

MeDirect Bank S.A./N.V.

Pillar 3 disclosures – Annual report
31 March 2019

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1 Introduction

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

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

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

The disclosure requirements emanating from Articles 439, 441, 444 to 449, 452, 454 and 455 of the CRR are not required for disclosure by MeDirect Belgium, in terms of Article 13(1) of the CRR.

Moreover, given that currently there is no specific guidance for disclosure on securitisation positions within the European Union, the Bank has referred to Part 10 of Basel Committee on Banking Supervision (“BCBS”) 400 ‘Revised Pillar 3 disclosure requirements – consolidated and enhanced framework’ as a basis for its disclosure.

1.1 Pillar 3 Disclosure Policy

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

Basis of preparation

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

Scope of application

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

Frequency, media and location

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

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

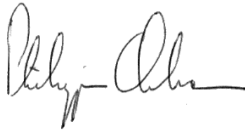
Governance process – verification and sign-off

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

1.2 Attestation by the Directors

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

On behalf of the Board of Directors



Philippe Delva
Director and Chief Executive Officer



Marcel Berkhout
Director and Chief Financial Officer

2 Own funds

2.1 Total available capital

2.1.1 Common Equity Tier 1 capital – composition

Common Equity Tier 1 capital includes:

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

2.1.2 Common Equity Tier 1 capital – terms and conditions

- i. Ordinary share capital includes equity instruments which fall under the definition of Article 28(1) of the CRR, *Common Equity Tier 1 instruments*. The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of MeDirect Bank. The Bank did not issue multiple classes of shares, but only issued ordinary shares of equal value with equal voting rights and equal profit rights.
- ii. Retained earnings are part of the distributable items as per the CRR Article (4)(1)(128) definition, which are amounts of the profits at the end of the last financial year plus any profits brought forward and reserves available for that purpose before distributions to holders of own funds instruments less any losses brought forward, profits which are non-distributable pursuant to provisions in legislation or the institution's bye-laws and sums placed to non-distributable reserves in accordance with applicable national law or the statutes of the Bank. The balance in this reserve is net of tax.

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

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

2.1.3 Tier 2 capital

Tier 2 capital consists of the contribution to the internal security fund.

2.2 Own funds – other disclosures

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

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

At 31 March 2019	€000
Common Equity Tier 1 (CET1) capital	
<i>Common Equity Tier 1 (CET1) capital: instruments and reserves</i>	
Capital instruments	225,000
Retained earnings	1,344
<i>Previous year retained earnings</i>	266
<i>Profit for the financial year</i>	1,135
<i>Transfer to the Legal Reserve</i>	(57)
Reserves	134
Common Equity Tier 1 (CET1) capital before regulatory adjustments	226,478
<i>Common Equity Tier 1 (CET1) capital: regulatory adjustments</i>	
Additional value adjustments	(9)
Intangible assets (net of related tax liability)	(450)
Total regulatory adjustments to Common Equity Tier 1 (CET1)	(459)
Common Equity Tier 1 (CET1) capital	226,019
Tier 1 capital	226,019
Tier 2 (T2) capital: instruments and provisions	
Capital instruments and the related share premium accounts (Internal security fund)	1,419
Tier 2 capital	1,419
Total capital	227,438
Total risk weighted assets	1,415,492
Capital ratios and buffers	
	%
Common Equity Tier 1 ratio	15.97
Tier 1 ratio	15.97
Total capital ratio	16.07
Institution specific buffer requirement	7.36
of which: Capital conservation buffer requirement	2.50
of which: Countercyclical buffer requirement	0.36
Common Equity Tier 1 available to meet buffers in excess of the CRR 4.5% minimum requirement	11.47

In line with Article 2 in the Commission Implementing Regulation (EU) No 1423/2013 and Part Eight Article 437 (1) of the CRR, the following is a full reconciliation of the Bank's Own Funds items to the audited Scheme B as at 31 March 2019.

Capital Base	At 31 March 2019 €000
Shareholders' equity according to the Bank's balance sheet	226,478
Intangible assets	(450)
Additional value adjustments	(9)
Common Equity Tier 1 capital / Total Tier 1 capital	226,019
Internal security fund	1,419
Total Tier 2 capital	1,419
Total capital base	227,438

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

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

3 Capital requirements

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

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

- **Credit risk** – The Bank calculates its risk weighted credit risk exposure in accordance with the Standardised Approach (“SA”), described in Chapter 2 of Title II of Part Three of the CRR. To calculate the risk-weighted exposure amounts, risk weights are applied based on the exposure class and the related credit quality. Credit quality may be determined by reference to the credit assessments of External Credit Assessment Institutions (“ECAIs”) that have been determined as eligible by the EBA. In the Bank’s calculations, Senior Secured Loans and other corporate credit exposures and for the remainder of its securities investment portfolio the Bank has nominated well-known risk rating agencies such as Fitch, Standard & Poor’s and Moody’s. Accordingly, the Bank complies with the standard association of the external ratings of ECAIs with the credit quality steps prescribed in the CRR.
- **Operational risk** – The Bank calculates its capital requirement using the Basic Indicator Approach, in terms of Article 315 of the CRR. The own funds requirement amounts to 15% of the average three years of the relevant indicator, as defined in Article 316 of the CRR. Elements within the relevant indicator include interest receivable and similar income, interest payable and similar charges and other variable/fixed-yield securities, commissions and fees receivable/payable, net profit or net loss on financial operations and other operating income, adjusted for, amongst others stipulated in the CRR, profits on sale of non-trading book items and extraordinary or irregular items.
- **Counterparty credit risk** – The Bank adopted the Mark-to-Market Method in order to determine the potential future credit exposure, in line with Article 274 of the CRR, primarily on its derivative exposures.
- **Foreign exchange risk** – The Bank has adopted the Basic Method to determine its foreign exchange risk requirement in accordance with Article 351 of the CRR. In terms of this Article, the Bank does not calculate the capital requirement for foreign exchange risk as its net foreign exchange position is less than 2% of its own funds.
- **Credit Valuation Adjustment risk** – The Bank uses the Standardised Approach, as per Article 384 of the CRR.

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

EU OV1 – Overview of RWAs		31 March 2019	31 March 2018	31 March 2019
Exposure Class		Risk weighted assets €000	Risk weighted assets €000	Minimum capital requirements €000
1	Credit risk (excluding CCR)	275,844	384,514	22,068
2	of which the standardised approach	275,844	384,514	22,068
	Institutions	8,627	7,047	690
	Corporates	245,819	364,587	19,666
	Covered bonds	12,917	1,001	1,033
	Exposures in default	7,486	11,085	599
	Other items	995	794	80
6	CCR	1,646	841	132
7	of which mark to market	1,395	841	112
12	of which CVA	251	-	20
14	Securitisation exposures in the banking book (after the cap)	1,098,858	1,036,498	87,909
18	of which standardised approach	1,098,858	1,036,498	87,909
23	Operational risk	39,144	30,305	3,132
24	of which the basic indicator approach	39,144	30,305	3,132
29	29 Total	1,415,492	1,452,158	113,241

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

	€000
Own funds	
Common Equity Tier 1 capital	226,019
Tier 2 capital	1,419
Total own funds	227,438
Total capital ratio as at 31 March 2019	16.07%

The Bank has fully implemented the CRD IV capital requirements with effect from 1 January 2019:

- The Bank is required to maintain a capital conservation buffer of 2.5%, made up of CET1 capital, on its risk weighted exposures. This buffer was phased in over the period from 1 January 2016 to 31 December 2018.
- CRD IV also contemplates a countercyclical buffer in line with Basel III, in the form of an institution-specific countercyclical buffer and the application of increased requirements to address macro-prudential or systemic risk. This is expected to be set in the range of 0 - 2.5% of relevant credit exposure RWAs, whereby the rate shall consist of the weighted average of the 'countercyclical buffer' rates that apply in the jurisdiction where the relevant exposures are located. The following table represents the Bank's geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer at 31 March 2019.

Country	General credit exposures – exposure value for SA €000	Own funds requirement – of which General credit exposures €000	Own funds requirement weights %	Counter-cyclical capital buffer rate %
Australia	19,713	1,577	1.46	0.00
Belgium	5,978	717	0.67	0.00
France	209,674	18,525	17.18	0.00
Germany	176,083	14,088	13.07	0.00
Finland	36,733	1,933	1.79	0.00
Ireland	21,260	2,551	2.37	0.00
Italy	124,262	9,941	9.22	0.00
Jersey	17,068	1,365	1.27	0.00
Luxembourg	42,308	1,798	1.67	0.00
Malta	1,032	84	0.08	0.00
Netherlands	91,246	7,024	6.51	0.00
Norway	19,951	875	0.81	2.00
Spain	38,024	3,667	3.40	0.00
Sweden	48,889	3,098	2.87	2.00
Switzerland	10,559	845	0.78	0.00
United Kingdom	343,311	30,556	28.34	1.00
United States	90,014	9,177	8.51	0.00
Total	1,296,105	107,821		

In view of the above exposure values, the following table identifies the Bank's countercyclical capital buffer requirement.

As at 31 March 2019

Total risk exposure amount (€000)	1,415,492
Institution specific countercyclical buffer rate	0.36%
Institution specific countercyclical buffer requirement (€000)	5,055

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

During 2018, the Bank received notification from the ECB on the own funds requirements that it is required to meet as of 1 March 2019, following the results of the SREP of 2018. MeDirect Belgium has been subject to a total SREP capital requirement ("TSCR") of 11%. The TSCR is composed of a 8% minimum own funds requirement in line with Article 92(1) of the CRR, and a 3% Pillar II requirement ("P2R"), which is to be made up of CET1 capital. Thus, the total CET1 capital minimum requirement applicable as from 1 March 2019 amounts to 7.5%, composed of a minimum Pillar I requirement of 4.5% and the P2R of 3%. In addition, the Bank is required to comply with the capital buffer requirements, consisting of a capital conservation buffer of 2.5% for 2019. Thus, this results in a total CET1 capital requirement, excluding the countercyclical buffer, of 10% for 2019. With a CET1 capital ratio of 15.97% at 31 March 2019, MeDirect Belgium comfortably meets its requirements for 2019 and is expected to continue meeting the relative requirements in the coming years. Also, the ECB communicated to the Bank an individual expectation to hold a further Pillar 2 CET 1 capital add-on, commonly referred to as the Pillar 2 guidance. The capital add-on pursuant to the Pillar 2 guidance is separate from and in addition to the Pillar 2 requirement. As from 1 January 2020 the Pillar 2 guidance will be in addition to the total overall capital requirement. The ECB has stated that it expects banks to meet the Pillar 2 guidance although it is not legally binding, and failure to meet the Pillar 2 guidance does not lead to automatic restrictions of capital distributions.

As at 31 March 2019 the countercyclical buffer rate was equivalent to 0.36%. The countercyclical buffer rate of Ireland, France and Luxembourg was set at 1%, 0.25% and 0.25% with effect from 5 July 2019, 1 July 2019 and 1 January 2020 respectively. Other countries that raised their countercyclical buffer in 2018, effective in 2019, include Norway, Denmark and Sweden that all increased their buffer by 0.5%.

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's Internal Audit function.

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

Both the Treasury Management Policy and the Corporate Credit Framework include a list of permitted asset classes, countries and currencies, whilst a high degree of diversification is implemented through single issuer, industry and geography concentration limits.

Table EU CRB-B shows the net exposure values of on-balance sheet and off-balance sheet items as at 31 March 2019 by exposure classes and the average net exposure value of this financial year, based on the last 4 end of quarter observations.

4.1 Credit risk exposure – analysis by exposure class

EU CRB-B Total and average net amount of exposures

As at 31 March 2019	Net value of exposures ¹ at end of year €000	Average net exposures over the year €000
15 Total IRB approach	-	-
16 Central governments or central banks	118,423	51,513
17 Regional governments or local authorities	54,501	47,920
19 Multilateral development banks (“MDB”)	31,074	23,440
21 Institutions	47,848	49,787
22 Corporates	228,959	248,927
28 Exposures in default	6,239	6,928
30 Covered bonds	129,181	39,804
34 Other items	995	972
35 Total Standardised Approach	617,220	469,291
36 Total	617,220	469,291

Note: Securitisation positions with an exposure value of €1,030 million as at 31 March 2019 and an average net exposure of €991 million over the year are not included in the above table.

4.2 Credit risk exposure – analysis by geographical distribution

The following table shows the distribution of the exposures (net values of on-balance sheet and off-balance sheet items) as at 31 March 2019 by geographical distribution broken down by exposure classes.

EU CRB-C: Geographical breakdown of exposures

As at 31 March 2019	Net value of exposures							Total €000
	Malta €000	Belgium €000	United Kingdom €000	Germany €000	Italy €000	France €000	Other countries €000	
6 Total IRB approach	-	-	-	-	-	-	-	-
7 Central Government or Central Banks	-	118,423	-	-	-	-	-	118,423
8 Regional governments or local authorities	-	-	-	54,501	-	-	-	54,501
10 Multilateral development banks	-	-	-	-	-	-	31,074	31,074
12 Institutions	38,063	9,738	-	-	-	-	47	47,848
13 Corporates	-	-	113,288	17,845	34,368	42,671	20,787	228,959
16 Exposures in default	-	-	6,239	-	-	-	-	6,239
18 Covered bonds	-	-	-	58,323	-	9,574	61,284	129,181
22 Other items	995	-	-	-	-	-	-	995
23 Total standardised approach	39,058	128,161	119,527	130,669	34,368	52,245	113,192	617,220
24 Total	39,058	128,161	119,527	130,669	34,368	52,245	113,192	617,220

Note: Securitisation positions with an exposure value of €1,030 million as at 31 March 2019 are not included in the above table. The geographical breakdown of the underlying exposure of such securitisation position is as follows:

As at 31 March 2019	Malta €000	United Kingdom €000	Germany €000	Italy €000	France €000	United States €000	Other countries €000	Total €000
Securitisation exposure	87,816	250,058	100,848	76,612	149,295	93,672	271,910	1,030,211

¹ **Net value of exposures:** For on-balance-sheet items, the net value is the gross carrying value of the exposure less allowances/impairments. For off-balance-sheet items, the net value is the gross carrying value of exposure less provisions.

As shown in table EU CRB-C, the Bank's defaulted exposures amount to €6.24 million, all located in the United Kingdom. As at 31 March 2019, the corresponding specific credit risk adjustments amounted to €0.96 million, as represented in table EU CR2-A in Section 4.5.

4.3 Credit risk exposure – analysis by industry distribution

The following table shows the distribution of the exposures (net values of on-balance sheet and off-balance sheet items) as at 31 March 2019 by industry broken down by exposure classes.

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

		Net value of exposures					
As at 31 March 2019		Manufacturing €000	Financial and insurance activities €000	Professional, scientific and technical activities €000	Information and communication €000	Others €000	Total €000
6	Total IRB approach	-	-	-	-	-	-
7	Central Government or Central Banks	-	118,213	-	-	210	118,423
8	Regional governments or local authorities	-	-	-	-	54,501	54,501
10	Multilateral development banks	-	31,074	-	-	-	31,074
12	Institutions	-	47,848	-	-	-	47,848
13	Corporates	16,235	191,404	11,295	9,490	535	228,959
16	Exposures in default	-	-	6,239	-	-	6,239
18	Covered bonds	-	129,181	-	-	-	129,181
22	Other items	-	-	-	-	995	995
23	Total standardised approach	16,235	517,720	17,534	9,490	56,241	617,220
24	Total	16,235	517,720	17,534	9,490	56,241	617,220

Note: Securitisation positions with an exposure value of €1,030 million as at 31 March 2019 are not included in the above table. The concentration by industry of the underlying exposure of such securitisation position is as follows:

As at 31 March 2019	Manufacturing €000	Financial and insurance activities €000	Construction €000	Professional, scientific and technical activities €000	Information and communication €000	Wholesale and retail trade €000	Others €000	Total €000
Securitisation exposure	170,275	551,891	15,245	72,212	95,951	26,888	97,749	1,030,211

As shown in table EU CRB-D above, the Bank's defaulted exposures amount to €6.24 million, all relating to the Professional, scientific and technical activities sector. The corresponding specific credit risk adjustments as at 31 March 2019 amounted to €0.96 million. The specific credit risk adjustments are represented in table EU CR2-A in Section 4.5.

4.4 Credit risk exposure – analysis by residual maturity

The following table shows the distribution of the exposures (net values of on-balance sheet and off balance sheet items) as at 31 March 2019 by residual maturity broken down by exposure classes.

EU CRB-E: Maturity of Exposures

As at 31 March 2019		Net value of exposures					Total €000
		On demand €000	Less than one year €000	Over one but less than five years €000	Over 5 years €000	No stated maturity €000	
6	Total IRB approach	-	-	-	-	-	-
7	Central Government or Central Banks	118,213	210	-	-	-	118,423
8	Regional governments or local authorities	-	-	46,018	8,483	-	54,501
10	Multilateral development banks	-	-	31,074	-	-	31,074
12	Institutions	29,158	14,020	-	43	4,627	47,848
13	Corporates	-	23,512	204,913	534	-	228,959
16	Exposures in default	-	-	6,239	-	-	6,239
18	Covered bonds	-	-	44,057	85,124	-	129,181
22	Other exposures	-	647	-	-	348	995
23	Total standardised approach	147,371	38,389	332,301	94,184	4,975	617,220
24	Total	147,371	38,389	332,301	94,184	4,975	617,220

Note: Securitisation positions with an exposure value of €1,030 million as at 31 March 2019 are not included in this table. The maturity of the underlying exposure of such securitisation position is as follows:

As at 31 March 2019	On demand €000	Less than one year €000	Over one but less than five years €000	Total €000
Securitisation exposure	87,870	72,296	870,045	1,030,211

4.5 Impairment loss measurement guidelines

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

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

In accordance with the policy, impaired investment securities and loans are either those that are more than 90 days past due, or those for which the Bank establishes that it is unlikely that it will collect the full principal and/or interest due in accordance with the contractual terms of the underlying agreement(s). This implies that a loan may be classified as impaired even if interest payments are being executed in line with the original loan agreement.

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. The Bank did not have any past due exposures throughout the financial year.

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

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

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

The following table provides an analysis of the change in stock of specific credit risk adjustment and general credit risk adjustment (through the internal security fund) for the financial year ended 31 March 2019.

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

	Accumulated specific credit risk adjustment €000	Accumulated general credit risk adjustment €000
1 Opening balance at 31 March 2018	605	1,029
2 Increases due to amounts set aside for estimated loan losses during the period	690	1,419
3 Decreases due to amounts reversed for estimated loan losses during the period	(338)	(1,029)
6 Impact of exchange rate differences	4	-
9 Closing balance at 31 March 2019	961	1,419

4.6 Credit risk mitigation

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

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

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

4.6.1 *Capital allocation and capital buffers for credit risk*

The Bank adopts the Standardised Approach to calculate its capital requirement for credit risk. 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 Concentration Risk describes the Bank's approach for allocating capital for this risk. This chapter explains that the Bank's concentration risk may arise from two types of imperfect diversification, namely single-name concentration and sectoral concentration (BCBS 2006²).

Single-name concentration relates to imperfect diversification of idiosyncratic risk in the portfolio because of large exposures to specific individual borrowers. On the other hand, sectoral concentration relates to imperfect diversification across sectoral factors corresponding to systematic components of risks. The Bank therefore defines concentration risk as the risk of losses which arise from having an uneven distribution among exposures within its investment portfolio. In practice, the risk is that the Bank suffers an unexpectedly large loss in the event that a single large name defaults, or that defaults are concentrated in a sector to which the Bank has a disproportionate exposure. The Bank analyses concentration risk on two levels, its Treasury portfolio and its International Corporate Lending portfolio.

To a lesser extent, geographical concentration is typically an approach banks will use to explore the lack of diversity they may carry when having a high level of their credit exposures inherently linked to the underlying macroeconomic and geopolitical status of a single or small number of jurisdictions. However, the fact that the Bank has in place geographical concentration limits for its International Corporate lending assets as outlined within its Risk Appetite Statement ("RAS"), alongside holding relatively well geographically diversified assets in both its Treasury and Corporate Lending portfolios, would suggest that there is actually very low geographical concentration risk for the Bank. However, in its ICAAP the Group adopted a Geographical concentration risk assessment for capital add-on purposes.

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

4.7 Settlement risk

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

Mitigation of settlement risk

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

² Basel Committee on Banking Supervision (2006), "Studies on Credit Risk Concentration, Working Paper No.15"

5 Securitisation

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

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

As at 31 March 2019, MeDirect Belgium and MeDirect Malta invested in GH I on a 78% - 22% basis respectively, with the tranche bought by MeDirect Belgium (the “Senior Loan”) amounting to €1,030 million having a senior ranking vis-à-vis the tranche acquired by MeDirect Malta (the “Junior Loan”) amounting to €361 million.

Therefore MeDirect Belgium acts as a liquidity provider to the Group’s securitisation GH 1. The Group’s strategy is to use securitisation to meet its needs for aggregate funding or capital management, to the extent that market, regulatory treatments and other conditions are suitable. On the other hand MeDirect Belgium benefits from this arrangement by derisking through an investment into a senior loan with a minimum of 20% over collateralisation.

From a regulatory point of view the funding to GH 1 is risk weighted by looking through to the underlying assets of GH I. As per standardised approach the Bank uses ratings from three External Credit Assessment Institutions, Moody’s, Standard & Poor’s and Fitch.

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

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

SEC 1: Securitisation exposures in the banking book

As at 31 March 2019		Bank acts as investor Traditional €000
6	Wholesale (total) – of which	1,030,211
7	Loans to corporates	1,030,211

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

As at 31 March 2019	Exposure values (by RW bands)				Exposure values Standardised approach €000	RWA Standardised approach €000	Capital charge Standardised approach €000	
	≤20% RW €000	>20% to 50% RW €000	>50% to 100% RW €000	>100% to <250% RW €000				
1	Total exposures	97,424	-	635,746	297,041	1,030,211	1,098,858	87,909
2	Traditional securitisation	97,424	-	635,746	297,041	1,030,211	1,098,858	87,909
3	Of which securitisation	97,424	-	635,746	297,041	1,030,211	1,098,858	87,909
5	Of which wholesale	97,424	-	635,746	297,041	1,030,211	1,098,858	87,909

6 Leverage

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

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

The initial implementation of the current leverage ratio regime is to be effected as a Pillar II measure. In 2016, the EBA published its report on the impact assessment and calibration of the leverage ratio, recommending the introduction of a leverage ratio minimum requirement in the EU to mitigate the risk of excessive leverage. The analysis suggests that the potential impact of introducing a Pillar I leverage ratio requirement of 3% on the provision of financing by credit institutions would be relatively moderate, while, overall, it should lead to more stable credit institutions.

The current proposed CRD V package will introduce a binding 3% leverage ratio and in fact the EBA is currently assessing the impact of the leverage ratio as a binding measure at 3%.

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

LRCOM: Leverage ratio common disclosure

		€000
On-balance sheet exposures (excluding derivatives and SFTs)		
1	On-balance sheet items (excluding derivatives and SFTs)	1,643,325
2	Asset amounts deducted in determining Tier 1 capital	(459)
3	Total on-balance sheet exposures (excluding derivatives and SFTs)	1,642,866
Derivative exposures		
4	Replacement cost associated with all derivatives transactions	474
5	Add-on amounts for Potential Future Exposure ("PFE") associated with all derivatives transactions	3,548
11	Total derivative exposures	4,022
Other off-balance sheet exposures		
17	Off-balance sheet exposures at gross notional amount	535
18	Adjustments for conversion to credit equivalent amounts	(535)
19	Other off-balance sheet exposures	-
Capital and total exposure measure		
20	Tier 1 capital	226,019
21	Leverage ratio total exposure measure (sum of lines 3,11 and 19)	1,646,888
Leverage ratio		
22	Leverage ratio	13.72%

The disclosed leverage ratio was calculated using the transitional definition and represents the end-of-quarter leverage ratio.

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

LRSum: Summary reconciliation of accounting assets and leverage ratio exposures

As at 31 March 2019		€000
1	Total assets as per published financial statements	1,643,893
4	Adjustments for derivative instruments	3,548
7	Other adjustments	
	<i>Deduction for intangible assets</i>	(450)
	<i>Additional value adjustments</i>	(9)
	<i>Other adjustments</i>	(94)
8	Leverage ratio exposure	1,646,888

The following table provides a split of the on-balance sheet exposures as at 31 March 2019 in relation to the calculation of the leverage ratio.

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

As at 31 March 2019		€000
EU-1	Total on-balance sheet exposures (excluding derivatives, SFTs and exempted exposures)	1,642,866
EU-2	Trading book exposures	-
EU-3	Banking book exposures, of which:	1,642,866
EU-4	<i>Covered bonds</i>	129,181
EU-5	<i>Exposures treated as sovereign</i>	118,423
EU-6	<i>Exposures to regional government, MDB, international organisations and PSE not treated as sovereigns</i>	85,575
EU-7	<i>Institutions</i>	43,827
EU-10	<i>Corporate</i>	228,424
EU-11	<i>Exposures in default</i>	6,239
EU-12	<i>Other exposures (incl. securitisations)</i>	1,031,197

LRQua: Leverage ratio disclosure of qualitative items

The leverage multiple has decreased during the financial year ended 31 March 2019. This decrease is attributable to the increase in the Bank's asset base during the financial year ended 31 March 2019.

The Bank's leverage is managed as part of its risk appetite framework and monitored using a leverage ratio metric within the risk appetite statement. The risk appetite statement stipulates the level and types of risk that the Bank is willing to accept in its business activities. The leverage ratio is reported to the Bank's Board on a regular basis.

7 Asset encumbrance

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

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

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

Encumbered and unencumbered assets

	Carrying amount of encumbered gross assets 2019 €000	Fair value of encumbered gross assets 2019 €000	Carrying amount of unencumbered gross assets 2019 €000	Fair value of unencumbered gross assets 2019 €000
010 Assets of the reporting institution ³	1,005		1,399,009	
040 Debt securities	-	-	76,666	76,767
050 of which: covered bonds	-	-	10,014	10,093
060 of which: issued by general governments	-	-	45,750	45,771
080 of which: issued by financial corporations	-	-	30,923	30,996
120 Other assets	1,005		1,322,379	

The unencumbered assets disclosed in the preceding table under item 'Other assets' include Loans, Cash and short term funds, property, plant and equipment, tax assets and other assets.

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

	Matching liabilities, contingent liabilities or securities lent 2019 €000	Assets, collateral received and own debt securities issued other than covered bonds and asset backed securities encumbered 2019 €000
010 Carrying amount of selected financial liabilities	973	1,005

The amounts disclosed in the above tables represent the median values, being the rolling quarterly medians over the previous twelve months, determined by interpolation, in accordance with the Draft Regulatory Technical Standards on disclosure of encumbered and unencumbered assets under Article 443 of the CRR issued in March 2017.

³ The terminology "reporting institution" is referring to MeDirect Bank SA

8 Risk monitoring and reporting

The Bank acknowledges the importance of having a regular and transparent risk reporting mechanism, which enables the management body, its committees and relevant units to understand the key risks enabling it to take corrective action, when required, in a timely and accurate manner. The Bank's reporting framework includes various risk reports, which include details about the portfolio performance vis-à-vis its internal risk limits and risk appetite, as well as taking in consideration macro-economic environment trends.

Key risks are discussed during both Board and Risk Committee (the Risk Committee had been part of the combined Audit and Risk Committee until 10 December 2018) meetings where risk exposures are tracked against risk appetite and risk limits. The Bank's formal risk reporting schedule and processes have been established in accordance with Principle 10 of the Basel Committee's "Principles for effective risk data aggregation and risk reporting", with flash reports produced daily (either system-generated or created by operational departments) and more in-depth reports produced monthly.

Reporting to the Board and Risk Committee

The Board and Risk Committee receive a comprehensive risk report each month, compiled by the Risk management function with an executive summary written by the CRO. This CRO executive summary is qualitative in nature and covers the Bank's 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 latter includes a comprehensive overview of the main risks of the Bank, of which:

Financial risks

- 1) **Liquidity risk:** primarily two 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. Additional supporting analysis is also included, for example, the impact of credit rating downgrades as well as details of any significant depositors. It also includes a commentary about the historic LCR and NSFR evolution quarter on quarter.
- 2) **Credit risk:** this report provides details on a portfolio level, covering each of the asset classes of the Bank: international lending (both directly held loans and the investment in GH I), and treasury portfolio. Credit risk information on each portfolio is broken down by internal classification and borrowers classified as other than Regular. It also shows the changes on classification over the month, with focus on those exposures that are classified as Under Surveillance and Doubtful⁴.
- 3) **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 faced by the Bank.

Non-Financial Risks

- 1) **Operational risk:** includes details about operational risk event volume by causal categories and by impact categories, as well as gross operational losses quarter on quarter. This section includes an action log or commentary on each identified key risk indicator ("KRI"), as well as showing the RAG grading for each risk indicator.

⁴ The Bank uses a five scale internal credit classification: Regular, Focus, Under Surveillance, Doubtful, Write off.

- 2) **IT security:** this 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.
- 3) **Reputational risk:** a group-wide Reputational Risk Management Framework was introduced that also includes a number of risk appetite limits.

Special reports are also presented to the Risk Committee when needed. These special papers cover emerging risks and other hot topics or regulatory announcements that could result in 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 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

Daily liquidity and capital reports are also shared with the Asset-Liability Committee members and senior management. 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.

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 and develops a cost effective recruitment process. 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 objectives 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 those 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. The Bank is committed to attracting, developing and retaining diverse leaders. Diversity of thought provides tangible business benefits, including innovation, risk mitigation, better problem solving and improved customer service. To ensure that the Bank can foster these talents in an inclusive culture, it continues to recruit and develop the best person for the job, regardless of gender, age, race, family or caring responsibilities, disability and sexual orientation, identity or preference.

Board diversity

The Bank recognises and embraces the benefits of building a diverse and inclusive Board and sees diversity as an essential component in maintaining competitive advantage. A diverse Board will include and make good use of differences in the skills, industry experience, background, and other distinctions between Directors. The differences will be considered in determining the optimum composition of the Board and when possible should be balanced appropriately. As such, the Board has set a target of having at least 25% female members within the next three years. Thus, the only foreseeable changes to the overall composition of the Bank's management body is in view of the stated target set for the next three years.

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

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

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.

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

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

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

Remuneration policy statement

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

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

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

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

Material Risk Takers include:

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

Remuneration consists of base salary and, where applicable, benefits and performance based 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. Control functions are adequately rewarded in order to ensure that the Bank is able to attract skilled individuals for such roles.

Group Risk provides advice in respect of the definition of suitable risk-adjusted performance measures, as well as in assessing how the variable remuneration structure affects the risk profile and culture of the Bank. Group Risk provides input into the process for determining bonus pools and the allocations of variable remuneration awards 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 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's remuneration policy includes "clawback" provisions applicable to all material risk takers and key personnel in control functions, even if variable compensation is remunerated in cash, it is possible for the Bank to clawback variable remuneration such as performance related 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 bonus was awarded.

The Bank does not intend to effect any changes to its remuneration policy for the following financial year.

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, benefits and the variable remuneration.

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 paid in cash on a monthly basis and are benchmarked on an annual basis. Pay allowances are also paid in cash on a monthly basis.

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

Variable remuneration consist of performance bonuses.

10.1 Measures of performance as basis for awarding of pay

i. All staff

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

Performance related variable remuneration 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 in the context of a multi-year analysis, taking into account the business cycle and the Bank's business risks. The criteria used to set variable remuneration pools, as well as their allocation, takes into account all risks, both qualitative and quantitative.

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

ii. Members of management and control functions

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

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.

iii) Non-executive directors

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

10.2 Measures of performance as basis for awarding of bonuses

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

The 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.

Individuals, including executive directors, are compensated out of that bonus pool based on their contribution to the achievement of the Bank's business objectives as well as personal objectives. Such individual criteria depend on the role of the individual in the Bank. The allocations of individual variable remuneration awards shall be 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 will be compensated out of that bonus pool based on their contribution to the achievement of the Bank's business objectives. Throughout the financial year, none of the Bank's employees were entitled to guaranteed variable remuneration.

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

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

The ratio between the variable components of remuneration and the fixed components shall be limited to 50%. There were no instances throughout the current financial year and the preceding financial year when such ratio was exceeded.

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

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

As per Article 450 of the CRR we confirm that there was no remuneration that was subject to deferral and that there were no sign on and severance payments throughout this financial year and prior financial years.

Total emoluments earned by the Bank's employees (including executive directors but excluding non-executive directors) during the year ended 31 March 2019, are reported below:

	€000
Total remuneration	
Fixed remuneration	2,100
Variable remuneration	205
Employee emoluments recharged by parent company	4,781
	7,086

Total emoluments earned by the Bank's senior management during the year ended 31 March 2019, are reported below:

	Supervisory functions	Management function
	€	€
Senior management		
Number of Material Risk Takers	4	5
	-----	-----
Total fixed remuneration (€)	137,131	1,230,210
Total variable remuneration (€) - delivered in cash	-	140,000
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	137,131	1,370,210
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No members of staff were deemed to be material risk takers.

11 Other directorships

The number of other directorships held by members of MeDirect Bank S.A./N.V. Board members, not related to MeDirect Bank S.A./N.V., are listed in the table below:

Director		Number of other directorships held
Baudouin Velge	Independent Non-Executive Chairman	1 ED & 2 NED
Michael Bussey	Independent Non-Executive Director	1 NED
Yves Dermaux	Independent Non-Executive Director	-
John Zarb	Independent Non-Executive Director	3 NED
Mark A. Watson	Non-Executive Director	-
Henry Schmeltzer	Non-Executive Director	-
Philippe Delva	Executive Director	1 NED
Marcel Berkhout	Executive Director	-
Wouter Van den Kerkhove	Executive Director	-

Appendix 1: Pillar 3 disclosure compliance checklist

Capital Requirements Regulations

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

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

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

Remuneration disclosures		
450 (1) (a)	Information concerning the decision-making process used for determining the remuneration policy	Section 10 – Remuneration policy and practices
450 (1) (b)	Information on link between pay and performance	
450 (1) (c)	Information on the criteria used for performance measurement	
450 (1) (d)	The ratios between fixed and variable remuneration	
450 (1) (e)	Information on the performance criteria on which the entitlement to variable remuneration is based.	
450 (1) (f)	The main parameters and rationale for any variable component scheme and any other non-cash benefits	
450 (1) (g)	Aggregate quantitative information on remuneration, broken down by business area	
450 (1) (h)	Aggregate quantitative information on remuneration, broke down by senior management and members of staff whose actions have a material impact	
450 (1) (i)	The number of individuals being remunerated EUR 1 million	Not applicable
450 (1) (j)	Upon demand from the Member State or competent authority, the total remuneration for each member of the management body or senior management	Not applicable
450 (2)	Quantitative information at the level of members of the management body of the institution.	Section 10 – Remuneration policy and practices
Leverage		
451 (1) (a)	The Leverage ratio and its application	Section 6 - Leverage
451 (1) (b)	Leverage ratio breakdown of total exposure measure, including reconciliation to financial statements	
451 (1) (c)	Where applicable amount of derecognised fiduciary items	
451 (1) (d)	Description of the risk management approach to mitigate excessive leverage, and factors that impacted the leverage ratio during the year.	Section 6 - Leverage
451 (1) (e)	Description of the factors that had an impact on the leverage ratio	
451 (2)	EBA to publish implementation standards for points above.	The Bank follows the implementation standards
Use of credit risk mitigation techniques		
453 (a)	Use of on- and off-balance sheet netting	Section 4.6 -Credit risk mitigation
453 (b)	How collateral valuation is managed	
453 (c)	Description of types of collateral used	Section 4.6 - Credit risk mitigation
453 (d)	Types of guarantor and credit derivative counterparty, and their creditworthiness	The Bank did not enter into any credit derivative hedges and did not receive any guarantees to cover part of its exposures.
453 (e)	Disclosure of market or credit risk concentrations within risk mitigation exposures	Section 4.6 - Credit risk mitigation
453 (f)	For exposures under either the Standardised or Foundation IRB approach, disclose the exposure value covered by eligible collateral	Loans secured by any type of eligible collateral is considered immaterial in terms of the total exposure of the Bank. Refer to Section 4.6 Credit risk mitigation

453 (g)	Exposures covered by guarantees or credit derivatives	The Bank did not enter into any credit derivative hedges and did not receive any guarantees to cover part of its exposures.
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Guidelines on disclosure requirements under Part Eight of Regulation (EU) No 575/2013 – EBA/GL/2016/11

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

Guidelines references	High-level summary	Compliance reference
Section 4.3 – Section C (information on governance arrangements)		
	Disclosure of the number of directorships held by members of the management body.	Section 11 - Other directorships
	Disclosure of information regarding the recruitment policy for the selection of members of the management body.	Section 9 - Recruitment and diversity policy statement
	Disclosure of the diversity policy in accordance with Article 435(2)(c), institutions should disclose the policy on gender diversity.	Section 9 - Recruitment and diversity policy statement
Section 4.5 – Own funds		
	The disclosures required by Article 437(1) of the CRR are specified in the Commission Implementing Regulation (EU) No 1423/2013 of 20 December 2013.	Refer to the Own Funds section in the CRR disclosure checklist above.
Section 4.7 – Macro-prudential supervisory measures		
	The disclosures required by Article 440 of the CRR are specified in the Commission Delegated Regulation (EU) No 2015/1555 of 28 May 2015.	Refer to the Capital Buffers section in the CRR disclosure checklist above.
Section 4.12 – Unencumbered Assets		
	The disclosure requirements in Article 443 of the CRR are specified in the EBA Guidelines on the disclosure of encumbered and unencumbered assets (the EBA Guidelines 2014/03).	Section 7 - Asset encumbrance

Section 4.14 – Remuneration	
The disclosure requirements in Article 450 of the CRR are specified in the EBA Guidelines on sound remuneration policies under Articles 74(3) and 75(2) of Directive 2013/36/EU and disclosures under Article 450 of Regulation (EU) No 575/2013 (the EBA Guidelines 2015/22).	Section 10 - Remuneration policy and practices.
Section 4.15 – Leverage	
The disclosure requirements in Article 451 of the CRR are specified in the Commission Implementing Regulation (EU) No 2016/200 of 15 February 2016.	Section 6 - Leverage

Revised Pillar 3 disclosure requirements – BCBS 309

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

Guidelines references	High-level summary	Compliance reference
Part 6 – Securitisation		
	Disclosure requirements on securitisation in Article 449 of the CRR including: <ul style="list-style-type: none"> - Table SEC A, for information on risk management due to securitisation positions; - Templates SEC 1 or and SEC 2, for the outstanding securitisation exposures (retained originated and sponsored exposures, and purchased exposures); - Templates SEC 3 and SEC 4, for the risk-weighting of exposures and the associated RWAs and capital requirements. 	Section 5 - Securitisation