRR)	-
12	Other adjustments	(34)
13	**Total exposure measure**	**2,462**

The following table presents the constituents of the leverage exposure, the leverage ratio on a fully-loaded and phase-in basis with the fully-loaded and phase-in Tier 1 Capital, respectively as at 31 December 2021.

EU LR2 - LRCom: Leverage ratio common disclosure

		a
Amounts in €millions		**CRR leverage ratio exposures**
		31 December 2021
1	On-balance sheet items (excluding derivatives, SFTs, but including collateral)	2,366
2	Gross-up for derivatives collateral provided, where deducted from the balance sheet assets pursuant to the applicable accounting framework	-
3	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	-
4	(Adjustment for securities received under securities financing transactions that are recognised as an asset)	-
5	(General credit risk adjustments to on-balance sheet items)	-
6	(Asset amounts deducted in determining Tier 1 capital)	(3)
7	Total on-balance sheet exposures (excluding derivatives and SFTs)	**2,363**
8	Replacement cost associated with SA-CCR derivatives transactions (i.e., net of eligible cash variation margin)[5]	-
EU-8a	Derogation for derivatives: replacement costs contribution under the simplified standardised approach	-
9	Add-on amounts for potential future exposure associated with SA-CCR derivatives transactions	-
EU-9a	Derogation for derivatives: Potential future exposure contribution under the simplified standardised approach	-
EU-9b	Exposure determined under Original Exposure Method	84
10	(Exempted CCP leg of client-cleared trade exposures) (SA-CCR)	-
EU-10a	(Exempted CCP leg of client-cleared trade exposures) (simplified standardised approach)	-
EU-10b	(Exempted CCP leg of client-cleared trade exposures) (Original Exposure Method)	(61)
11	Adjusted effective notional amount of written credit derivatives	-
12	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	-
13	**Total derivatives exposures**	**23**
14	Gross SFT assets (with no recognition of netting), after adjustment for sales accounting transactions	-
15	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-
16	Counterparty credit risk exposure for SFT assets	-
EU-16a	Derogation for SFTs: Counterparty credit risk exposure in accordance with Articles 429e(5) and 222 CRR	-
17	Agent transaction exposures	-
EU-17a	(Exempted CCP leg of client-cleared SFT exposure)	-
18	**Total securities financing transaction exposures**	-
19	Off-balance sheet exposures at gross notional amount	187
20	(Adjustments for conversion to credit equivalent amounts)	(111)
21	(General provisions deducted in determining Tier 1 capital and specific provisions associated with off-balance sheet exposures)	-
22	**Off-balance sheet exposures**	**76**
EU-22a	(Exposures excluded from the total exposure measure in accordance with point (c) of Article 429a(1) CRR)	-
EU-22b	(Exposures exempted in accordance with point (j) of Article 429a(1) CRR (on and off balance sheet))	-
EU-22c	(Excluded exposures of public development banks (or units) - Public sector investments)	-
EU-22d	(Excluded exposures of public development banks (or units) - Promotional loans)	-
EU-22e	(Excluded passing-through promotional loan exposures by non-public development banks (or units))	-
EU-22f	(Excluded guaranteed parts of exposures arising from export credits)	-
EU-22g	(Excluded excess collateral deposited at triparty agents)	-
EU-22h	(Excluded CSD related services of CSD/institutions in accordance with point (o) of Article 429a (1) CRR)	-
EU-22i	(Excluded CSD related services of designated institutions in accordance with point (p) of Article 429a (1) CRR)	-
EU-22j	(Reduction of the exposure value of pre-financing or intermediate loans)	-
EU-22k	(Total exempted exposures)	-
23	**Tier 1 capital**	**171**
24	**Total exposure measure**	**2,462**
25	Leverage ratio (%)	6.95%
EU-25	Leverage ratio (excluding the impact of the exemption of public sector investments and promotional loans) (%)	-
25a	Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves) (%)	-
26	Regulatory minimum leverage ratio requirement (%)[6]	3.00%
EU-26a	Additional own funds requirements to address the risk of excessive leverage (%)	0.00%
EU-26b	of which: to be made up of CET1 capital	0.00%
27	Leverage ratio buffer requirement (%)	0.00%
EU-27a	Overall leverage ratio requirement (%)	3.00%
EU-27b	Choice on transitional arrangements for the definition of the capital measure	Transitional
28	Mean of daily values of gross SFT assets, after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivable	-

[5] The replacement cost associated with SA-CCR is effective from 30 June 2021.
[6] The Leverage ratio requirement is effective from 30 June 2021 under the CRR 2.

29	Quarter-end value of gross SFT assets, after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables	-
30	Total exposure measure (including the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables)	2,462
30a	Total exposure measure (excluding the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables)	2,462
31	Leverage ratio (including the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables)	6.95%
31a	Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables)	6.95%

The following table provides a split of the on-balance sheet exposures as at 31 December 2021 in relation to the calculation of the leverage ratio.

EU LR3 - LRSpl: Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)

	Amounts in €millions	a
		31 December 2021
		CRR leverage ratio exposures
EU-1	**Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:**	**2,365**
EU-2	Trading book exposures	-
EU-3	Banking book exposures, of which:	2,365
EU-4	Covered bonds	368
EU-5	Exposures treated as sovereigns	274
EU-6	Exposures to regional governments, MDB, international organisations and PSE, not treated as sovereigns	11
EU-7	Institutions	134
EU-8	Secured by mortgages of immovable properties	812
EU-9	Retail exposures	92
EU-10	Corporates	194
EU-11	Exposures in default	24
EU-12	Other exposures (e.g., equity, securitisations, and other non-credit obligation assets)	456

<u>*Factors that had an impact on the leverage ratio*</u> *(Article 451 (1) € CRR) (EU LRA)*

The leverage ratio has decreased by 1.9% during the financial period ended 31 December 2021, when compared to 31 December 2020. This decrease is partly attributed to a lower capital base, and partly due to a higher asset base as a result of continued investment in the Dutch Mortgage portfolio and higher amounts due from other financial institutions.

<u>*Process used to manage the risk of excessive leverage*</u> *(Article 451 (1) (d) CRR) (EU LRA)*

The Bank has maintained a leverage ratio well above the 3% minimum requirement and thus no additional capital is required.

The Bank has a very low appetite for even approaching this threshold, however, is willing to accept some volatility to this ratio if suitable lending or investment opportunities arise, provided that the overall goal of maintaining significant headroom to the regulatory minimum is not threatened. The Risk Appetite Statement includes early warning indicators and limits for the leverage ratio with a defined escalation process in case of risk of excessive leverage. In such instances, management is required to provide an action plan whilst keeping the Board updated with progress as outline in the Risk Appetite Framework The leverage ratio is reported to ALCO, ExCo and the Board on a regular basis. This ensure senior management are kept informed of any changes, in particular deterioration of the leverage ratio.

8 Intragroup Interconnectedness

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

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

The Group is made up as follows:

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

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 digitally through digital channels, attractive and innovative savings products in Belgium and senior secured loans and revolving credit facilities to finance the business of European corporates. MeDirect Belgium invests in Dutch residential mortgages via an established third-party mortgage originator in the Netherlands.

The Bank has retained substantially all risks and rewards pertaining to the activities of Bastion 2020-1, Bastion 2021-1 and Cavalier 2020, three controlled special purpose entities utilised as part of the Bank's funding strategy in respect of the Dutch Mortgage business, 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.

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

8.1 Intragroup Funding Arrangements

As at 31 December 2021, MeDirect Bank SA had outstanding the following material intra-group financial support agreements:

Intra Group Revolving Credit Facility

In 2020, the Group implemented an extensive restructuring of intragroup funding arrangements between MeDirect Belgium and MeDirect Malta. As part this restructuring, a new revolving credit facility was set up with a limit of €190 million. As at 31 December 2021, the Bank had undrawn commitments of €99 million under this revolving credit facility.

Revolving loan agreement

The Revolving Loan Agreement is a €70 million unsecured revolving credit facility made available by MeDirect Malta for drawdown in one or more tranches by MeDirect Belgium. The purpose of the loan facility is to provide liquidity to finance the day-to-day business operations of MeDirect Belgium if such financing is required. This agreement has never been utilised so far.

Deposit of Funds agreement

Under the Deposit of Funds Agreement, MeDirect Belgium may deposit funds with MeDirect Malta. A portion of the excess liquidity of MeDirect Belgium is placed with MeDirect Malta in the form of inter-company deposits and margins.

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

Grand Harbour I B.V. ("GH I") - a controlled special purpose entity, established in The Netherlands, was used as part of the Group's funding strategy. It was funded through two intragroup loan facilities subscribed to by the Bank's parent company MeDirect Bank (Malta) plc and the Bank itself.

From a regulatory point of view the investment in GH I was risk weighted by looking through to the underlying assets of the securitisation structure including the deposits held by GH I with MeDirect Malta.

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

Throughout the financial year GH I paid interest amounting to €6.5 million on the senior loan facility provided by MeDirect Belgium.

8.2 Operational Interconnectedness

Operationally, MeDirect Belgium is provided with resources, technology and personnel by MeDirect Malta pursuant in accordance with a cost sharing arrangement and a service level agreement. MeDirect Malta employees are made available to act for MeDirect Belgium under a staff sharing agreement. Certain IT services ae provided by MeDirect Malta to MeDirect Belgium through a service level agreement. Moreover, infrastructure is made available to support MeDirect's operations under leasing agreements, mainly by the group compony Medifin leasing Limited but also by MeDirect Malta.

Staff sharing agreement

Through a staff sharing agreement MeDirect Malta agrees to make available to MeDirect Belgium such employees as are needed in order to enable MeDirect Belgium to operate. Under this agreement, MeDirect Belgium reimburses MeDirect Malta an agreed percentage of the remuneration and social security paid by it in relation to such employees. Throughout the financial year MeDirect Malta recharged employee compensation and benefits to MeDirect Belgium amounting to €4.1 million.

Leasing and service level agreements

The leasing structure through Medifin Leasing ensures that the IT infrastructure (hardware, software and systems) is made available for use by MeDirect Malta and MeDirect Belgium. Each of MeDirect Malta and MeDirect Belgium have entered into a lease agreement with Medifin Leasing, whereby Medifin Leasing leases to MeDirect Malta and MeDirect Belgium certain assets mainly IT equipment/hardware, and provides them with the use, maintenance and third-party support services under any software licences and other products and/or services. MeDirect Malta also provides similar leasing and support services to MeDirect Malta. Throughout the financial period, MeDirect Belgium incurred IT support charges and lease charges from Medifin Leasing and MeDirect Malta equivalent to €2.1 million and €0.9 million respectively.

Recharging of expenses agreement

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

9 Recruitment and diversity policy statement

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

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

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

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

To achieve these objectives the Group sets goals for achieving diversity. The Board will:

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

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

The MDB Group has put a lot of focus on being diverse not only in its product offering but also in its workforce with over 24 nationalities across all locations. In addition, MeDirect have also seen an increase of female representation in its workforce and top management. An increase of 2% was recorded up to Q2 2022 in the overall female composition and an increase of 18.2% (more than doubling from 13.3% in 2020 to 31.5% in 2022) in its female presence in top management. This has been possible further to the various initiatives the Group has implemented to further support its workforce with focus on flexibility, reduced hours, and remote work.

Diversity in MeDirect Belgium's workforce continued to increase with the introduction of 3 nationalities (Maltese:5%, Polish:3% and Congolese: 2%). In addition, we have also seen an increase of female representation in the workforce and top management. When compared to 2019, the current overall female composition increased by 10%. Female representation in MeDirect Belgium's top management has increased by 1.3% over last year whilst in the other levels, the percentage has gradually increased by 15% from 2019.

The Board will continue to monitor this through the NRC.

Kindly refer to the Non-Financial Information report in the MDB Group Annual report.

Recruitment and diversity policy for board members
(Article 435 (2) (b) and (c) CRR) (EU OVB)

All Board appointments are made based on merit, in the context of the skills, experience, independence and knowledge which the Board as a whole requires to be effective.

The Bank recognises and embraces the benefits of building a diverse and inclusive Board and sees diversity as an essential component in maintaining competitive advantage. A diverse Board will include and make good use of differences in the skills, industry experience, background, and other distinctions between Directors. The differences will be considered in determining the optimum composition of the Board and when possible, should be balanced appropriately. In 2020 the Board appointed two Directors one as Chairperson hence increasing the female representation to 25%.

During the financial year ended 31 December 2021, the Bank strived to improve the diversity on the Board but there were no quantitative targets set in relation to the underrepresented gender or for the policies regarding diversity in age, educational background, professional background and geographical provenance. Following discussion during the NRC, it was agreed to have in place a measurable objective and plan for achieving the further diversity on the Board which will be reviewed and agreed by the Committee and presented to the Board for approval on an annual basis. The proportion of underrepresented gender on each of the Group and Belgian Boards is targeted to be at least 20% to be achieved by December 2023.

The following were the changes in directorships during the financial year and after the end of the reporting period:

Mr Bart Bronselaer was appointed as a non-executive director on 12 January 2021. Mr Hasan Dajani (CRO and executive director) resigned on 12 March 2021 and was replaced by Mr Francois Ducuroir who was appointed as a CRO and an executive director on 13 August 2021. On 7 April 2022, Mrs Franca Vossen, a non-executive director, resigned from the Board of MeDirect Belgium.
For an overview of the directors and other key officers of the Bank, their expertise, actual knowledge and skills, kindly refer to the following link:

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

10 Remuneration policy and practices

(EU REMA – Remuneration policy (points (a) to (d) of Article 450(1))

Remuneration governance

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

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

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

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

On an annual basis, the NRC reviews the budget allocated to the fixed salary increases for the forthcoming year and the variable remuneration pool for the previous financial year and review the individual remuneration of senior management and staff members who are employed in control functions such as Risk and Compliance, as well as that of staff with total remuneration above a threshold fixed by the NRC.

Remuneration policy statement

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

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

The policy is reviewed on an annual basis by the NRC or when significant changes occur in related directives, guidance, best practice and technical standards. The policy is also reviewed on an annual basis by the Internal Audit function to ensure that it is in compliance with all applicable legal and regulatory requirements. The NRC may also require review of this policy by external advisors to the extent it is deemed necessary or appropriate.

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

Material Risk Takers, that consist of members of staff whose actions have a material impact on the risk profile of the Bank, are identified on the basis of the qualitative and quantitative criteria set out in the Regulatory Technical Standard EU 2021/923. Material Risk Takers are also identified on the basis of additional criteria developed internally.

This category would include a member of the board of director, a member of senior management and the Heads and key personnel active in the independent control functions such as the internal audit, compliance and risk management functions.

Material Risk Takers would also include:

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

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

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

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

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

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

The Internal Audit team carries out an independent review of the design, implementation and effects of the Remuneration policy on the Bank's risk profiles and the way these effects are managed. The Bank may also outsource/co-outsource a third-party audit firm to perform the remuneration review.

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

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

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

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

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

The Bank's reward strategy

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

<u>Fixed remuneration</u>

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

Fixed remuneration also includes benefits (of a fixed nature as these are pre-determined). Benefits take account of market practice and include the provision of pension contributions, medical insurance and life assurance and others.

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

Performance bonuses represents additional remuneration payable to employees as a reward for achieving specific goals or hitting predetermined targets, but such variable remuneration is discretionary as the Group does not set an expectation to its employees that a bonus will be paid if certain goals are met, and the amount of the bonus are not determined in advance.

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

10.1 Determination of the performance bonus variable remuneration pools

A performance bonus pool is established for the Bank as a whole and is calculated at Bank level based on the success of the Bank in meeting its business objectives. The variable remuneration pool shall not be directly or solely linked to the amount of profits or revenues generated. Assessment of performance shall be made in the context of a multi-year analysis, taking into account the business cycle and the Bank's business risks. In determining the variable remuneration pool, the Bank applies a prudent, forward-looking approach, consistent with maintaining a sound capital base. The Bank expects that in aggregate variable remuneration shall not have a significant impact on its capital base and is immaterial in relation to its overall capital and operating income.

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

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

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

The variable remuneration pool is approved by the NRC.

10.2 Measures of performance as basis for awarding of bonuses

All personnel are compensated out of the variable remuneration bonus pool based on their contribution to the achievement of the Bank's business objectives as well as personal objectives. The allocations of individual variable remuneration awards are correlated to the staff member's formalised annual individual appraisal, that takes into consideration quantitative and qualitative objectives known to the employee, as well as risk management considerations. Individuals are compensated out of that bonus pool based on their contribution to the achievement of the Bank's business objectives.

Such individual criteria will also depend on the role of the individual in the Bank. The amount of variable remuneration will vary depending on the performance of the staff member, as well as of the staff member's business unit and the institution as a whole.

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

- Objective setting at the beginning of the year

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

- End of year appraisal

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

10.3 Individual allocation of the variable remuneration

i. All staff (including material risk takers)

The Human Resources Team initiates the process of gathering recommendations for salary revisions, bonuses and promotions from ExCo members. A bonus pool is allocated per department based on the bonus pool of the group. A percentage of fixed salary is allocated to each performance rating scale.

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

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

The Human Resources Team ensure that recommendations for salary revisions and bonuses do not exceed the allocated pool. The Chief Risk Officer of MeDirect Belgium confirms that the bonus allocation is consistent with sound and effective risk management practices and does not impact the capital adequacy of the Bank. Recommendations are then discussed with the Chief Executive Officer for approval before presenting to the NRC.

<u>Internal control functions</u>

Whilst the general bonus pool of the Bank will be based on the Bank's financial results, compensation of control functions is not directly tied to the results of any business unit but should provide incentives for such staff to deliver the best performance in their role. The remuneration of staff in control functions is in accordance with the achievement of the objectives linked to their functions, independent of the performance of the business areas they control, and their remuneration should be predominantly fixed so as to reflect the nature of their responsibilities. Thus, control functions are judged on success in developing appropriate policies, developing effective risk management controls and procedures, monitoring risk and building control systems. The Bank's remuneration practices shall ensure that no material conflict of interest arise in respect or remuneration for staff in the Bank's control functions.

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

<u>Other matters on variable remuneration</u>

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

Without prejudice to the de-minimis carve-out of variable remuneration not exceeding €75,000 provided in the NBB Circular NBB_2016_44 of 10 November 2016, where variable remuneration is more than €50,000 or for lower values which are more than 100% of the fixed remuneration, a minimum of 50% of the variable remuneration cannot be delivered in the form of cash. There were no instances throughout the financial year when the 50% ratio for the MeDirect Belgium Staff was exceeded.

Variable remuneration may be paid in the form of the following: 1) upfront cash; 2) an upfront share-linked instrument award and/or 3) a deferred award representing an award granted in respect of cash or share-linked instruments subject to deferral. Such award of share-linked instruments for the purpose of Article 94 (1) (i) of CRD entitles the material risk taker to a cash payment based on the market value of a share of the MDB Group but does not entitle the employee to shares or any interest in or right over such shares. In the case of upfront share-linked awards and deferred share-linked award linked to a retention bonus, these awards would be subject to a retention period as determined by the NRC, of not less than 12 months but not greater than 5 years.

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

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

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

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

ii. Material risk takers

The remuneration elements for all MRTs are detailed in the tables below in accordance with Article 450 CRR.

Material Risk Takers are classified as follows:

• Supervisory function

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

The fee levels payable reflect the time commitment and responsibilities required of a non-executive director. It is determined based on remuneration levels for directors of similar financial companies and takes into account factors such as time invested and responsibilities.

• Management function

The management function consists of members of the board of directors who have executive functions and may be responsible for certain business units, heads of material business units and senior management. Throughout the year members of the management function were awarded a performance bonus delivered in cash and certain members of the management function were also awarded performance bonuses delivered in cash and share linked instruments.

• Retail and Corporate Banking

This category would include the following people that would benefit from a performance bonus delivered in cash.
- Heads and key personnel of retail and corporate banking material business units/business lines.
- Staff members responsible for initiating credit proposals or structuring credit products which relate to material credit risk exposures.

• Corporate functions

Heads and key personnel within Finance, Administration, Treasury and Human Resources are included in this category and they benefit from a performance bonus delivered in cash. This category includes all functions that have responsibilities for the whole institution at the consolidated level and for subsidiaries with such functions at the solo level.

• Independent control functions

As described in the EBA's guidelines on internal governance, this category would consist of the Heads and key personnel active in the independent control functions such as the internal audit, compliance and risk functions of the Bank and subsidiaries. They benefit from performance bonuses delivered in cash. Such compensation of control functions is not directly tied to the results of any business unit but should provide incentives for such staff to deliver the best performance in their role. The remuneration of staff in control functions is in accordance with the achievement of the objectives linked to their functions, independent of the performance of the business areas they control, and their remuneration should be predominantly fixed so as to reflect the nature of their responsibilities.

EU REM1 - Remuneration awarded for the financial year

			a	b	C	d
	Remuneration in €millions		MB Supervisory function	MB Management function	Other senior management	Other identified staff
1	Fixed remuneration	Number of identified staff	5	3	3	4
2		Total fixed remuneration	-	1	-	1
3		Of which: cash-based	-	1	-	-
4		(Not applicable in the EU)				
EU-4a		Of which: shares or equivalent ownership interests	-	-	-	-
5		Of which: share-linked instruments or equivalent non-cash instruments	-	-	-	-
EU-5x		Of which: other instruments	-	-	-	-
6		(Not applicable in the EU)				
7		Of which: other forms	-	-	-	-
8		(Not applicable in the EU)				
9	Variable remuneration	Number of identified staff	-	3	2	3
10		Total variable remuneration	-	-	-	-
11		Of which: cash-based	-	-	-	-
12		Of which: deferred	-	-	-	-
EU-13a		Of which: shares or equivalent ownership interests	-	-	-	-
EU-14a		Of which: deferred	-	-	-	-
EU-13b		Of which: share-linked instruments or equivalent non-cash instruments	-	-	-	-
EU-14b		Of which: deferred	-	-	-	-
EU-14x		Of which: other instruments	-	-	-	-
EU-14y		Of which: deferred	-	-	-	-
15		Of which: other forms	-	-	-	-
16		Of which: deferred	-	-	-	-
17	Total remuneration (2 + 10)		-	1	-	1

EU REM2 - Special payments to staff whose professional activities have a material impact on institutions' risk profile (identified staff)

		a	B	c	d
	Remuneration in €millions	MB Supervisory function	MB Management function	Other senior management	Other identified staff
	Guaranteed variable remuneration awards				
1	Guaranteed variable remuneration awards - Number of identified staff	-	-	-	-
2	Guaranteed variable remuneration awards -Total amount	-	-	-	-
3	Of which guaranteed variable remuneration awards paid during the financial year, that are not taken into account in the bonus cap	-	-	-	-
	Severance payments awarded in previous periods, that have been paid out during the financial year				
4	Severance payments awarded in previous periods, that have been paid out during the financial year - Number of identified staff	-	-	-	-
5	Severance payments awarded in previous periods, that have been paid out during the financial year - Total amount	-	-	-	-
	Severance payments awarded during the financial year				
6	Severance payments awarded during the financial year - Number of identified staff	-	1	-	-
7	Severance payments awarded during the financial year - Total amount	-	-	-	-
8	Of which paid during the financial year	-	-	-	-
9	Of which deferred	-	-	-	-
10	Of which severance payments paid during the financial year, that are not taken into account in the bonus cap	-	-	-	-
11	Of which highest payment that has been awarded to a single person	-	-	-	-

As per Article 450 of the CRR we confirm that there was remuneration that was subject to deferral, that will vest over a maximum period of five years and that is subject to malus or clawback provisions.

EU REM3 - Deferred remuneration

	Remuneration in €millions	a	b	c	d	e	f	EU - g	EU - h
	Deferred and retained remuneration	Total amount of deferred remuneration awarded for previous performance periods	Of which due to vest in the financial year	Of which vesting in subsequent financial years	Amount of performance adjustment made in the financial year to deferred remuneration that was due to vest in the financial year	Amount of performance adjustment made in the financial year to deferred remuneration that was due to vest in future performance years	Total amount of adjustment during the financial year due to ex post implicit adjustments (i.e., Changes of value of deferred remuneration due to the changes of prices of instruments)	Total amount of deferred remuneration awarded before the financial year actually paid out in the financial year	Total of amount of deferred remuneration awarded for previous performance period that has vested but is subject to retention periods
1	MB Supervisory function	-	-	-	-	-	-	-	-
2	Cash-based	-	-	-	-	-	-	-	-
3	Shares or equivalent ownership interests	-	-	-	-	-	-	-	-
4	Share-linked instruments or equivalent non-cash instruments	-	-	-	-	-	-	-	-
5	Other instruments	-	-	-	-	-	-	-	-
6	Other forms	-	-	-	-	-	-	-	-
7	MB Management function	-	-	-	-	-	-	-	-
8	Cash-based	-	-	-	-	-	-	-	-
9	Shares or equivalent ownership interests	-	-	-	-	-	-	-	-
10	Share-linked instruments or equivalent non-cash instruments	-	-	-	-	-	-	-	-
11	Other instruments	-	-	-	-	-	-	-	-
12	Other forms	-	-	-	-	-	-	-	-
13	Other senior management	-	-	-	-	-	-	-	-
14	Cash-based	-	-	-	-	-	-	-	-
15	Shares or equivalent ownership interests	-	-	-	-	-	-	-	-
16	Share-linked instruments or equivalent non-cash instruments	-	-	-	-	-	-	-	-
17	Other instruments	-	-	-	-	-	-	-	-
18	Other forms	-	-	-	-	-	-	-	-
19	Other identified staff	-	-	-	-	-	-	-	-
20	Cash-based	-	-	-	-	-	-	-	-
21	Shares or equivalent ownership interests	-	-	-	-	-	-	-	-
22	Share-linked instruments or equivalent non-cash instruments	-	-	-	-	-	-	-	-
23	Other instruments	-	-	-	-	-	-	-	-
24	Other forms	-	-	-	-	-	-	-	-
25	Total amount	-	-	-	-	-	-	-	-

EU REM4 - Remuneration of 1 million EUR or more per year

No identified staff within MeDirect Belgium earns a total remuneration that exceeds €1 million.

		A
	EUR	Identified staff that are high earners as set out in Article 450(i) CRR
1	1 000 000 to below 1 500 000	-

EU REM5 - Information on remuneration of staff whose professional activities have a material impact on institutions' risk profile (identified staff)

		a	b	c	d	e	f	g	H	i	j
		Management body remuneration			**Business areas**						
	Remuneration in €millions	**MB Supervisory function**	**MB Management function**	**Total MB**	**Investment banking**	**Retail banking**	**Asset management**	**Corporate functions**	**Independent internal control functions**	**All other**	**Total**
1	**Total number of identified staff**										**15**
2	**Of which: members of the MB**	5	3	8							
3	**Of which: other senior management**				-	1	-	1	1	-	
4	**Of which: other identified staff**				-	-	-	1	3	-	
5	**Total remuneration of identified staff**	-	1	2	-	-	-	-	1	-	
6	**Of which: variable remuneration**	-	-	-	-	-	-	-	-	-	
7	**Of which: fixed remuneration**	-	1	1	-	-	-	-	1	-	

11 Number of directorships held by board members

(Article 435 (2) (a) CRR) (EU OVB)

The number of other directorships held by members of the MeDirect Bank S.A./N.V. Board members as at 31 December 2021 (excluding the functions exercised in companies ultimately owned by Anacap Financial Partners II L.P., in personal patrimony/management companies, and in non-profit associations) are listed in the table below. A full list of the external functions exercised by the directors of the Bank is available in the Annual Report for the financial year ended 31 December 2021 that can be found in the following website https://www.medirect.be/about-medirect/facts-and-figures.

Directors as at 31 December 2021		**Number of other directorships held**
Marcia De Wachter	Independent Non-Executive Chairman	1 NED
Bart Bronselaer	Independent Non-Executive Director	2 NED*
Michael Bussey	Independent Non-Executive Director	1 NED **
Franca Vossen	Independent Non-Executive Director	1 ED and 1 NED ***
John Zarb	Independent Non-Executive Director	3 NED
Tim Rooney	Executive Director	-
Marcel Berkhout	Executive Director	1 NED
Francois Ducuroir	Executive Director	-

* One Directorship approved by the Financial Services and Markets Authority (FSMA) and another Directorship approved by the National Bank of Belgium (NBB) and Autorité de Contrôle Prudentiel et de Résolution (ACPR)
** Directorship approved by the UK Prudential Regulation Authority
*** Directorship approved by De Nederlandsche Bank (DNB)

NED stands for Non-Executive Director
ED stands for Executive Director

Appendix A – List of templates

Appendix B: CRR 2 References

CRR Ref.	**High-level summary**	**Applicable to MeDirect Yes/No**	**Compliance reference**
	Article 431: Scope of disclosure requirements		
431 (1)	Requirement to publish Pillar 3 disclosures	Yes	MeDirect Belgium publishes these Pillar 3 disclosures
431 (2)	Firms with permission to use specific operational risk methodologies must disclose operational risk information.	No	No specific permissions in respect of the calculation of specific operational risk granted to the Bank.as it does not use the Advances Measurement Approaches for operational risk
431 (3)	Institution must have a policy covering frequency of disclosures, their verification, comprehensiveness and overall appropriateness. Additionally, Institution must have written attestation of at least one member of the management body or senior management that the required disclosures have been made.	Yes	The Bank compiles the Additional Regulatory Disclosures in accordance with the requirements emanating from the CRR and relevant EBA guidelines. Refer to Section 1.1 – "Pillar 3 Disclosure Policy" and section 1.3 – "Attestation by the directors".
431 (4)	Quantitative disclosures must be accompanied by qualitative narrative and any other supplementary information required to understand the disclosures.	Yes	Evidenced throughout these Pillar 3 disclosures.
431 (5)	Explanation of ratings decision upon request	No	Not applicable for MeDirect.
	Article 432: Non-material, proprietary or confidential information		
432 (1)	Institutions may omit information that is not material if certain conditions are respected.	No	MeDirect complies with all relevant disclosure requirements. No information is omitted due to being considered proprietary or confidential as is noted in Section 1.1 – "Pillar 3 Disclosure Policy" of this Report. No item required to be disclosed was purposely fully omitted.
432 (2)	Institutions may omit information that is proprietary or confidential if certain conditions are respected.	No	
432 (3)	Where 432 (1) and (2) apply this must be stated in the disclosures, and more general information must be disclosed.	No	
	Article 433: Frequency of disclosure		
433	Disclosures must be published once a year at a minimum, and more frequently if necessary.		Compliance with this provision is covered by the Disclosure policy. Refer to Section 1 "Introduction". MeDirect Belgium is only required to publish annual Pillar 3 disclosures.
	Article 433a: Disclosure by large institutions		
433a1	Disclosures under specified articles must be made on an annual, semi-annual or quarterly basis as is identified in this article.	No	Medirect Belgium is not a large institution
433a2	Non-listed G-SIIs are required to disclose information relating to specified articles on an annual or semi-annual basis as identified in this article.	No	MeDirect Belgium is not a G-SII
433a3	Large institutions subject to articles 92a or 92b must make additional disclosures on a semi-annual or quarterly basis as identified in this article.		
	Article 433b: Disclosures by small and non-complex institutions		
433b (1)	Disclosures under specified articles must be made on an annual or semi-annual basis as is identified in this article.	Yes	MeDirect is a small institution. As specified in Section 1 "Introduction" MeDirect Belgium is required to publish the disclosures as required by Article 433b of the CRR. However, MeDirect Belgium decided to make certain additional disclosures on a voluntarily basis.
433b (2)	Non-listed small and non-complex institutions are required to disclose information relating to specified articles on an annual basis as identified in this article		

Article 433c: Disclosures by other institutions			
433c (1)	Disclosures under specified articles must be made on an annual, semi-annual basis as is identified in this article.	No	MeDirect is a small and non-complex institution.
433c (2)	Non-listed other institutions are required to disclose information relating to specified articles on an annual basis as identified in this article.		
Article 434: Means of disclosures			
434 (1)	To include of disclosures in one appropriate medium or provide clear cross-references.	Yes	Most disclosures are contained within this document. Any cross-references to accounting or other disclosures are clearly signposted in this document. Signposting directs the reader to the MeDirect Belgium 2021 annual report where appropriate. Refer to Section 1.1 – “Pillar 3 Disclosure Policy”. All documents are available on the following website: https://www.medirect.be/about-medirect/investor-relations/
434 (2)	Disclosures made under other requirements (e.g., accounting) can be used to satisfy Pillar 3 if appropriate.		
Article 434a: Uniform disclosure formats			
434a	EBA shall develop implementing technical standards specifying uniform disclosure formats and associated instructions in accordance with the disclosures required under CRR.	Yes	Evidenced throughout this Report via standardised templates and tables applicable to MeDirect Belgium. Also refer to Appendix A.
Article 435: Risk management objectives and policies			
435 (1) (a)	Disclose information on strategies and processes; organisational structure, reporting systems and risk mitigation/hedging.	Yes	Refer to Section 2 “Risk Management, objectives and policies”
435 (1) (e)	declaration approved by the management body on the adequacy of risk management arrangements with regard to the institution's profile and strategy.	Yes	Refer to Section 2.3 “Risk statement”
435 (1) (f)	Inclusion of a concise risk statement approved by the Board.	Yes	Refer to 2.1.2 “Overview of the management of key risks”, Section 2.1.3 “Risk appetite” and Section 2.3 “Risk Statement”. This statement covers the principal risks.
Article 438: Disclosure of own funds requirements and risk-weighted exposure amounts			
438 (d)	Total risk-weighted exposure amount and corresponding total own funds requirement, broken down by risk categories, and explanation of effect on calculations resulting from application of capital floors.	Yes	The Bank uses the Standardised Approach - Refer to Section 6 “Capital requirements” and Table EU OV1.
Article 447: Disclosure of key metrics			
447 (a)	Composition of own funds and own funds requirements.	Yes	Refer to Section 1.2 “Key metrics” and table EU KM1 within this section.
447 (b)	Total risk exposure amount.		
447 (c)	Amount and composition of additional own funds required to be held.		
447 (d)	Combined buffer requirement which institutions are required to hold.		
447 (e)	Leverage ratio and total exposure measure		
447 (f)	The following information on the liquidity coverage ratio: (i) average(s) of liquidity coverage ratio based on end of month observations over preceding 12 months. (ii) average(s) of total liquid assets, after applying haircuts, in the liquidity buffer. (iii) average liquidity outflows, inflows and net liquidity outflows based on end of the month observations over the preceding 12 months		
447 (g)	The following information on the net stable funding requirement:		

	(i) NSFR ration and end of each quarter of the relevant period. (ii) Available stable funding at end of each quarter of the relevant period. (iii) Required stable funding at the end of each quarter of the relevant period.		
447 (h)	The own funds and eligible liabilities ratios and their components, numerator and denominator	No	MeDirect Belgium is not a G-SII.
Article 450: Remuneration policy			
450 (1) (a)	information concerning the decision-making process used for determining the remuneration policy, as well as the number of meetings held by the main body overseeing remuneration during the financial year, including, if applicable, information about the composition and the mandate of a remuneration committee, the external consultant whose services have been used for the determination of the remuneration policy and the role of the relevant stakeholders;	Yes	Refer to Section 10 “Remuneration policy and practices”
450 (1) (b)	Information on link between pay and performance;		
450 (1) (c)	the most important design characteristics of the remuneration system, including information on the criteria used for performance measurement and risk adjustment, deferral policy and vesting criteria;		
450 (1) (d)	the ratios between fixed and variable remuneration set in accordance with Article 94(1)(g) of Directive 2013/36/EU;	Yes	Refer to Section 10 “Remuneration policy and practices” and table EU REM 1.
450 (1) (h)	(h) aggregate quantitative information on remuneration, broken down by senior management and members of staff whose actions have a material impact on the risk profile of the institution, indicating the following: (i) the amounts of remuneration for the financial year, split into fixed and variable remuneration, and the number of beneficiaries; (ii) the amounts and forms of variable remuneration, split into cash, shares, sharelinked instruments and other types separately for the part paid upfront and the deferred part; (iii) the amount of deferred remuneration awarded for previous performance periods, split into vested and unvested portions; (iv) the amount of deferred remuneration due to vest in the financial year that is paid out during the financial year, and that is reduced through performance adjustments; (v) the guaranteed variable remuneration awards during the financial year, and the number of beneficiaries of those awards; (vi) the severance payments awarded in previous periods, that have been paid out during the financial year; (vii) the amounts of severance payments awarded during the financial year, split into paid upfront and deferred, the number of beneficiaries of those payments and highest payments that has been awarded to a single person;	Yes	Refer to Section 10 “Remuneration policy and practices” and tables EU REM 1 and EU REM3 within this section.
450 (1) (i)	the number of individuals being remunerated EUR 1 million or more per financial year, for remuneration between EUR 1 million and EUR 5 million broken down into pay bands of EUR 500 000 and	Yes	Refer to Section 10 “Remuneration policy and practices” and tables EU REM4 within this section.

	for remuneration of EUR 5 million and above broken down into pay bands of EUR 1 million;		
450 (1) (j)	Upon demand from the Member State or competent authority, the total remuneration for each member of the management body or senior management	No	Upon demand, the Bank will provide to the Member State or competent authority, the total remuneration for each member of the management body or senior management.