Sustainability Risk Policy

MeDirect Group

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1. Introduction

The Group aims to continue building a responsible and sustainable organisation based on sound values and ESG principles. The Group is mindful of the importance of taking into consideration of all sustainability-related risks to which the Group and/or its operations, activities, commercial interests, or stakeholders may be exposed while providing financial services.

MeDirect's core values and ESG strategy underpin its corporate principles and business philosophy in this respect.

2. Scope and Purpose

This Sustainability Risk Policy (the "**Policy**") applies to MDB Group Ltd. ("**Group**", "**MeDirect**") and its group entities including MeDirect Bank (Malta) plc ("**MeDirect Malta**") and MeDirect Bank NV/SA ("**MeDirect Belgium**").

This Policy outlines the Group's approach on integrating and managing sustainability risks in the Group's main processes. This Policy is designed to set out the Group's strategic approach in identifying, assessing, measuring, mitigating and, where possible, preventing entirely, all material sustainability-related risks to which the Group may be exposed to.

This Policy should be made available on the dedicated sustainability pages on the MeDirect Malta's and MeDirect Belgium's website respectively.

3. Sustainability risks

Sustainability risk ("ESG risk") refers to an *"environmental, social or governance ("ESG") event or condition that, if it had to occur, could cause an actual or a potential material negative impact on the value of the investment*" as defined in the SFDR Regulation impacting directly or indirectly the financial value of the business.

Sustainability risks might have a negative consequence for the financial institutions and its customers and counterparties impacting its financial and market position.

Sustainability factors encompass as ''environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters'', as defined in the SFDR Regulation.

ESG risk factors include the following:

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

According to the **European Central Bank** (**the "ECB"**) **Guide on climate-related and environmental risks** (**"CER"**) published in November 2020, sustainability risks driven by climate change and environmental degradation can be categorized into two types: physical risks and transition risks.

Physical risk refers to the financial impact of a changing climate, including more frequent extreme weather events and gradual changes in climate, as well environmental degradation, such as air, water and land pollution, water stress, biodiversity loss and deforestation. It can be acute arising from extreme events, such as droughts, floods and storms, or chronic arising from progressive shifts, such as increasing temperatures, sea-level rises, water stress, biodiversity loss, land use change, habitat destruction and resource scarcity. Physical risks can directly result in, *inter alia,* damage to property or reduced productivity, or indirectly lead to subsequent events, such as the disruption of supply chains.

Transition risk refers to the financial loss an institution may incur, directly or indirectly, from the process of adjustment towards a lower-carbon and more environmentally sustainable economy. This could be triggered by, inter alia, a relatively abrupt adoption of climate and environmental policies, technological progress or changes in market sentiment and preferences. These changes might require significant investments in adjusting to new requirements and/or cost related to fossil fuels or emissions certificates/taxes and/or impact business development such as fossil fuel phase-out, electro-mobility enter and/or change in counterparty preferences and social expectations.

Sustainability risks can either represent a risk of their own or have an impact on other risks and may contribute significantly to other financial and non-financial risks categories, such as credit risks, operational risks, liquidity risks, customer risks, reputational/litigation risks, counterparty risks or market risks incorporated into respective management frameworks. The table below presents some CER/ESG risks transmissions channels examples that the banks could be exposed to.

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

Risk Categories	Potential effects of CER/ESG Risks
Credit Risk	It can reduce the ability of business and retail clients to cover their obligations due on existing lending contracts (e.g. physical weather events, capital expenditure driven by new regulations, negative sentiment around controversial/CER sensitive/ violating human rights sectors, loss of income). It can lead to depreciation/erosion of collateral values (e.g., stranded assets, property damage due to physical weather events). It can impact the Group through credit losses, increase of probability of default (PD) and loss given default (LGD), stability of loan-to-value ratios and reduce the income.
Market Risk	It can drive repricing and impact valuation of equities (e.g. companies with unsustainable business models or operating in controversial/CER sensitive sectors or violating human rights, stranded assets, physical risk events), fixed income products (e.g. increased sovereign risk on some markets through increasing sovereign debt and reducing access to capital market), commodities and derivatives resulting in securities sell-off, interest rates, FX and credit spreads volatility. It can impact the Group financial assets revaluation and the income.
Liquidity Risk	It can impact the client's profitability (e.g. new ESG regulatory requirements or restrictions) and reduce pool of liquid funds deposited. Physical weather events or natural disasters may cause a sudden increase in demand for funds. It can impact the Group funding base through outflows, availability and cost of funding due to changing clients' sentiment, reputational risk or impact of physical weather events.

	Sudden revaluation of securities (e.g. due to stranded assets) may lower the value of the Group high quality liquid assets (HQLA) affecting liquidity buffer. ESG ratings downgrades may discourage investors and increase financing costs and refinancing risk.
Operational Risk	It can lead to operational centres damage (e.g. floods), clients service delivery disruption (e.g. lack of energy supplies) and business continuity risk asa result of weather events or liquidity/reputational risk as a result of changing market sentiment. It can lead to higher energy, water and insurance prices impacting Group operational costs. Not complying with the guidelines, norms, and regulations related to ESG/CER transformation may result in regulatory actions and customers or market participants litigations.
Reputational Risk	May arise from the materialisation of the above risks impacting reputation of the Group on the market and perception of the clients, regulators, stakeholders, market participants and rating agencies.
Litigation Risk	Litigation risk consist of the risk of any potential claim made against the Bank and/or legal proceedings instituted against the Bank as a result of the Bank's alleged failure to observe its CER and ESG-related obligations and/or carry out its business in a sustainable manner. It is important to note that the term "litigation risk" is to be understood broadly and can result from a number of different factors, including (but not limited to): (i) Environmental & climate change-related claims (ii) Claims alleging potential greenwashing (iii) Claims alleging human rights violations (iv) Liability for supply chains & subsidiaries (v) Alleged directorial misconduct and/or neglect of directors hip duties (vi) Stakeholder activism

4. Sustainability Risk Governance

The Group Board of Directors is ultimately responsible for approving and overseeing the implementation of the Group's strategic objectives and main policies/procedures including the implementation of this Policy. The Group Board of Directors has general oversight of the ESG strategy and agenda that incorporate ESG/CER procedures and commitments.

The Group Board of Directors recognise that failure to put in place and implement adequate and robust frameworks for the implementation of this Policy may result in an increased litigation risk for the Group. Inadequate oversight may result in the Group's failure to comply with all applicable regulatory requirements e.g. on climate-related disclosures. A lack of oversight and proper governance may also render the Group vulnerable to a potential claim of "greenwashing" e.g. where certain statements regarding ESG criteria are made public without undergoing the necessary internal verification and review processes.

Cognizant of the fact that the transition to a more sustainable business model is a key supervisory priority for the Group's regulators, the Group recognises that inadequate governance structure vis-à-vis the Group's ESG commitments (and the failure to deliver upon those commitments) increases the risk of regulatory intervention and sanctioning and/or the lodging of a complaint against the Group by an aggrieved stakeholder. Complaints and regulatory action are often a precursor to litigation.

The Group Board structure ensures oversight by the Group as a whole, helping to ensure consistency on matters affecting the entire Group, such as emerging sustainability risks. By setting the ESG agenda at the Group level, the Group Board of Directors ensures a common ESG strategic framework applicable across the whole Group.

The Group's ESG Committee has the overall responsibility for sustainability matters and oversees the ESG strategy and agenda implementation whilst providing advice and support to the Group Board of Directors on ESG matters. The Committee includes key managers of the Group representing the main areas critical to the effective management of ESG and CER issues.

The Group Head of Sustainability is the primary coordination point driving the ESG strategy and agenda, engaging with the various Boards within the Group and interacting with the Group's business, support and control functions.

The Regulatory Compliance function monitors all incoming regulatory and legislative changes, (including CER/ESG-specific legislation) and ensures that the Group is keep abreast of all such changes. Engaging in this horizon scanning is necessary to ensure that compliance risk and litigation risks are significant mitigated insofar as the Group would, ahead of time, assess and understand the expected impact of all incoming regulatory changes and make the necessary preparations to ensure compliance.

All the strategic objectives and commitments related to CER/ESG should be incorporated in the ESG Strategy. The Strategy should be reviewed and updated periodically.

Moreover, the Group should prepare on the annual basis Non-Financial Report disclosing Group approach to sustainability risks and progress in CER/ESG agenda. The report should apply international standards and relay on the double materiality assessment once selecting the disclosed topics.

All publications that include statements and reporting on any climate-related, social and/or other ESG matters must always be subject to the appropriate internal oversight and vetting procedure prior to receiving clearance to publish. Central to the Group's efforts to guard against any potential future litigation risk, particularly any allegations of potential misleading or false statements, is to ensure that all information published is duly verified and confirmed to be accurate and complete. Information, particularly with respect to setting out the Group's ESG credentials, should also be accompanied by the appropriate context so as to provide a balanced and accurate picture.

5. MeDirect's approach to sustainability risks

MeDirect as a responsible organisation should incorporate sustainability criteria into its main business processes including credit, wealth, procurement, remuneration and governance processes with the aim of managing and mitigating sustainability risks and raising ESG/CER awareness among the organisation and its clients and partners.

Moreover, risk functions should conduct CER Materiality Risk Assessment to analyse the main climate and environmental-related risks that may affect the Group's strategy, business model, asset portfolios, funding sources, treasury and hedging, wealth management services and business operating centres. This assessment should be reviewed on an annual basis.

During the incorporation of sustainability criteria into its main business processes the Group should consider:

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

Wherever possible the Group should apply “double materiality” principle while analysing sustainability risk by taking into account the following perspectives in the short, medium, and long term:

1) the impact of CER/ESG factors on the Bank’s operations, financial results, capital and strategic development,

2) the impact of the Group’s activities on society and the environment.

In these processes, the Group may use internal analysis, third-party data sources, and independent specialist advisors. Moreover, when analysing sustainability criteria and risks the Group should take into account legal and cultural differences specific to a particular markets or jurisdiction.

The identification of sustainability risks does not necessarily preclude the offering of the services however consideration of these factors is an essential part of the overall risk management. The Group might consider applying some risk limits or risk appetite thresholds which relate specifically to sustainability risks.

Sustainability risks, particularly climate and environmental risks, should be integrated into the Group’s overall Risk Appetite Framework. This addresses all financial and non-financial risk categories, including the litigation, reputational, customer and strategic risks, stemming from CER, all of which are subject to the same monitoring, escalation, and reporting processes.

The Group should constantly monitor for, and be aware of, developments to the applicable legal landscape and/or evolving industry standards in order to properly identify, manage and mitigate sustainability risk potentially arising due to an incoming regulatory change.

5.1 Credit Process

MeDirect Group as part of its specialised lending business focuses on mortgages and corporate lending sectors.

In the mortgage business, it invests in Dutch residential government guaranteed (NHG) mortgage receivables in partnership with the Blauwtrust Groep and in Belgian mortgages receivables in partnership with Allianz Benelux as well as offers residential home loans in Malta. In addition, the Group invests in Dutch buy-to-let mortgages receivables in partnership with Build Finance focusing on professional buy-to-let landlords, either private individuals or legal entities.

In the corporate business, it invests in a diversified international corporate lending portfolio and offers corporate loans to Maltese borrowers on the local market.

Whenever applicable and possible, given its business profile and model, the Group should consider incorporating appropriate sustainability criteria and provisions in its credit processes, policies and/or procedures inter alia by:

1. Restricting and/or prohibiting the establishment of a banking relationship with certain types of clients operating in ESG sensitive geographic locations or industries during the onboarding due diligence (CDD/KYC) of retail (in case the Group is the lender of record) and corporate clients as described in the Group's Client Acceptance Policy,
2. Prohibiting its financing of corporate clients directly involved in the selected environmentally sensitive sectors that might cause potentially negative effects on the environment as described in the credit policies (exclusion list),
3. Limiting its exposure to the sectors highly contributing to the climate change as described in the credit policies,
4. Analysing CER/ESG risks and criteria in the credit process including loan origination, portfolios screening, review, and monitoring (e.g., sectoral heatmaps. ESG questionnaires, EPC certificates),
5. Launching eco-friendly lending products and/or incorporating preferential terms,
6. Collecting the CER/ESG data required for regulatory reporting.

5.2 Wealth Process

MeDirect Group through its banking entities offers discretionary portfolio management and execution only online services to its clients. Moreover, MeDirect Malta also offers financial advisory services to its clients.

MeDirect, while offering these services, acts as a distributor of mutual funds that are manufactured and managed by third party asset managers. MeDirect also acts as distributor for equities, bonds and ETFs.

Whenever applicable and possible, given its business profile and model, the Group should consider incorporating appropriate sustainability criteria and provisions in its wealth processes, policies and/or procedures inter alia by:

- Establishing of an ESG filter in the funds selection available on MeDirect's Malta online wealth platform,
- Distributing funds with sustainability characteristics in MeDirect's services,
- Ensuring that all funds offered during the provision of advisory and/or portfolio management services are verified and approved by the Investment Services and Commercial Committee ("ISCC") in Malta and Wealth Management Investment Services Committee ("WMISC") in Belgium, based on sustainability criteria, amongst others,

- Reviewing the advisory and/or portfolio management services process enabling customers to receive the necessary pre-contractual and periodic disclosures (where applicable) related to sustainability depending on the SFDR classification of the financial product and ensuring required website disclosure,
- The integration of the client sustainability preferences into the suitability assessment process as outlined in the Group Sustainability Investment Policy,
- Monitoring the data availability and good market practices in terms of sustainability risks and principle adverse impacts related to the funds offered during advisory and/or portfolio management services.

5.3 Procurement

Responsible procurement requires the active management of relationships with suppliers and business partners with the aim of selecting vendors that operate with the highest corporate standards.

Whenever applicable and possible, given its business profile and model, the Group should consider incorporating appropriate sustainability criteria and provisions in its procurement processes, policies and/or procedures inter alia by:

- Establishing ESG criteria and screening (e.g., questionnaires or vendors' statements) in the suppliers and business partners selection, particularly when the expected value of the contract equals or exceeds €1 million as defined in the Group Procurement Policy and favouring suppliers with ethical and environmentally friendly operations,
- Incorporating ESG/CER clauses in the new contracts,
- Requiring the Group's suppliers and any of its contractors to meet MeDirect's standards in the following areas: code of conduct including human rights, environmental awareness, social responsibility, labour practices and work environment,
- Reviewing relationships with key vendors every three years, including ESG related matters.

5.4 Remuneration

The Group should establish a remuneration framework that aligns top executive and staff remuneration with the Group's performance and timeline in attaining its sustainability goals.

As part of such framework, objectives related to sustainability goals will be integrated into performance appraisal and decisions on determining the appropriate remuneration package.

These sustainability objectives are to be specific to each employee and linked to the performance to motivate management to participate actively in the ESG transformation and to support ESG strategy implementation while discouraging excessive risk-taking regarding sustainability risks.

A portion of variable remuneration (such as bonuses or incentives) should eventually be tied to the attainment of clearly defined sustainability objectives.

Moreover, the Board members' evaluation assessment, including collective suitability assessment and Board effectiveness review, should take sustainability into consideration. The assessed topics should take into account the most recent regulatory requirements and market events also in the area of sustainability.

5.5 Three lines of defence

The Group integrates ESG and CER principles across its organisational three lines of defence framework by updating business procedures and policies, the Risk Management Frameworks, Compliance Monitoring Plans and Internal Audit Plans.

For the purpose of performing their roles in accordance with the objectives of this Policy, all top managers shall receive training on sustainable practices to enhance awareness and accountability.

First line of defence: Business operating functions

Business functions are responsible for identifying, assessing and managing sustainability risks within their specific operations and incorporate these risks in the various stages of its business processes.

Business functions should apply the Group's procedures and policies related to sustainability risks in their day-to-day business operations.

Second line of defence: Risk & Compliance

Risk functions are responsible for developing and tracking a dashboard of relevant CER and ESG risk indicators within the existing risk reporting frameworks of the Group, with continuous enhancement over time to ensure effective sustainability risk management across the entire Group. Risk functions are to integrate CER and ESG risk (both financial and non-financial) in their risk identification and management process. By doing this, the Group comprehensively analyses the ways in which CER and ESG risk may affect different areas of the Group. Moreover, risk functions review and update on the annual basis the Group CER Materiality Assessment that analyse the sensitivity of the Group business to physical and transition risks, as well as environmental risks, in the forward-looking approach.

As part of their oversight role under this Policy, the Chief Risk Officers of MeDirect Group and MeDirect Belgium shall monitor and evaluate sustainability risks, set risk appetite and tolerance thresholds, and establish sustainability-risk specific risk management framework and procedures.

Additionally, the Compliance function prepares a Compliance Monitoring Plan, which is approved by the Board Risk and Compliance Committee, that takes into account sustainability regulations, such as the SFDR Regulation, as appropriate. The Compliance Function operates independently from the business units but advises and assists business units and other internal functions to ensure that operations are in line with policies, procedures, and regulations.

Third line of defence: Internal Audit

The Internal Audit Function (IAF) executes a (risk and priority based) multi-year audit plan across the Group. In addition to the periodic review of internal control elements which encompass specific business segments and support processes, the IAF also covers the activities and performance of the independent control functions (such as Risk Management and Compliance), ongoing projects and relevant third-party outsourcing and intra-group business arrangements.

In this context, the IAF (when relevant) embeds ESG/CER as a specific attention point in the audit scope and approach taken for specific business activity, support process and control function reviews. This to, as the multi-year audit plan progresses, incrementally provide assurance that ESG/CER policies and procedures are adhered to and that related residual risks are appropriately addressed.

Subsequent internal audit report observations and conclusions are periodically collated and made available to the Group Head of Sustainability who, in turn, facilitates discussion or disclosure on the level of the ESG Committee, Boards of Directors, and relevant Management Committees. This focused information complements the control and monitoring reporting provided by the first and second lines of defence.

6. Escalation

Any potential or actual breaches of this Policy should be immediately reported to the Group's Head of Sustainability who shall initiate an investigation to assess the nature and severity of the breach in question. In doing so, the Group's Head of Sustainability shall consult, and where appropriate, report to the Chief Risk Officer and/or the Chairman of the Group ESG Committee.

As part of the investigative process, the Group's Head of Sustainability shall determine and implement the appropriate remedial actions to address the breach and to minimize the likelihood of a reoccurrence.

Where the breach in question is deemed to be significantly material, the Group's Head of Sustainability shall report the matter to the Group Board of Directors, without delay, who shall consider the matter and decide on the appropriate remedial measures to be taken including (where necessary) the institution of disciplinary action, the termination of any commercial relationship with a business partner, or any other action considered necessary to resolve the breach and to enhance compliance with this Policy.

7. Policy review

This Policy shall be reviewed periodically to ensure its effectiveness, alignment and consistency with changing sustainability standards, stakeholder expectations and best practices. Revisions and updates shall be carried out as necessary in accordance with the Group's ESG strategy and broader sustainable objectives.