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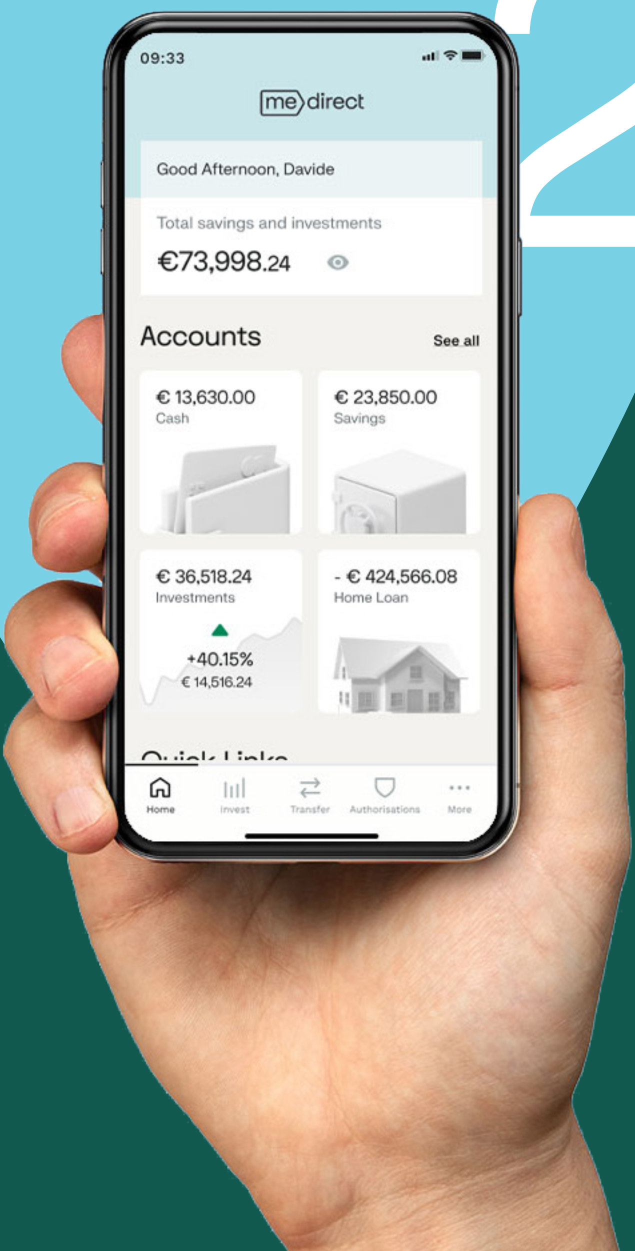
2022



MeDirect Bank SA/NV
Annual Report and
Consolidated Financial
Statements
31st December 2022

contents

Chair's and Chief Executive Officer's review

The year of 2022, was full of new unexpected challenges, with the continuous threat of inflation and recession impacting many clients and businesses in the Belgian market, accompanied by the geo-political threat of Russian military forces gathering on the eastern Ukrainian border, commencing the conflict with Ukraine. This created disruption in the financial markets, and due to sanctions on Russian exports, a wave of energy shortages across Europe led to a significant rise in raw commodity prices including oil and gas, and sent domestic energy supply prices soaring. With prices rising, the demand for wage increases followed, and wage inflation, combined with rising interest rates has fuelled the fears that the Belgian economy could slip into recession during 2023.

For MeDirect Bank, 2022 saw an acceleration of the business transformation, with the twin pillars of our business, digital wealth management and specialised lending both growing in line with our strategic plan. Our balance sheet has grown by 16%, year on year, and we have seen further strengthening, and the continuing diversification of our balance sheet. We benefit from our strategic focus upon growing our lower risk residential mortgage book, which has increased to €1.8 billion by year end, and reducing our risk exposure to International Corporate Lending, whereby the portfolio had reduced by 11% year on year to €192 million by year end. This diversification has been achieved through the successful launch in Belgium of our mortgage partnership with Allianz, which resulted in over approximately

€200 million of mortgage applications and €132 million of funded loans on balance sheet by the end of our first year of collaboration in December 2022. Also €15.9 million of professional Buy-To-Let assets were on balance sheet by year end through a partnership with Build in the Netherlands that was launched in the last quarter of 2022.

At the same time, we have further enriched our Wealth SuperApp and developed our WealthTech positioning, which has helped us attract 4,400 new wealth management customers in 2022 and have positive inflows of assets despite very challenging market conditions.

The Belgian market is very receptive to digital solutions, and we continue to win new customers with our award-winning App., and innovative product development. Over 7,700 new customers opened wealth and deposit products with us in 2022 and entrusted us with their savings and investments.

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Our lending strategy, which coincided with increasing ECB base interest rates,have contributed to a substantial turnaround in our financial performance. The Bank reported a reduced loss of €5.6 million in 2022, compared to a loss of €21.2 million in 2021.

This turnaround has been achieved through a strong focus upon cost management, with total operating expenses which at €41.4 million remained flat to prior year, after inflation, while net interest income has increased to €31.9 million in 2022 from €17 million in 2021, and our costs of risk have been less than €1 million for the full year.

Our Tier 1 capital ratio remains strong at 22.3%, with a Liquidity Coverage Ratio of 163%, providing sufficient surplus liquidity to meet our regulatory obligations. In November 2022, we executed our third residential mortgage asset-backed securitisation, which allow us to fund our mortgage lending programme and to complement our integrated funding strategy which includes retail deposits as our primary funding source.

We continue to support our chosen charity, Pink Ribbon, which researches new treatments for breast cancer, with sponsored events during the year, which are complemented by matched donations from the Bank.

We have embraced the ESG principles, and developed a Group Policy to reinforce the initiatives across the Bank to provide a focus upon sustainability through hybrid working practices, dedicated products which enhance environmental impact, and investment solutions which are sympathetic to the ESG goals of the Bank.

Collectively, we have made giant strides in 2022 towards a sustainable workplace, which encourages a better work / life balance, and promotes MeDirect as an employer of choice for our highly valued colleagues.

We look forward to the future strategic growth of the Bank with confidence and optimism with a talented team enabling our customers to make the right choices for their money.

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Who We Are

Purpose, Mission and Core Values

Our vision is exciting:

To empower our customers to manage their wealth with confidence and autonomy.

To achieve this goal, we have built our Wealth SuperApp, a one-stop shop that offers in a single app a wide and continually growing portfolio of digital wealth and banking products and services. Our vision for our customers is embodied in our “My Money, My Choices” branding, which speaks to the freedom and flexibility our platform provides to our customers in managing their finances.

We target the underserved affluent customer segment, people who want to retain control of their finances but also want to be guided in their investment journeys. Our target market comprises a large potential client universe, ranging from first time to active investors looking for a wide choice of investment products and a highly convenient platform.

Our target market includes:

- customers who are unsatisfied with the offline journey with their traditional investment advisor;
- customers who do not have the time or the willingness to manage their money and want either to delegate or to be guided;
- digital-savvy customers who want to be guided through their investment journey;
- tech-savvy customers who manage their money themselves and want the tools and wide range of products we offer; and
- customers who do not qualify for private banking, which typically cater for customers with very significant investible wealth.

MeDirect aims to address these problems with cutting-edge technology and customer-centric products that will enable us to disrupt the retail digital investment space.

Our mission is to:

“Be a one-stop shop for people’s investments and savings: a place where they can manage their money, their way. This means providing our customers with an app they can understand, navigate and trust. This also means making our customers feel included. Listening to them, speaking their language and guiding them forward — so they can make the choices that suit their values and needs.”

To achieve this, we offer, on a single multi-channel platform with open architecture, a broad range of online investment solutions combined with superior UX and attractive pricing. Our app addresses in one place a wide range of investor needs in trading, advisory and discretionary management services, coupled with daily banking. Technology is the backbone of our success. We developed internally most of the critical components of the value chain which form part of our ecosystem, allowing us to deploy seamless service aggregation capabilities. Our Tech architecture is state-of-the-art, with scalability and modularity at its core, built by a talented team recruited from advanced technology sectors including iGaming and Telecom.

Our strategic priorities are heavily influenced by our core values:

Autonomy
We empower our customers to navigate the financial world and give them the choice of how to manage their money, their way. We encourage our employees to take ownership of their work and grow their skills.

Innovation
We do not rest on our laurels. We are results driven and constantly review how we go about delivering on our vision and improving our value proposition.

Transparency
The financial world isn’t simple, but the MeDirect app is. We communicate clearly with our clients and our colleagues and offer clear and understandable reporting of customer portfolios.

Responsibility
We take seriously our responsibilities to all our stakeholders: customers, employees, regulators, shareholders and our community.

How our vision ties into our core strategy

Our core strategy is based on four main pillars:

1 Delivering disruptive digital investing solutions for affluent clients

MeDirect focuses on the affluent customer segment (typically with €30,000-€300,000 in wealth) that value convenience, transparency and a large selection of investment products. MeDirect aims to provide a full range of investment services from brokerage to investment advice to discretionary portfolio management , combined with high-quality daily banking functions. Our platform combines both aggregated services and internally built innovative products.

Since 2018, we have invested over €[30] million in our technology platform

2 Low risk and capital efficient mortgage lending platform

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

The mortgage lending platform leverages on top notch partners and inhouse Technology and Product capabilities to build a best-in-class platform

3 Advanced tech allowing for scalability and fast time-to-market

MeDirect has the technological foundations on which we can maintain a competitive advantage over our competitors. This is thanks to our award-winning, in-house software development team. Through its cloud agnostic tech architecture, MeDirect has the ability to aggregate services by seamlessly integrating with strategically selected third party providers that support its digital offering. This modular ecosystem of partners has been built to support flexibility in the platform. An important element of our tech strategy is the ability to containerise the platform, by transitioning away from a monolith setup. This allows us to scale-up for higher volumes but maintain lower costs. Operating with a modular microservices architecture, MeDirect continues to innovate and meet business needs, with all customer touchpoints offered through multiple channels.

An important element of our tech strategy is the ability to containerise the platform, by transitioning away from a monolith setup

4 Efficient operating model

MeDirect operates a high-quality service centre in Malta consisting of technology, digital channels, operations and other support teams. These teams drive MeDirect's vision to be simpler, better and faster for our customers and workforce. The role of these teams include:

- the development of software and applications to improve customer experience;
- the management of the IT infrastructure and support;
- the management of customer operations and change across MeDirect; and
- the provision of professional services in various areas such as finance, risk and treasury, amongst others.

Dedicated marketing and product teams, as well as control functions, are located in each of our banks. This international set-up enables MeDirect to scale up efficiently while remaining flexible and close to local market customer and regulatory requirements.

Continued growth in retail client base despite the Russia-Ukraine crisis and resulting turmoil in the financial markets

81k
Retail clients
7.5% increase from 2021

87%
Increase in retail clients since 2019

€2.9bn
Client financial assets

+€94m
Inflows in assets held under nominee basis

In 2022 the Bank continued to execute its plan to diversify its asset portfolios with the launch of its Belgian mortgage business

€2.0bn
Mortgage book built since 2019

+19%
In mortgage book growth value in 2022

>€130m
Belgium mortgage origination in 2022

-85%
In International Corporate Lending since March 2019

Capital and liquidity ratios well above minimum regulatory requirements

22.3%
Total Capital Ratio

>163%
Liquidity Coverage Ratio

>126%
Net Stable Funding Ratio

MeDirect Belgium at a glance

Improvement in financial performance with further room for growth

+€13m
in interest income

+9%
In net interest income

+6%
in fee and commission income

Positive business developments during the year

2 new business lines launched

1. Belgian retail mortgages in partnership with Allianz
2. Dutch buy-to-let professional mortgages

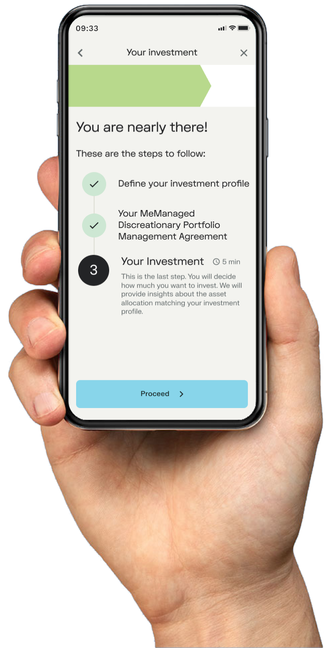
Top 15%
Of companies rated for sustainability by Silver Ecovadis (over 85k companies rated)

3rd
Dutch mortgages securitisation raised funding of €369m

We offer our clients the tools necessary to empower them to navigate the complexity of the financial world.

★★★★½
Average mobile app rating across all markets

89%
2022 average customer satisfaction rating in internal call centre surveys



From then till now...

2009-2014

- Acquired by AnaCap Financial Partners II L.P.
- Launch of online deposits and wealth in Belgium

2015-2018

- Belgian branch obtains banking licence, becomes subsidiary of Maltese bank in 2015
- MDB Group regulated under the Single Supervisory Mechanism in 2016

2019

- New management team joined to transform MeDirect and develop the WealthTech franchise
- Launch of Dutch NHG mortgage business line

2020

- Launch of business transformation programme
- Launch of retail mobile app
- Ranked top 5 for mobile app, investment products and savings by spaargids.be
- NHG mortgage book exceeds €1 billion
- Successful completion of first Residential Mortgage Backed Security ("RMBS") transaction

2021

- Milestone of 75,000 affluent retail clients with €3 billion financial assets reached
- NHG mortgage book exceeds €1.6 billion
- Launch of revamped online brokerage platform
- Again ranked top 5 for mobile app, investment products and savings by spaargids.be
- New mortgage platform launch in Belgium
- Second RMBS transaction completed

2022

- New MeDirect branding and logo and UX enhancements
- Launch of professional buy-to-let mortgage product in NL
- Third RMBS transaction completed
- New eco-friendly home loans introduced
- MDB Group in top 15% of Ecovadis Silver sustainability rating

Directors' Report

We hereby present the annual report of MeDirect Bank SA/NV (the "Bank" or "MeDirect")[1] that forms part of the MDB Group (the "Group" or MDB Group) for the year ended 31 December 2022. [2]

1 Including all entities where MeDirect retained all the underlying risks and rewards consisting of Bastion 2020-1 NHG B.V., Bastion 2021-1 NHG B.V., and Bastion 2022-1 NHG B.V., controlled special purpose entities established in the Netherlands that were set up as part of MeDirects funding strategy and MeHomeLoans B.V. that was set up in the Netherlands and has been liquidated in December 2022.

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

Building the MeDirect WealthTech platform

During 2022, MeDirect continued to build and strengthen its innovative, best-in-class wealth tech platform. The year started with a major update to our WealthTech app in February. As part of MeDirect's commitment to giving customers control of their finances, our mobile app now offers in one place both banking services and easy access to over 5,000 financial instruments. Additional enhancements to the mobile app followed later in the year. Key amongst these was the introduction of real-time pricing on orders for equities and ETFs. This ensures that customers using MeDirect for their trading can benefit from the latest information and prices, making it easier to take advantage of investment opportunities. In addition, the new user interface features improved search facilities, including guided searches, as well as different options for presentation of information on personalised dashboards and other screens.

In July, we unveiled MeDirect's new branding, with our new "My Money, My Choices" tag line. By combining active management with ETFs, our clients benefit from a globally diversified and cost-efficient investment solution.

Technology is at the heart of MeDirect

We have built a world-class, award-winning technology team drawn from industries ranging from telecoms to iGaming. The team has achieved success both at MeDirect and in their previous positions and comprises over 115 engineers located primarily in Malta as well as in other locations including Turkey.

The team has been benchmarked favourably against other neo-banks in an independent review. The quality of the team has enabled MeDirect to build and to continue to build its innovative omni-channel Wealth SuperApp, providing wealth and daily banking capabilities in one convenient and accessible app.
MeDirect's platform is built to be scalable with headroom for growth. This architecture provides us with enormous flexibility; with our cloud-agnostic architecture, we can integrate seamlessly with a wide range of third-party suppliers. The platform supports multiple entities and multiple geographies.

Our platform has proven its reliability, with 99.9% availability on all client touchpoints in 2022. A strong KPI culture drives high quality service management.

Most importantly, the MDB Group owns the intellectual property that forms the basis of our wealth tech platform, including the front end layer and our highly sophisticated middle layer, which facilitates the ability to integrate seamlessly with third-party systems.

De-risking and diversifying the balance sheet

During 2022, MeDirect continued to de-risk its balance sheet and to build its mortgage business in Netherlands and Belgium.

In the Netherlands, we took advantage of a rapid increase in mortgage rates in the market to grow our portfolio of Dutch government guaranteed (NHG) mortgages at higher interest rates. Lower-risk NHG mortgages comprised €1.8 billion of the Bank's €3.5 billion of total assets at year-end. To protect itself against interest rate volatility, MeDirect has hedged its asset portfolios with over €1.6 billion notional amount of interest rate hedges as at year-end 2022. In November, MeDirect closed its third NHG mortgage securitisation, Bastion 2022-1. The transaction raised €369 million of longer-term financing for MeDirect Belgium, and the innovative capital structure, with a mix of floating and fixed-rate notes, optimised funding in the new interest rate environment. The transaction demonstrated the resilience of the Bastion programme and the trust of the capital markets in MeDirect. Bastion 2022-1 was the only Dutch prime mortgage securitisation in the second half of 2022 and was placed into a difficult and uncertain market.

In October 2022, we started a new business in professional buy-to-let mortgage loans in the Netherlands. In partnership with Build Finance, a Dutch buy-to-let specialist firm, MeDirect invests in buy-to-let mortgage loan receivables. These mortgage loans are made to professional real estate investors (either private individuals or companies) and are secured by residential rental properties. By the end of 2022, we had €15.9 million of buy-to-let mortgage receivables on our balance sheet.

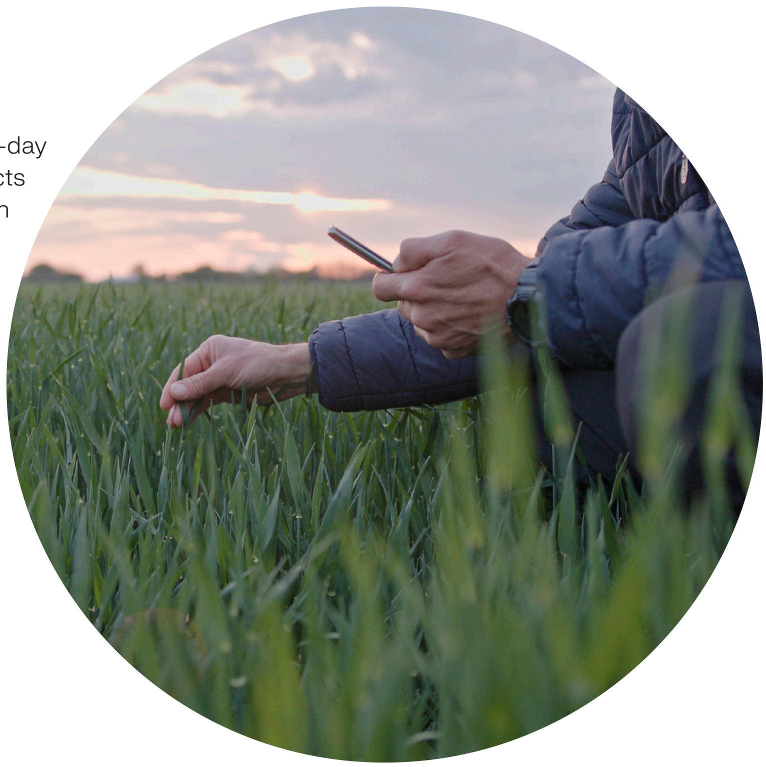
In Belgium, MeDirect Belgium originated mortgage loan products equivalent to €132.1 million through the partnership with Allianz Benelux S.A./N.V. validating the concept and setting the stage for continued portfolio growth in 2023. The robustness of our credit risk framework is reflected in the high quality of the portfolio.

In December 2022, in line with our ESG commitments, a new eco-friendly loan was introduced, rewarding projects with a low EPC rating with a reduction in the applicable interest rate.

During 2022, we continued to de-risk our International Corporate Lending ("ICL") portfolio, which has been reduced to €192 million, a decrease of 11% from year-end 2021. Notwithstanding the reduction, MeDirect made select investments in the European syndicated loan market with the aim of maintaining a well-diversified ICL portfolio across multiple sectors and geographies.

Continuing ESG focus

We continue to embed ESG principles in our day-to-day operations, launching green mortgage loan products in Belgium. We also aim to ensure that MeDirect is an attractive and employee-friendly workplace and work to build a diverse workforce, focused on promoting from within. The Group developed and approved its first ESG Strategy 2024/2025 "On the path to sustainability" and has started working on its implementation. The strategy is based on four pillars: "Governance", "Employees", "Environment" and "Society". In each of these pillars, we set specific sustainability objectives translated into commitments that support our business goals. The Group intends to follow these commitments in the coming years.



Encouraging improvement in financial performance

The financial year ended 31 December 2022 was a positive one from various perspectives. We started to retake lost ground following the exceptional losses incurred in prior financial years as a result of the COVID-19 pandemic that brought about considerable challenges. In the financial year ended 31 December 2022 we experienced improved financial performance with a loss of €5.6 million compared to the loss of €21.2 million in 2021. Management is confident that there is further room for growth and our focus is now on executing against the priorities at pace and we are making progress on each of them.

Our results for the 2022 financial year reflect improved financial and operational performance through continued customer focus, disciplined execution and investment. A highlight of the result is our continued balance sheet strength and capital position. The completion of our diversification plan supported by the Bank's strong balance sheet and funding position, provided the foundation on which to deliver further growth and a rebound to profitability. Balance sheet strength is critical to MeDirect's ability to generate value for our stakeholders, deliver sustainable profitable growth and deploy capital efficiently by offering relevant products and services to our customers. The size of the balance sheet increased by 16% in 2022 and in line with its diversification plan the Bank continued to reduce the ICL book, increase the low risk Dutch NHG mortgages portfolio and started building an encouraging portfolio of Belgium mortgages.

The Bank remains in a good capital position and consistently well in excess of regulatory minimum capital requirements. MeDirect's capital, liquidity and funding metrics remained sound during the year, well above regulatory minimum requirements. The growth of the NHG portfolio was facilitated through a third securitisation completed in November 2022.

- MeDirect had a good capital position with a total capital ratio of 22.3% as at 31 December 2022, well above the TSCR[3] of 11%.
- MeDirect's Liquidity Coverage Ratio ("LCR") was 163% as at 31 December 2022 (minimum requirement of 100%).
- MeDirect's Net Stable Funding Ratio ("NSFR") as at 31 December 2022 was 126% (minimum requirement of 100%).
- MeDirect's leverage ratio at 5.3% as at 31 December 2022 (minimum requirement of 3%).

The Bank's financial results for the financial year ended 31 December 2022 improved compared to the prior year, from a loss before tax of €21.2 million in 2021 to a loss before tax of €5.6 million in 2022, as a result of business growth and improved economic environment that led to an increase of 4% in net interest income and a decrease of €2.6 million in credit impairment charges.

Confirmation of MeDirect's going concern assessment

MeDirect remains well positioned to achieve strong business growth whilst remaining well capitalised, with the total capital ratio of 22.3% representing 203% of the total SREP[4] capital requirement and soundly funded with access to the required levels of liquidity with the liquidity coverage ratio at 163% as at 31 December 2022.

After due consideration of MeDirect's business, profitability projections, funding and capital plans, robust risk and internal control processes and taking into account the broader macro-economic outlook, the directors declare that MeDirect is in a position to continue operating as a going concern for the foreseeable future.[5] The Board believes that MeDirect will have sufficient capital to meet not only its regulatory capital and liquidity requirements but also any internal risk buffers and any buffers recommended by its regulators.

3 TSCR refers to the minimum Total Supervisory Review and Evaluation Process ("SREP") Capital Requirements: 8% (of which 6% must be Tier 1 capital) plus P2R of 3%.
4 Supervisory Review and Evaluation Process
5 Statement pursuant to Article 3:6, §1, 6° of the Belgian Code of Companies and Associations.

Events after the reporting date

Subsequent to the year ended 31 December 2022, the banking sector has faced some turmoil due to the failure of banks in the US (Silicon Valley Bank et al.) and Europe (Credit Suisse) which may be considered to increase liquidity risk and uncertainty in the sector. The Bank does not have any direct or indirect exposures to these banks.

The Bank performed an assessment of the effects that these events may have on its business. This considered impacts on the valuation of its investments that were deemed immaterial, as well as the effect on the Bank's processes and on its borrowers' business environment and supply chains. The Bank concluded that there should not be material effects on the Bank or its businesses. The Bank will continue to follow closely the developing situation and any potential effects on its business, customers and operations.

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

Pillar 3 disclosures

MeDirect is required to publish Pillar 3 quantitative and qualitative disclosure requirements.[6] MeDirect publishes its Pillar 3 disclosures on an annual basis as a separate document that is available on MeDirect's website.

Additional disclosures[7]

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

Own shares
MeDirect does not hold shares or certificates of shares of the bank itself.

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

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

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

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

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

6 As governed by the disclosure requirements of Directive 2013/36/EU (CRD) and EU Regulation No 575/2013 (CRR) of the European Parliament and of the Council of 26 June 2013.

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

Conflict of interest with a director of the bank

There were no other conflict of interest within the reporting year with a director of MeDirect other than those reported below. In these cases the directors who declared the conflict of interest neither participated in such discussions nor to these decisions.

- During the board of directors dated 17 February 2022, Franca Vossen submitted for approval her external mandate at Triodos Bank NV (Netherlands). She declared a conflict of interest and therefore took neither part in the discussions nor the decision.
- During the Board of Directors Meeting dated 1 September 2022, John Zarb and Mike Bussey declared a conflict of interest regarding the approval of intercompany repos with a €50 million limit given that they are directors of the MDB Group.
- During the Board of Directors Meeting dated 1 September 2022, John Zarb submitted for approval his external mandate at Tumas Group Company Limited (Malta). He declared a conflict of interest and therefore took neither part in the discussions nor the decision.

Note that the (potential) conflicts of interest listed above do not fall under the definition of Article 7:96, 7:115 and 7:117 of the Belgian Code of Companies.

A property law related ("vermogensrechtelijke") interest of a Director of the bank

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

Decisions regarding affiliated companies

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

Board of Directors

The directors of the Company who held office during 2022 were:
Mrs Marcia de Wachter – Chair of the Board - Appointed on 23 September 2020 with term expiring on 28 May 2026
Mr Tim Rooney - Chief Executive Officer - Appointed on 20 July 2020 with term expiring on 28 May 2026
Mr Marcel Berkhout – Chief Financial Officer - Appointed on 27 May 2021 with term expiring on 27 May 2027
Mr Francois Ducuroir – Chief Risk Officer - Appointed on 13 August 2021 with term expiring on 27 May 2027
Mr Michael Bussey – Independent Non-executive director - Appointed on 10 July 2017 with term expiring on 25 May 2023
Mr John Zarb – Independent Non-executive director - Appointed on 9 January 2019 with term expiring on 29 May 2025
Mr Bart Bronselaer – Independent Non-executive director - Appointed on 12 January 2021 with term expiring on 27 May 2027
Mrs Franca Vossen – Independent Non-executive director - Appointed on 20 July 2020 and resigned on 7 April 2022

Alain Moreau has been nominated as an Executive Director and a Chief Executive Officer becoming effective upon regulatory approval.

Frederic Hannequart was nominated as an independent non-executive director on 14 April 2023.

Directors' Report

MeDirect makes public the external functions exercised by its directors (excluding the functions exercised in group companies, in personal patrimony/management companies, and in non-profit associations)[8] as at 31 December 2022 in the following table:

Directors of MeDirect	Company	Function	Sector	Country of incorporation	Listed on regulated market	Shares held by MeDirect Bank
BERKHOUT, Marcel executive director (CFO)	CREAFIN NV	non-executive director	Credit lender/ intermediary	Belgium	No	No
BRONSELAER, Bart independent non-executive director	UNITED PENSIONS OFP	non-executive director	Pension Fund	Belgium	No	No
	DEXIA CREDIT LOCAL NV	non-executive director	Credit Institution	France	No	No
	DEXIA NV	non-executive director	Financial Holding	Belgium	No	No
BUSSEY, Mike independent non-executive director	DEUTSCHE BANK (UK) LTD[9]	non-executive Chair	Credit Institution	UK	No	No
	DEUTSCHE BANK INVESTMENT GROUP LTD	non-executive Chair	Financial Holding	UK	No	No
DE WACHTER, Marcia independent non-executive Chair of the Board	NEXTENSA NV	non-executive director	Real Estate	Belgium	No	No
DUCUROIR, Francois executive director (CRO)	-	-	-	-	-	-
ROONEY, Tim executive director (CEO)	-	-	-	-	-	-
ZARB, John independent non-executive director	PG PLC	non-executive Chair	Retail	Malta	Yes	No
	TUMAS INVESTMENTS PLC	non-executive director	Financial SPV	Malta	Yes	No
	TUMAS GROUP COMPANY LIMITED (MALTA)	non-executive director	Holding Company	Malta	No	No
	FOSTER CLARK PRODUCTS LIMITED	non-executive director	Food and Beverage	Malta	No	No

8 In accordance with article 6 of the NBB regulation of 6 December 2011 concerning the exercise of external functions by the directors and effective leaders of regulated companies.

9 Directorship approved by the UK Prudential Regulation Authority.

Directors' Report

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

MeDirect has prepared financial statements on a consolidated basis for the financial year ended 31 December 2022 in accordance with International Financial Reporting Standards as adopted by the EU. These financial statements provide an overview of the internal controls and risk management applied in the preparation of the consolidated financial accounts and are available as a separate document on MeDirect's website.

Expertise of the Audit Committee

As at 31 December 2022 and the date of issue of this Annual Report, the members of the Audit Committee are three non-executive directors of the bank, all being independent directors (including the Chairman). All of the members have a broad experience in the banking industry, whether with MeDirect Bank of with other financial institutions.

As at 31 December 2022, John Zarb was the temporary Chairman of the Audit Committee. John Zarb, was a partner at PwC Malta with a career spanning over 40 years spent within the audit and advisory practices of the firm. He is a past president of the Malta Institute of Accountants and served for a number of years on the Maltese Accountancy Board and as Malta's representative on the EU Accounting Regulatory Committee.

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

Enhancing risk governance

MeDirect understands the importance of adopting sound risk management principles. MeDirect's core objective in the management of risk is to protect its customers and counterparties and to ensure its ability to grow sustainably.

Managing risk effectively, efficiently and sustainably is an integral part of the Bank's business strategy.[10] MeDirect's risk management approach focuses on ensuring continued financial soundness and safeguarding the interests of its stakeholders while retaining the ability to seize value-creating business opportunities in a fast-changing environment. This is achieved through high standards of corporate governance and sound risk management principles.

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

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

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

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

Risks are monitored through regular and timely risk reporting, enabling the proactive identification and management of risks with the aim of reducing or avoiding undue exposure to various specific risk types. Risk appetite limits established by the Board set forth the amount and types of risk that MeDirect is prepared to accept or tolerate when delivering its strategy. These risk appetite limits are embedded in policies, management authorities and limits across the Bank. Frequent and close monitoring of all risk appetite limits, combined with comprehensive reporting to management and the Board of Directors ensures that risk is maintained within acceptable levels in accordance with the Bank's risk appetite.

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

In view of volatile financial and market conditions, MeDirect's Board has mandated a heightened focus on any threats or emerging risks which could potentially have an adverse effect on the operations or financial condition of the Bank. The Board continues to oversee risk management measures being implemented by management, including maintaining a strong and diversified funding base; interest rate hedging aimed at protecting its balance sheet; continuing reduction of credit risk and diversification of the balance sheet into lower-risk mortgage assets; and robust operational risk controls, particularly in view of the Bank's increasing reliance on technology to improve the efficiency of its operations.

Additional disclosures Belgian Bank Law Art. 75 §1

The asset yield of the bank, which is calculated by dividing the net financial result by balance sheet total, amounts to -0.16%.

Conclusion

MeDirect's management is monitoring carefully the volatile financial and market environment to continue executing its strategic transformation roadmap and to build its businesses. February 2023 saw the launch of our MeManaged service, offering retail banking clients access to a new, fully digital and highly accessible discretionary investment solution. MeDirect manages client investment portfolios using products from BlackRock that deploy iShares ETFs as efficient building blocks.

MeDirect's development teams work constantly to build new products to improve our ability to serve client needs. In 2023, we plan to launch our Portfolio Builder, which provides innovative tools to guide and support clients in their investment journeys. To improve our daily banking capabilities, we are launching a virtual and physical card product so that our customers can use our platform for their daily banking needs.

In view of MeDirect's diversified and lower risk balance sheet, MeDirect will continue growing its lending mortgage portfolio in Belgium and Netherlands. MeDirect's Board and management look forward cautiously but optimistically to an exciting future.

'The Board of Directors would like to extend their deepest sympathies to the wife and family of our dear friend and colleague, Francois Ducuroir, who passed away on June 4th, after a short illness. R.I.P. 4th of June 2023'

Our Board

Marcia De Wachter

Independent non-executive Chair of the Board

- Joined the Board of Directors of MeDirect Bank on 23 September 2020

Former key positions held:

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

External appointments:

Member of the Board of Directors of Nextensa NV

Michael A. Bussey

Independent Non-Executive Director

- Joined the Board of Directors of MeDirect Bank on 10 July 2017
- 45 years of experience in banking, specialising in Private banking and Wealth management

Former key positions held:

- Joined HSBC in 1980 and held various senior positions in his more than 20 years with the company, most recently as CEO of HSBC Private Banking EMEA
- CEO at Schroder & Co Ltd
- CEO of Private Banking and Trust at NM Rothschild & Sons Ltd
- CEO of Arbuthnot Latham & Co.
- Non-Executive Chairman, Credit Suisse (U.K.) Limited (2012-2020)

External appointments:

Non-Executive Chairman at DB UK Bank Limited, DB investment Limited and MeDirect Bank (Malta) plc.

Bart Bronselaer

Independent Non-Executive Director

- Joined the Board of Directors of MeDirect Bank on 12 January 2021

Former key positions held:

- Head of Debt Markets at Merrill Lynch International in London
- Independent expert in financial services (2003)
- Chairman of the Board of Directors of Royal Park Investments
- Chairman of the Risk Committee and member of the Audit Committee on the Board of Directors of Dexia NV and Dexia Crédit Local
- Chief Executive Officer and Chairman of the management committee ad interim of Dexia and Director and Chief Executive Officer ad interim of Dexia Crédit Local (2019 – 2020)

External appointments:

- Member of the Board of Directors of United Pensions OFP
- Member of the board of directors of Dexia Crédit Local SA
- Member of the board of directors of Dexia NV

John Zarb

Independent Non-Executive Director

- Joined the Board of Directors of MeDirect Bank on 9 January 2019

Former key positions held:

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

External appointments:

- Chairman of PG plc
- Director of Foster Clark Products Ltd
- Board member and Chairman of the Audit committee of Tumas Investments plc and board member and chairman of the Remuneration Committee of its parent company, Tumas Group Company Limited.

Frederic J. Hannequart

Independent Non-Executive Director

- Joined Medirect Bank Board on 14 April 2023 and is the Chair of the Audit Committee

Former key positions held:

- Chief Business Officer (Euroclear Group)
- Chief Financial Officer/Chief Risk officer (Euroclear Group)

Tim Rooney

Executive director and Chief Executive Officer

- Joined the Board of Directors of MeDirect Bank on 20 July 2020.

Former key positions held:

- Until February 2020 held the position of Chief Executive Officer (CEO) and member of the Board of Directors at Bank Nagelmackers and Anbang Belgium Holding, both located in Belgium.
- Chief Operating Officer (COO) at Anbang Belgium Holding.
- Held several senior positions in the areas of mortgage lending and risk management and banking products at Genworth Mortgage Insurance, Deutsche Bank PBC, General Electric Europe and Citifinancial UK.

François Ducuroir

Executive director and Chief Risk Officer

- Joined the Board of Directors of MeDirect Bank on 13 August 2021.

Former key positions held:

- Director and Managing Partner of Reacfin, the Belgian consulting firm in risk management and actuarial sciences (2010- 2021)
- Head of the Group Credit Portfolio Management and Capital Solutions teams within BNP Paribas Fortis and other positions of responsibility in the areas of loans
- Worked in different trading markets in Brussels, London and Netherlands.
- Management consultant at McKinsey & Company

Marcel Berkhout

Executive director and Chief Financial Officer

- Joined the Board of Directors of MeDirect Bank on 4 September 2015.

Former key positions held:

- Various engineering and finance positions at Royal Dutch Shell
- Member of the Corporate Finance division of Kempen & Co
- Several management positions, mainly within the Corporate Banking division at Dexia Bank (now: Belfius)
- Chief Financial Officer of Optima Bank (2011-2014)

External appointments:

- Member of the Board of Directors of Creafin NV

Alain Moreau

Nominated Director and Chief Executive Officer

(to become effective upon regulatory approval)

- Nominated to the Medirect Belgium Bank Board in March 2023

Former key positions held:

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

Our Leadership Team

From left:
Chris Breemeersch - Group Chief Internal Audit Officer
Michal Kwasniak - Head of Treasury and ALM
Kim Van de Velden - Head of Legal
Ivo Raschl - Head of Dutch Mortgages
Isabelle Menezes - Head of Internal Audit
Ramin Fleury - Chief Growth Officer
Steven De Backer - Head of Marketing

Not present in the picture:
Thomas De Boe – Head of Belgian Mortgages
Bruno Ceysens - Head of Compliance

Financial Statements

Statement of financial position

	Notes	2022 €000	2021 €000
ASSETS			
Balances with central banks	4	**107,483**	187,005
Derivative financial instruments	5	**355,337**	41,448
Loans and advances to financial institutions	6	**313,151**	82,355
Loans and advances to customers	7	**1,870,908**	1,820,816
Investments			
- Securities portfolio	8	**390,298**	492,193
- Securitisation portfolio	8	**415,036**	347,972
Property and equipment	9	**1,811**	2,305
Intangible assets	10	**3,768**	4,466
Current tax assets		**-**	80
Deferred tax assets	11	**7,602**	7,876
Prepayments and accrued income	12	**9,881**	5,389
Other assets	13	**55,548**	45,011
Total assets		**3,530,823**	3,036,916
EQUITY			
Called up issued share capital	14	**225,000**	225,000
Fair value reserve	14	**-**	(672)
Other reserves	14	**224**	224
Accumulated Losses		**(41,261)**	(35,646)
Total equity		**183,963**	188,906
LIABILITIES			
Derivative financial instruments	5	**5,306**	988
Amounts owed to financial institutions	15	**265,410**	8,519
Amounts owed to customers	16	**2,080,529**	2,146,241
Debt securities in issue	17	**969,569**	658,293
Current tax liabilities		**34**	2
Provisions for liabilities and other charges	18	**152**	53
Accruals and deferred income	19	**13,136**	9,640
Other liabilities	20	**12,724**	24,274
Total liabilities		**3,346,860**	2,848,010
Total equity and liabilities		**3,530,823**	3,036,916
Memorandum items			
Commitments to purchase financial assets	29	**-**	10,000
Commitments to extend credit and other commitments	29	**236,296**	191,064

The notes on pages 28 to 141 are an integral part of these financial statements. The financial statements on pages 23 to 141 were approved and authorised for issue by the Board of Directors on 4 May 2023. The financial statements were signed on behalf of the Board of Directors by Marcia de Wachter (Chair) and Tim Rooney (Chief Executive Officer).

TS Rooney

Statement of comprehensive income

	Notes	2022 €000	2021 €000
Interest income*		**45,956**	33,201
Interest expense		**(14,057)**	(16,179)
Net interest income	21	**31,899**	17,022
Fee and commission income		**4,417**	4,142
Fee and commission expense		**(1,569)**	(1,185)
Net fee and commission income	22	**2,848**	2,957
Net trading (losses)/income	23	**(586)**	270
Net gain from financial instruments at fair value through profit or loss		**820**	-
Other operating income			
– Realised gains on disposal of loans and advances		**1,628**	-
– Other income		**48**	(8)
Total operating income		**36,657**	20,241
Personnel expenses	24	**(10,879)**	(9,240)
Depreciation and amortisation	9-10	**(2,181)**	(2,052)
Other administrative expenses	25	**(28,338)**	(27,979)
Total operating expenses		**(41,398)**	(39,271)
Net operating loss before changes in expected credit losses		**(4,741)**	(19,030)
Change in expected credit losses and other credit impairment charges	26	**(705)**	(2,027)
Loss before tax		**(5,446)**	(21,057)
Tax expense	27	**(169)**	(138)
Loss for the year - Attributable to equity holders of the parent		**(5,615)**	(21,195)
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Fair valuation of financial investments measured at fair value through other comprehensive income:			
- Net change in fair value, before tax		**(26,292)**	(2,476)
- Reversal due to reclassification to amortised cost, before tax		**27,238**	-
Income tax relating to these items		**(274)**	603
		672	(1,873)
Other comprehensive income, net of tax		**672**	(1,873)
Total comprehensive income, net of tax		**(4,943)**	(23,068)

** All interest income is calculated using the effective interest rate (EIR) method.*
The notes on pages 28 to 141 are an integral part of these financial statements

Statements of changes in equity

	Share capital €000	Fair value reserve €000	Other reserves €000	Accumulated losses €000	Total €000
Balance at 1 January 2021	225,000	1,201	224	(14,451)	211,974
Total comprehensive income					
Loss for the year	-	-	-	(21,195)	(21,195)
Other comprehensive income, net of tax:					
Fair valuation of financial investments measured at fair value through other comprehensive income:					
- Net change in fair value arising during the year, net of tax	-	(1,873)	-	-	(1,873)
Total comprehensive income, net of tax	-	(1,873)	-	(21,195)	(23,068)
Balance at 31 December 2021	225,000	(672)	224	(35,646)	188,906
Balance at 1 January 2022	**225,000**	**(672)**	**224**	**(35,646)**	**188,906**
Total comprehensive income					
Loss for the year	**-**	**-**	**-**	**(5,615)**	**(5,615)**
Other comprehensive income, net of tax:					
Items that may be reclassified subsequently to profit or loss					
Fair valuation of financial investments measured at fair value through other comprehensive income:					
- Net change in fair value arising during the year, net of tax	**-**	**(19,720)**	**-**	**-**	**(19,720)**
- Reversal due to reclassification to amortised cost, net of tax	**-**	**20,392**	**-**	**-**	**20,392**
Total comprehensive income, net of tax	**-**	**672**	**-**	**(5,615)**	**(4,943)**
Balance at 31 December 2022	**225,000**	**-**	**224**	**(41,261)**	**183,963**

The notes on pages 28 to 141 are an integral part of these financial statements

Statements of cash flows

	Notes	2022 €000	2021 €000
Cash flows from operating activities			
Interest and commission receipts		**52,901**	40,796
Interest and commission payments		**(11,395)**	(17,550)
Payments to employees and suppliers		**(39,867)**	(36,029)
Operating cash flows before changes in operating assets/liabilities		**1,639**	(12,783)
Decrease in operating assets:			
- Reserve deposit with central banks		**(337)**	(2,524)
- Loans and advances to financial institutions and customers		**(593,851)**	(711,982)
(Decrease)/increase in operating liabilities:			
- Amounts owed to financial institutions and customers		**(55,072)**	632,831
- Other payables		**(7,826)**	14,232
Tax paid		**(57)**	(175)
Net cash used in operating activities		**(655,504)**	(80,401)
Cash flows from investing activities			
Acquisition of property and equipment	9	**(14)**	(389)
Acquisition and development of intangible assets	10	**(314)**	(209)
Acquisition of investments measured at amortised cost	8	**(214,219)**	-
Acquisition of investments measured at fair value through other comprehensive income	8	**-**	(413,203)
Disposal/redemption of investments measured at amortised cost	8	**25,000**	19,999
Disposal/redemption of investments measured at fair value through other comprehensive income	8	**220,653**	184,263
Net cash from/(used in) investing activities		**31,106**	(209,539)
Cash flows from financing activities			
Issuance of debt securities	17	**366,437**	497,527
Redemption of debt securities	17	**(55,161)**	(393,082)
Principal element of lease payments	20	**(956)**	(1,387)
Net advances (to)/from immediate parent company		**(3,049)**	1,612
Net advances to other group companies		**(9,600)**	(12,181)
Net cash from financing activities		**297,671**	92,489
Net decrease in cash and cash equivalents		**(326,727)**	(197,451)
Cash and cash equivalents at beginning of year		**190,924**	388,375
Cash and cash equivalents at end of year	28	**(135,803)**	190,924

The notes on pages 28 to 141 are an integral part of these financial statements

Notes to the Financial Statements

Notes to the financial statements

1. Summary of significant accounting policies

1.1 Reporting entity

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

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

The principal customer-related activities of MeDirect Belgium include an easy-to-use wealth platform with access to fund houses and mutual funds, a suite of wealth products available through digital channels and attractive and innovative savings products in Belgium and senior secured loans and revolving credit facilities to finance the business of European corporates.

MeDirect Belgium invests in Dutch residential mortgages via an established third-party mortgage originator in the Netherlands. In December 2021, MeDirect Belgium launched a Belgian residential mortgage loan product in partnership with Allianz Benelux S.A/N.V.. This offering is underpinned by a robust credit risk framework and will continue to diversify the asset base of MeDirect Belgium into the residential mortgage sector. Also as from November 2022, MeDirect Belgium launched its Dutch buy-to-let mortgage business.

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

Grand Harbour I B.V. ("GH1"), is a Dutch special purpose vehicle which is bankruptcy remote and was utilised as part of the MDB Group's funding strategy. GH I used to hold euro and sterling-denominated corporate loans and was financed through a tranche bought by MeDirect Belgium (the "Senior Loan") having a senior ranking vis-à-vis the tranche acquired by MeDirect Malta (the "Junior Loan").

On 23 December 2021, MeDirect Belgium and MeDirect Malta agreed to instruct GH I and the Collateral Manager to dispose of all the collateral in the form of international corporate loans. MeDirect Belgium acquired collateral loans at a consideration of €142.5 million and £11.8 million and MeDirect Malta acquired collateral loans from GH I at a consideration of €156.1 million and £77.5 million. As a result of the proceeds from such sale of loans, with transfer prices being at arm's length, GH I repaid the Senior Loan of MeDirect Belgium that at that date was equivalent to €103.3 million and £44.1 million, with the remaining funds available, after settlement of expenses, released to MeDirect Malta in respect of its Junior Loan. Pursuant to an agreement between MeDirect Belgium and GH I, the parties agreed to a netting mechanism governed by Belgian civil law resulting in the above amounts due by MeDirect Belgium to GH I in relation to the acquisition of international corporate loans and the amounts due by GH I to MeDirect Belgium in relation to the repayment of the Senior Loan (with the exception of £11 million) being netted off.

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

In September 2020, MeDirect Belgium established a €350 million warehouse funding facility provided by a major Dutch bank through Cavalier 2020 B.V., a special purpose vehicle established in the Netherlands, which is controlled by MeDirect Belgium. The warehouse facility provides bridge financing enabling MeDirect Belgium to build up a Dutch Mortgage portfolio large enough to be securitised through a RMBS transaction. This facility was used to build up a Dutch Mortgage portfolio equivalent to €154 million, which was subsequently securitised.

In January 2021 MeDirect Belgium securitised a further part of its Dutch retail mortgages portfolio through a RMBS transaction whereby a principal amount of €414 million of the Dutch Mortgage portfolio was sold to a securitisation special purpose entity, Bastion 2021-1 NHG B.V., established in the Netherlands which is controlled by MeDirect Belgium. On closing, the Dutch retail mortgages portfolio acquired by Bastion 2021-1 NHG B.V. included the €154 million portfolio of Dutch Mortgages that was financed through the warehouse funding facility obtained via Cavalier 2020 B.V. This portfolio, that was originated by MeDirect Belgium and subsequently transferred to Cavalier 2020 B.V., was repurchased by MeDirect Belgium and together with a further €260 million portfolio of Dutch Mortgages was transferred to Bastion 2021-1 NHG prior to closing.

Notes to the financial statements

In November 2022, the Bank successfully securitised part of its Dutch Mortgage portfolio raising €369 million through a RMBS. As part of the transaction, a sub-portfolio of the Dutch Mortgage portfolio amounting to €528.3 million was sold to Bastion 2022-1, a special purpose securitisation vehicle established in the Netherlands, which is controlled by MeDirect Belgium.

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

1.2 Basis of preparation

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

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

- financial investments measured at fair value through other comprehensive income and at fair value through profit or loss as at 31 December 2021;
- derivative financial instruments which are measured at fair value; and
- recognised financial assets designated as hedged items in qualifying fair value hedge relationships which are measured at amortised cost adjusted for changes in fair value attributable to the risk being hedged.

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

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

Standards, interpretations and amendments to published standards effective in 2022

During the financial year ended 31 December 2022, the Bank adopted the following amendments to existing standards but the adoption of these revisions to the requirements of IFRSs as adopted by the EU did not result in significant changes to the Bank's accounting policies impacting the Bank's financial performance and position.

- Amendments to IAS 16 Property, plant and equipment – Proceeds before intended use, effective 1 January 2022;
- Amendments to IAS 37 Provisions, contingent liabilities and contingent assets – onerous contracts—cost of fulfilling a contract, effective 1 January 2022;
- Amendments to IFRS 3 Business combinations – References to the conceptual framework, effective 1 January 2022; and
- Annual Improvements Cycle - 2018-2020, effective 1 January 2022.

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

Notes to the financial statements

Interest Rate Benchmark Reform

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

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

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

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

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

As a result, the Bank embarked on an IBOR transition programme, under the governance of the Chief Financial Officer, to facilitate an orderly transition from libors to RFRs. During the financial year ended 31 December 2021, the Bank successfully transitioned its GBP Libor and Eonia exposures to SONIA and ESTR, respectively, and is on track to complete its transition of all remaining exposures with USD Libor dependency by June 2023.

In this respect, as at 31 December 2021, leveraged loans to customers with a gross carrying amount of €161.9 million were transitioned from underlying GBP Libor reference rates to SONIA rates. The amendments to all such contracts were deemed to be necessary as a direct consequence of the IBOR reform. In addition, the new basis for each contract was also deemed to be economically equivalent to the previous basis, which was achieved through the inclusion of credit spread adjustments to each contract.

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

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

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

Standards, interpretations and amendments to published standards that are not yet effective

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

- Amendments to IAS 1 Presentation of Financial Statements – Classification of Liabilities as Current or Non-current (the 2020 amendments and 2022 amendments), effective 1 January 2024;

- Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting policies, effective 1 January 2023;

Notes to the financial statements

- Amendments to IAS 8 Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates, effective 1 January 2023;

- Amendments to IAS 12 Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction, effective 1 January 2023;

- Amendments to IFRS 16 Leases: Lease Liability in a Sale and Leaseback, effective 1 January 2024;

- Amendments to IFRS 17 Insurance contracts: Initial Application of IFRS 17 and IFRS 9 – Comparative Information, effective 1 January 2023; and

- IFRS 17 Insurance Contracts, effective 1 January 2023.

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

The Bank remains well positioned to achieve business growth through diversification, and is well capitalised, soundly funded and has access to the required levels of liquidity.

The Bank's business, profitability projections, funding and capital plans, together with a range of other factors such as the economic outlook along with ongoing developments in EU economies indicate that the Bank will have sufficient capital to meet not only the regulatory capital requirements but also any internal risk buffers and any buffers recommended by the regulators throughout the forthcoming financial period. The projections confirmed that the Bank will have a healthy level of funding and liquidity that will allow the relevant minimum regulatory requirements to be comfortably satisfied.

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

Russia and Ukraine conflict

In 2022, an armed conflict between Russia and Ukraine commenced as a result of which economic sanctions were imposed by the EU, the US and other countries on Russia and Belarus as well as a number of Russian and Belarussian individuals. The Bank ensures compliance with any applicable sanctions and will continue to follow closely the developing situation and any potential effects on its business, customers and operations.

During the year, the war and related sanctions contributed to deteriorating macroeconomic outlook and global economic dislocation, including disruption of energy supplies, higher inflation and additional credit and market risk. The Bank performed an assessment of the effects that this conflict may have on its business. The continued conflict in Ukraine and higher inflation led to rising interest rates, lower expectations for economic growth, lower consumer confidence and weaker financial markets. We can expect continued volatility and uncertainty in the coming quarters. Higher interest rates will dampen economic activity, but should result in more income from lending portfolios. Furthermore MeDirect is adequately hedged to the interst rate risk due to the fixed income nature of its mortgage portolios through a series of interest rate swaps.

The Bank's assessment also considered the effect on the Bank's processes and on its borrowers' business environment and supply chains. The Bank has virtually no direct exposure to assets in Russia, Belarus or Ukraine and in fact it did not have material effects on the Bank or its businesses. The Bank updated its macroeconomic forecast used in financial forecasts and IFRS 9 expected credit loss modelling but there was no significant impact on the expected credit losses recognised throughout this financial period,

The Bank will continue to monitor the potential impact of this prolonged conflict and take all the necessary steps to mitigate the risks.

1.3 Consolidation

Subsidiaries are all entities over which the Bank has control. The Bank controls an entity where the Bank is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. The existence and effect of potential voting rights that are currently exercisable or convertible are considered

Notes to the financial statements

when assessing whether the Bank controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Bank. They are deconsolidated from the date that control ceases.

The Bank uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred, and the equity interests issued by the Bank. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Bank recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If this aggregate is less than the fair value of the identifiable net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in profit or loss.

Inter-company transactions, balances and unrealised gains on transactions between Bank companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Consistent accounting policies are applied throughout the Bank for the purposes of consolidation.

1.4 Foreign currency transactions and balances

a) Functional and presentation currency

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

b) Transactions and balances

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

1.5 Financial assets

Initial recognition and derecognition

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

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

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

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

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

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

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

Modification of terms

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised. If the cash flows of the renegotiated asset are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised, and the new financial asset is recognised at fair value.

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

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

Classification and measurement

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

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

- Amortised cost;
- Fair value through other comprehensive income (FVOCI); or
- Fair value through profit or loss (FVTPL).

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

For financial assets where the intention of the business model is to hold the financial assets to collect the contractual cash flows or to hold to collect and to sell, the Bank assesses whether the contractual cash flow characteristics of these assets meet the SPPI requirements of IFRS 9. In this respect, the contractual cash flow characteristics are deemed to be SPPI if the terms are consistent with a basic lending arrangement.

The contractual cash flows are assessed based on conditions at the date of initial recognition of the instrument. However, if a loan modification occurs resulting in the existing loan being derecognised and a new loan recognised, the modified asset is considered as a new loan under IFRS 9 and as such is considered for the SPPI assessment. In such a case, the date of the modification is treated as the date of initial recognition of the new financial asset. If, however, the existing loan was renegotiated or modified but was not derecognised, then the contractual cash flows of the modified loan are not considered for the SPPI assessment.

The 'principal' of a financial asset refers to the fair value of the financial instrument at initial recognition rather than the amount that is due under the contractual terms of the instrument. On the other hand, 'interest' is the compensation for time value of money and credit risk, may include consideration for other basic lending risks (e.g. liquidity risk), costs associated with holding the financial assets for a particular period of time (e.g. administrative costs) and/or a profit margin.

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

(i) variable interest rates, which typically consider the time value of money, credit risk and other basic lending risks and costs;

(ii) leverage, which is a contractual cash flow characteristic that results in increased variability in contractual cash flows;

(iii) modifications of the time value of money; and

(iv) contractual features that could alter the timing or amount of contractual cash flows of a financial asset, such as contingent events, prepayment and extension options.

A business model refers to the manner in which financial assets are managed in order to achieve a particular business objective, whether by collecting contractual cash flows only, selling financial instruments, or both. The business model is determined at portfolio level by 'key management personnel' (as defined in Note 30 of this set of financial statements) and the assessment is based on matters of fact, reflecting the strategic purpose and intention for the portfolio and how the performance of the portfolio is assessed.

For this purpose, a portfolio is defined at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. Accordingly, the business model assessment does not entail an instrument-by-instrument analysis but is determined at a higher level of aggregation.

The Bank's business model for managing financial assets is observable through the activities that are undertaken by management to achieve the objective of the business model. The following aspects are considered in determining the IFRS 9 accounting classification:

(i) the stated policies and objectives for the portfolio and the operation of those policies in practice;

(ii) how the performance of the business model and the financial assets held within it are evaluated and reported to key management personnel;

(iii) consideration of risks affecting performance and how they are managed; and

(iv) how managers are compensated for business performance (e.g. whether the compensation is based on the fair value of the assets managed or the contractual cash flows collected).

This means that the Bank is not required to hold all financial instruments in a 'Hold to Collect' portfolio until maturity. On the contrary, the business model can be to hold financial assets to collect contractual cash flows even where sales of financial assets occur or are expected to occur in the future.

In this regard, the Bank performs an assessment to determine whether the sale of financial instruments from a portfolio implies that the classification of the exposures to the 'Hold to Collect' business model is inappropriate. This assessment is based on information about past sales and expectations about future sales, and in the determination of the business model, the Bank takes into consideration the following:

(i) The historical frequency, timing and value of sales;

(ii) The reason for the sales (such as credit deterioration); and

(iii) Expectations about future sales activity.

A key distinction between business models relates to whether the 'sale' of financial instruments is integral to the achievement of the desired business objectives. In order for a sale of financial instruments to steer the classification of the entire portfolio away from a 'Hold to Collect' business model towards a 'Hold to Collect and Sell' business model, sales need to be integral to the objective of the business model, rather than incidental to it.

Notes to the financial statements

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

(i) amortised cost if the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows ('Hold to Collect') and the contractual terms of the financial asset give rise to cash flows that are SPPI;

(ii) FVOCI if the financial asset is held within a business model whose objective is achieved by both holding financial assets in order to collect contractual cash flows and selling financial assets ('Hold to Collect and Sell') and the contractual terms of the financial asset give rise to cash flows that are SPPI; or

(iii) FVTPL if the financial asset does not pass the business model assessment referred to above and SPPI criteria.

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

Financial assets measured at amortised cost

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

The amortised cost is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount and the maturity amount (refer to Note 1.16) and adjusted for any credit loss allowance.

Financial assets measured at fair value through other comprehensive income

Financial assets held for a business model that is achieved by both collecting contractual cash flows and selling and which contain contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest are measured at fair value through other comprehensive income ("FVOCI"). These financial assets are initially measured at fair value, which is generally the cash consideration to originate or purchase the asset including any direct and incremental transaction costs, upon recognition.

The Bank's financial assets measured at FVOCI comprise primarily a portfolio of debt securities, held for liquidity purposes and classified under the Securities and Securitisation Investment portfolios.

Debt investments measured at FVOCI are subsequently remeasured at fair value and changes therein (except for those relating to impairment, interest income and foreign currency exchange gains and losses) are recognised in other comprehensive income until the assets are sold. Upon disposal, the cumulative gains or losses in other comprehensive income on these investments are recognised in profit or loss. Such investments measured at FVOCI are included in the expected credit loss calculations set out below and expected credit losses are recognised in profit or loss.

Financial instruments designated at fair value through profit or loss

Financial instruments, other than those held for trading, are classified in this category if they meet one or more of the criteria set out below and are so designated irrevocably at inception:

- the use of the designation removes or significantly reduces an accounting mismatch;
- a group of financial assets and liabilities or a group of financial liabilities is managed, and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; and
- the financial liability contains one or more non-closely related embedded derivatives.

Notes to the financial statements

These financial instruments are initially recognised at fair value and subsequent changes in fair value are recognised in profit or loss.

Assets acquired in exchange for loans

When non-financial assets acquired in exchange for loans as part of an orderly realisation are held for sale, these assets are recorded as 'Assets held for sale' and reported in 'Non-current assets classified as held for sale'.

Impairment of amortised cost and FVOCI financial assets

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

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

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

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

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

Three stage expected credit loss approach

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

- Stage 1 - Financial instruments that have not had a significant increase in credit risk (SICR) since initial recognition, or that have "low credit risk" at the reporting date are classified in Stage 1. 12-month ECLs are recorded to measure the expected losses that result from default events that are possible within 12 months after the reporting date;

- Stage 2 - Financial instruments that have experienced a SICR since initial recognition are classified in Stage 2. Lifetime ECLs are recorded to measure the expected losses that result from all possible default events over the expected life of the financial instrument; and

- Stage 3 - Financial instruments that demonstrate objective evidence of impairment, and which are considered to be in default or credit-impaired, are classified in Stage 3, also requiring the measurement of lifetime ECLs.

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

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

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

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

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

Significant increase in credit risk (SICR) or Stage 2

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

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

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

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

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

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

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

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

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

- International Corporate Lending portfolio:

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

- Use of qualitative SICR triggers, including the following qualitative triggers which are taken into consideration by the Bank in the quarterly SICR trigger assessments:

Qualitative SICR themes
Evidence of past due information
Significant change in the operating performance of the borrower
Significant change in the viability of the borrowers business model
Quality and timeliness of reporting
Project delays or overruns
Significant adverse macroeconomic or market conditions
Significant increase in refinancing risk
Pricing of debt and equity (relative to market)
Forbearance
Bankruptcy, acceleration, legal enforcement and insolvency
Sponsor support
Troubled debt restructuring
Covenant waivers or forecast breach of covenant
Adherence to internal shadow financial covenants
SICR observed on related financial instruments

- Use of quantitative SICR assessment based on a ratings-based approach using lifetime 'Point in Time' (PiT) Probabilities of Default (PDs) (i.e. PD in current economic conditions)

- Hard trigger (Internal credit classification) - financial asset that has a credit quality classification of "Under surveillance" is Stage 2, classification of "Impaired" is Stage 3

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

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

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

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The quantitative SICR staging decision uses both a relative and an absolute threshold approach. The relative threshold approach involves calculating the magnitude of the difference between the reporting date rating and the origination date rating based on the deterioration in the number of notches between the two ratings. The appropriate stage is determined based on the magnitude of this difference. The absolute threshold determines the stage based on the reporting date rating of the instrument. The following table presents the relative and absolute thresholds applied by the Bank in the quantitative assessment of SICR.

Implied Rating	Relative threshold (SICR Deterioration Trigger)	Absolute threshold (SICR Trigger Floor)
Aaa	-10 notches	-
Aa1	-8 notches	-
Aa2	-7 notches	-
Aa3	-6 notches	-
A1	-5 notches	-
A2	-5 notches	-
A3	-5 notches	-
Baa1	-5 notches	-
Baa2	-5 notches	-
Baa3	-4 notches	-
Ba1	-4 notches	-
Ba2	-4 notches	-
Ba3	-4 notches	-
B1	-3 notches	-
B2	-3 notches	-
B3	-2 notches	-
Caa1	-1 notches	-
Caa2	-0 notches	Stage 2 SICR Trigger Floor
Caa3	-0 notches	Stage 2 SICR Trigger Floor
Ca	-0 notches	Stage 2 SICR Trigger Floor
C	-0 notches	Stage 3 SICR Trigger Floor

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

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

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"Unconditional" PDs refer to the PD term structure based on historical information and prior to the application of forward-looking macroeconomic scenarios. Multiple forward-looking macroeconomic scenarios are applied to the unconditional PiT PD term structure in order to estimate a forward-looking probability-weighted "conditional" PiT PD at an obligor level.

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

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

Hard Trigger based on Internal Risk Classifications

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

- ***Dutch Mortgage portfolio***

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

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

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

Change in Probability of Default: lifetime PD of the exposure on the reporting date exceeds its lifetime PD at initial recognition by more than 200%; or

Absolute level: 12-month PD of the exposure on the reporting date exceeds 20%.

The following are also deemed to give rise to SICR:

1. Forbearance events where exposures are not 30 DPD;

2. Where payments in respect of the exposure are 30 DPD or more.

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

- ***Belgian Mortgage portfolio***

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

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- ***Securities Investment portfolio***

In order to monitor SICR in relation to its Securities Investment portfolio, the Bank refers to external credit ratings from at least one of the following rating agencies: Moody's, Fitch or Standard & Poor's. In this regard, an exposure is deemed to have low credit risk if it is assigned an investment-grade status by one of these three external credit rating agencies.
Should the credit rating of a financial instrument fall below the investment-grade threshold, i.e. BBB (or equivalent) the financial instrument is deemed to have suffered a SICR. As a result, the financial instrument will be re-classified as a Stage 2 exposure, which will impact the measurement of the ECL charges, moving from a 12-month ECL calculation to a lifetime ECL calculation.

- ***Securitisation Investment portfolio***

Investment in tranches within a Collateralised Loan Obligation Structured Entity ("CLO SE") originated and managed by the Bank: The Bank assesses the staging of the tranche rather than the facilities within the underlying portfolio of financial assets. The Bank determines an Implied Rating (as a proxy measure of credit risk) for each tranche at different points in time. Expected losses and average life are used to assign an Implied Rating to each tranche based on an external vendor's methodology and observed defaults in the industry sectors of the underlying assets. The Implied Rating at reporting date is benchmarked to the Implied Rating at origination date of the tranche in order to determine whether a SICR has occurred since initial recognition.

In line with the Bank's approach for the identification of SICR events and the determination of staging for the International Corporate Lending and Securities Investment portfolios, a quantitative ratings-based approach is utilised in order to assess the movement in credit risk since initial recognition of the Bank's investment in the tranches of the CLO.

In respect of tranches of CLOs to which an investment-grade Implied Rating is assigned, the Bank makes use of the low credit risk exemption. As a result, the Bank assumes that no SICR has occurred since initial recognition as long as the tranche retains an investment-grade Implied Rating. Hence, the Bank assumes that the credit risk attributable to tranches to which the low credit risk exemption is applied has not increased significantly since initial recognition, and therefore does not perform a SICR assessment for such tranches unless their Implied Rating falls to sub-investment-grade.

Investment in tranches within a publicly rated CLO SE originated and managed by a third party, with a public investment-grade rating assigned by reputable agency: Similar to the Securities Investment portfolio criteria, investment-grade rating is an example of a financial instrument that may be considered as having low credit risk. Therefore, the Bank measures 12-month ECL for publicly rated investment-grade tranches of CLOs.

Credit impaired (Stage 3)

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

In order to assess whether there has been an increase in credit risk of a financial instrument since initial recognition, changes in default risk are considered over the remaining life of the financial instrument. The definition of default is therefore critical to the application of IFRS 9 requirements. However, IFRS 9 does not specifically define default, but requires the Bank to apply a definition that is consistent with the definition used for internal credit risk management purposes, requiring consideration of qualitative indicators, where appropriate.

IFRS 9 introduces a rebuttable presumption that default does not occur later than when a contractual repayment relating to a financial asset is 91 days past due, unless reasonable and supportable information is available to demonstrate that a more lagging criterion is more appropriate. This presumption has not been rebutted by the Bank for its lending portfolios, meaning that default is deemed not to have occurred later than when a financial asset is 90 days past due. Although this presumption is applicable to all lending portfolios managed by the Bank, it is much more relevant for identifying defaulted exposures within the Dutch and Belgian Mortgage portfolios.

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

Notes to the financial statements

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

(i) material exposures which are past due by more than 90 days;

(ii) the debtor is assessed as unlikely to pay its credit obligations in full without realisation of collateral, regardless of the existence of any past-due amount or of the number of days past due.

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

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

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

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

Further, in respect of exposures within the International Corporate Lending portfolio, the Bank has determined triggers that should lead to the recognition of a non-performing or defaulted exposure, or a thorough assessment of whether an unlikely-to-pay event has occurred. Unlikely to pay events and triggers are listed below but this is not used as an exhaustive list:

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Unlikely to pay events	Indicative triggers
1) The Bank considers that the obligor is unlikely to pay its debt obligations to the Bank without recourse by the Bank to actions such as realising security.	• Loan is accelerated or called • Bank has called any collateral including a guarantee • Lawsuit, execution or enforced execution in order to collect debt • The borrower is a co-debtor when the main debtor is in default • It is expected that a bullet loan cannot be refinanced at standard market conditions with less than a 6-month contractual maturity
2) Bank puts the credit obligation on non-accrued status	• Bank stops charging of interest (also partially or conditionally) • Any direct write-off
3) Bank recognises a specific credit adjustment resulting from a significant perceived decline in credit quality subsequent to the institution taking on the exposure.	• Any specific loan loss provisions booked • Any write-off against provisions
4) Bank sells the credit obligation at a material credit-related economic loss.	• An asset is sold or partially sold with material loss (>15% loss on book value) due to credit-related concerns (i.e. not as a result of market risk)
5) Bank consents to a distressed restructuring of the credit obligation where this is likely to result in a diminished financial obligation caused by the material forgiveness or postponement of principal, interest, or fees.	• Restructuring with a material part which is forgiven giving rise to net present value (NPV) loss • Restructuring where the institution also considers the obligor is unlikely to pay its debt obligations without recourse to actions such as realising security
6) The Bank filed for the obligor's bankruptcy or a similar order in respect of an obligor's credit obligation to the institution.	• It is becoming probable that the borrower will enter bankruptcy or other financial reorganisation • Credit institution or leader of consortium starts bankruptcy/insolvency proceedings • International Swaps and Derivatives Association ("ISDA") credit event declared • Out-of-court negotiations for settlement or repayment (e.g. stand-still agreements)
7) Obligor has sought or has been placed in bankruptcy or similar protection, where this would avoid or delay repayment of a credit obligation to the Bank.	• Obligor has filed for bankruptcy or insolvency • Third party has started bankruptcy or insolvency proceedings

In certain instances, it might not be possible to identify a single discrete event which leads to the classification of an exposure as credit-impaired. However, the Bank takes a holistic view of the performance of the exposure, where the combined effect of several events may be deemed to have caused financial assets to become credit-impaired. Generally, the Bank expects that a SICR be identified before a financial asset becomes credit-impaired or an actual default occurs. Therefore, exposures that are treated as credit-impaired in most cases are transferred from Stage 2 to Stage 3.

In respect of the Dutch and Belgian Mortgage portfolios, the key indicator of credit-impairment arises when exposures are past due by more than 90 days taking into account the materiality threshold for Retail exposures as per the EBA regulatory definition of default, with other unlikeliness to pay indicators, such as the extension of forbearance measures, also being taken into consideration.

Notes to the financial statements

For the Securitisation Investment portfolio, the 90 DPD presumption has been rebutted by the Bank for the purposes of the investment in tranches in CLOs measured at amortised cost. All tranches in the Bank's securitisation investments are deemed to have defaulted in the event that the CLO is unable to partially or fully repay the Senior Notes, and / or the interest thereon, i.e. if payment is 1 DPD. This might be driven by a significant level of defaults occurring in the underlying portfolio, which might lead to an insufficient level of cash flows to honour the payment commitments linked with each tranche within the funding structure. Similarly, the 90 DPD presumption has also been rebutted by the Bank with respect to exposures within the Securities Investment portfolio. In this regard, an exposure is deemed to be defaulted in the event that the obligor is unable to partially or fully repay any amount due.

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

Write-offs

Financial assets and the associated credit loss allowances are normally written off, either partially or in full, when there is no realistic prospect of recovery. In the case of international corporate loans, the determination is made after considering facts and circumstances relating the borrower's financial position, typically following a distressed restructure. Where loans are secured, this is generally after receipt of any proceeds from the realisation of security. In circumstances where the net realisable value of any collateral has been determined and there is no reasonable expectation of further recovery, write-off may be earlier (see Note 2.2.5). In this respect, the Bank writes off financial assets when the Management Credit Committee determines that the balance is uncollectible.

Modified financial assets

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

(i) If the modification is not considered to be significant, the modified cash flows are considered to pertain to the original financial asset; or

(ii) If the modification is considered to be significant, the original asset is considered to be extinguished and accordingly the original asset is derecognised and replaced by a new financial asset.

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

In this regard, when considering a change in the contractual terms, the Bank evaluates how the cash flows under the revised terms compare with the cash flows under the original terms of the loan and also takes into consideration qualitative factors. Qualitative considerations include extension of terms, insertion of credit enhancements, changes in interest rates, etc. If the modification is deemed substantial, derecognition of the financial instrument is warranted.

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

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

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

Notes to the financial statements

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

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

Purchased or originated credit-impaired

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

Movement between stages

Financial instruments are transferred out of Stage 2 if their credit risk is no longer considered to be "significantly increased" since initial recognition. Stage classification under IFRS 9 is distinct from regulatory requirements for performing status classification. That is, it should not be assumed that a regulatory "probation" period and EBA pre-requisites must be used as the criteria needed to move from Stage 2 to Stage 1 for IFRS 9 purposes.

For IFRS 9 purposes, the Bank has determined the below guideline approach to determine whether movement from Stage 2 to Stage 1 is appropriate:

- Where qualitative triggers were used to determine SICR: Stage transfer from Stage 2 to Stage 1 is subjective. Where implied rating SICR triggers were not a determinant for reclassification in the first instance, it is expected that any qualitative SICR triggers that were observed that derived the SICR event must be fully resolved and evidenced for a 90-day period prior to any reclassification.

- Where quantitative triggers were used to determine SICR, the financial asset must evidence an improvement and return to the external or implied default risk rating at the point of inception (instrument should evidence an implied default rating in line or better than the original inception rating in order to trigger a reclassification from Stage 2 to Stage 1).

- Any instrument that is no longer 30-days past due can only be reclassified to Stage 1 when: (i) all contractual arrears have been remediated (Nil days past due); and (ii) no further non-payment has been observed for a minimum of 90 days. This is subject to regulatory materiality thresholds defined in the Bank Credit Risk policy.

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

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

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

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

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

Measurement of expected credit losses

The Bank first determines whether objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, and then measures credit loss allowances using different models for non credit-impaired and credit-impaired financial assets, as follows:

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

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

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

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

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

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

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

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

Probability of Default

As outlined previously, the concept of default risk is central to IFRS 9 – therefore, one of the key risk parameters used by the Bank in its ECL calculation is the probability that the obligor defaults either within the next 12-month period (in case of Stage 1 exposures) or over the lifetime of the exposure (in case of Stage 2 / 3 exposures).

The 12-month and lifetime PDs therefore represent the probability of default occurring over the next 12 months and the residual life of the instrument, respectively. Since the PD is a probability measure used to capture the likelihood that a customer will default over a defined period of time, this is estimated at a customer level.

PDs for the Bank's portfolios are estimated based on statistical models developed by external vendors. In particular, the models used for the International Corporate Lending, Securitisation Investment and Securities Investment portfolios use rating scale to PD matrices calibrated based on historical default data observed in the market and compiled by the external vendor. In respect of the International Corporate Lending portfolio, PDs and implied ratings are modelled by benchmarking borrower-specific characteristics, including financial performance and qualitative characteristics captured through a scorecard, with the underlying dataset. In respect of exposures within the Securities Investment and Securitisation Investment portfolios, PDs are generally estimated using public

Notes to the financial statements

ratings through rating scale to PD matrices. With regard to the Dutch Mortgage portfolio, PDs are generated using models based on historical default rates observed in the Netherlands for similar assets. With regards to the Belgian Residential Mortgages portfolio, PDs are also generated using models based on proxies for historical default rates using external, publicly available sources for similar assets.

Loss Given Default

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

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

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

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

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

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

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

For the Securitisation Investment portfolio, as for PDs, the LGDs are obtained through statistical models developed by an external vendor using estimated recovery rates.

Exposure at Default

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

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

- International Corporate Lending portfolio

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

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

- Dutch Mortgage portfolio

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

- Belgian Mortgage portfolio

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

- Securities Investment portfolio

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

- Securitisation Investment portfolio

For the Bank's Securitisation Investment portfolio, the external vendor analyses underlying assets in the CLO, capturing the inherent risk of each tranche (based on relative seniority and contractual terms), simulating the losses that would be incurred by each tranche under multiple scenarios and calculates the average life of the tranche. The average life of the tranche is equivalent to the expected lifetime.

Credit-Impaired financial assets (Stage 3)

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

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

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

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

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

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

Forward looking information

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

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

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

IFRS 9 does not require forecasts of future conditions to extend over the entire expected life of the financial instrument in question. The Bank uses macroeconomic forecasts from the external vendor for up to 20 quarters to estimate a forward-looking ECL. For maturities that go beyond this 5-year period, the Bank extrapolates projections from available data.

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

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

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

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

Presentation of ECL in the Statement of financial position

Credit loss allowances are presented in the statement of financial position as follows:

- Financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- Loan commitments as a provision;
- Where a financial instrument includes both a drawn and undrawn component, and the Bank cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Bank presents a combined credit loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the credit loss allowance over the gross amount of the drawn component is presented as a provision; and
- Debt instruments measured at FVOCI: no credit loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the credit loss allowance is presented and recognised in the fair value reserve.

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1.6 Offsetting financial instruments

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

1.7 Intangible assets

Computer software

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

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

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

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

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

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

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

1.8 Property, plant and equipment

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

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

Borrowing costs which are incurred for the purpose of acquiring or constructing a qualifying asset are capitalised as part of its cost. Borrowing costs are capitalised while acquisition or construction is actively underway. Capitalisation of borrowing costs is ceased once the asset is substantially complete and is suspended if the development of the asset is suspended.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. The carrying amount of any part accounted for separately is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

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

	- improvements to premises	4 - 10 years
	- computer equipment	3 - 5 years
	- other equipment	4 years
	- fixtures and fittings	10 years
	- motor vehicles	5 years

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

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

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

1.9 Impairment of non-financial assets

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

1.10 Non-current assets classified as held for sale

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

1.11 Current and deferred income tax

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

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

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

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

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Bank and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

1.12 Share capital

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

1.13 Financial liabilities

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

Financial liabilities measured at amortised cost, i.e. not at fair value through profit or loss are recognised initially at fair value, being the fair value of consideration received, net of transaction costs that are directly attributable to the acquisition or the issue of the financial liability. These liabilities are subsequently measured at amortised cost using the effective interest method to amortise the difference between proceeds received, net of directly attributable transaction costs incurred, and the redemption amount over the expected life of the instrument.

The Bank derecognises a financial liability from its statement of financial position when it is extinguished, that is the obligation specified in the contract or arrangement is discharged, is cancelled or expires. Financial liabilities measured at amortised cost comprise principally amounts owed to financial institutions, amounts owed to customers, other payables and other liabilities.

1.14 Derivative financial instruments

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

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

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

Notes to the financial statements

1.14.1 Fair value hedges

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

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

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

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

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

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

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

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

1.15 Provisions

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

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

Notes to the financial statements

1.16 Interest income and expense

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

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating interest income or interest expense over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

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

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

The gain or loss relating to the ineffective portion is also recognised in profit or loss within interest income and disclosed separately.

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

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

1.17 Fees and commissions

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

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

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

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

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

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

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

Notes to the financial statements

1.18 Net trading income

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

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

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

1.20 Leases

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

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

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

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

1.21 Share-based compensation

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

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

Share-based compensation is recognised as an employee benefit expense from grant date over the relative vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. The total amount to be expensed from grant date over the vesting period is determined by reference to the fair value of the awards at the grant date, reflecting the fair valuation of MDB Group Limited's ordinary shares on award date. Accordingly, the Bank amortises on a straight-line basis the compensation cost arising on the grant of such awards over the nominal vesting period for employees based on the graded vesting of the plan. The resultant liability is re-measured at the end of each reporting period and at the date of settlement, with changes in fair value recognised in profit or loss.

Notes to the financial statements

1.22 Loan commitments

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

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

1.23 Cash and cash equivalents

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

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

1.24 Customer assets

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

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

1.25 Dividend distribution

Dividend distribution to the Bank's shareholders is recognised as a liability in the Bank's financial statements in the period in which the dividends are approved by the Bank's shareholders.

2. Financial Risk Management

2.1 Introduction and overview

The Bank's core business activities include:
- deposit taking;
- the provision of wealth management and investment services;
- the granting of loans to international corporates; and
- the granting of residential mortgage loans in the Dutch and Belgian markets, the granting of buy-to-let mortgages in the Dutch market and the related securitisation of sub-portfolios of such Dutch residential mortgage loans through RMBS transactions.

The Bank also provides basic retail services such as money transfer and spot currency exchange. Currency swaps, foreign exchange forwards and interest rate swaps are also entered into for risk management purposes.

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

The Bank continued the diversification and de-risking of its asset portfolio through continued focus on the Dutch national-guaranteed mortgage market (relying on strong partners for origination and servicing) and continued to de-emphasise investment in international corporate lending markets. In 2022 the Bank also started financing the Belgian Residential mortgages and also the Dutch buy-to-let mortgages, The Dutch national-guaranteed mortgage lending activity represents prime Dutch mortgages that benefit from a 90% guarantee from a private non-profit fund and indirectly from a government guarantee (the "Nationale Hypotheek Garantie" or "NHG"). The Dutch Mortgage business continued to grow during the financial year ended 31 December 2022, growing from a total gross exposure amounting to €1643.2 million as at 31 December 2021 to €1818.2 million as at 31 December 2022.

Another key development during the financial year ended 31 December 2022 included the third securitisation of a sub-portfolio of the Dutch Mortgage portfolio, which was sold to Bastion 2022-1, an additional special purpose securitisation vehicle established in the Netherlands, raising a further €369 million in funding through a RMBS in November 2022.

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

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

2.1.1 Risk management framework

The Bank recognises the need to have an effective and efficient Risk Management Function and has therefore adopted a comprehensive risk management process that provides a balance between growth and maximising profitability while managing the associated risks. The Risk Management Function is actively involved in all material risk management decisions and is adequately structured to deliver a holistic view of the whole range of risks faced by the Bank in its strategic decision-making.

The Risk Management Framework ("RMF") aims to outline and define the Bank's risk management processes to enable informed risk-based decision-making. This framework outlines the process of how the Bank identifies, manages and monitors material risks. It refers to the risk management processes that include policies, procedures, risk limits and risk controls ensuring adequate, timely and continuous identification, measurement or assessment, monitoring, management, mitigation and reporting of the risks at the business line, institution and consolidated or sub-consolidated levels.

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

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

Notes to the financial statements

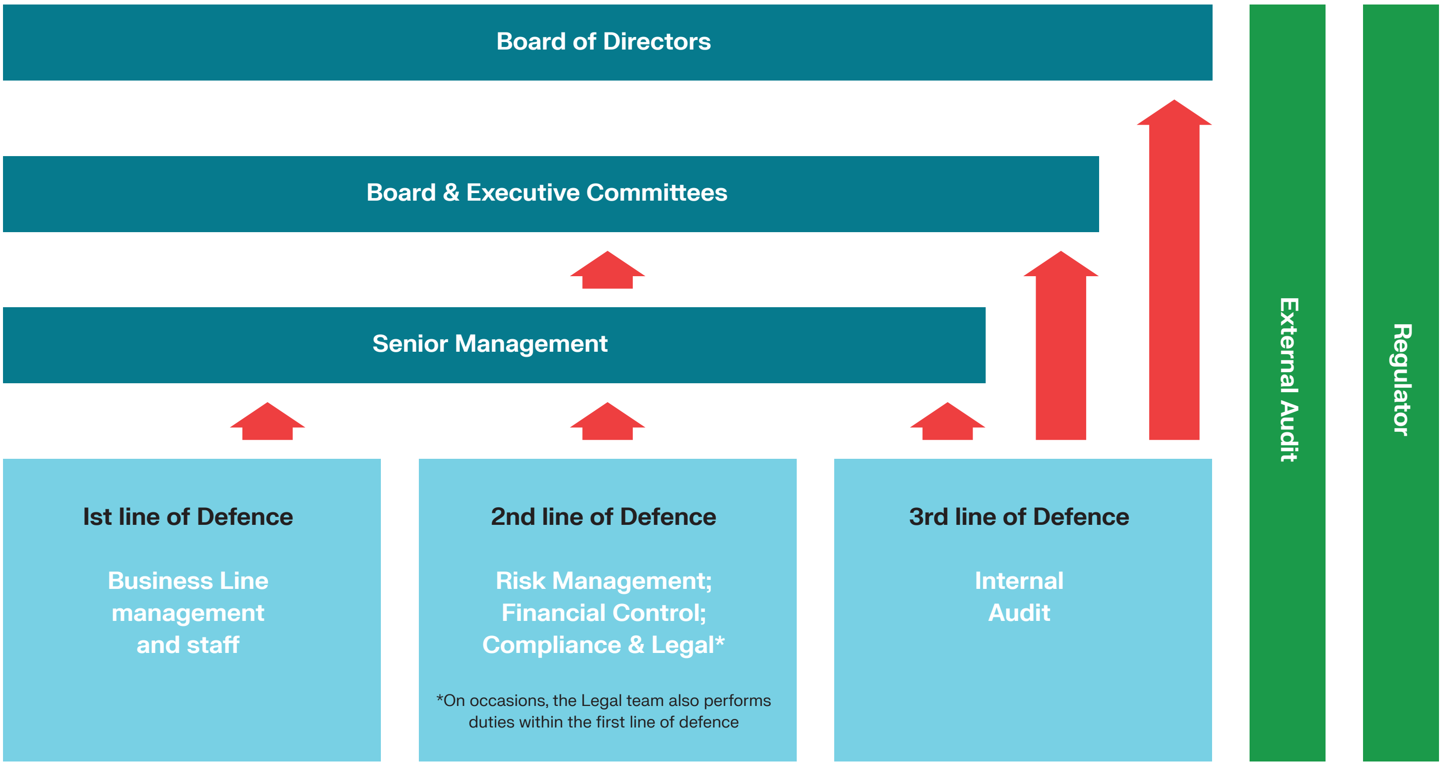

Figure 1: Three Lines of Defence Model

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

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

2.2 Credit risk

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

2.2.1 Management of credit risk

The purpose of the Bank's Credit Policy is to establish the principles, credit standards, monitoring and reporting requirements and escalation and approval processes that govern the ongoing management of the Bank's credit risk. The policy governs the associated credit frameworks for each asset class.

The Bank's Board of Directors has defined risk appetite limits based on the Capital Requirements Regulation ("CRR") governing large exposures as well as prudential requirements. Exposure limits are monitored on a regular basis by the Risk, Corporate Credit and Treasury teams. Amongst other things, the Credit Policy outlines the following specific exposure and trading limits:
- Concentration limits;
- Country limits;
- Portfolio limits; and
- Minimum credit quality within each asset class.

Limits on counterparty exposures are established by the Bank's Management Risk Committee ("MRC") in line with the Credit Framework. Such limits relate to net exposure, after application of cash (and cash equivalent) collateral, as provided in industry-standard documentation, and are established to manage credit risk to banks and other financial institutions in connection with

Notes to the financial statements

the Bank's over-the-counter ("OTC") derivative and repurchase agreement transactions. Settlement and delivery risk are mitigated through the use of industry-standard documentation such as the Loan Management Association ("LMA") and International Swaps and Derivative Association ("ISDA") agreements, alongside associated Credit Support Annex ("CSA") legal documents. Any bilateral secured financing transaction is executed under a signed Global Master Repurchase Agreement ("GMRA") or an ISDA agreement.

The Bank's objective is to maximise its returns while maintaining a sound and prudent credit risk profile. To facilitate achieving this target, the Bank invests in a diversified portfolio of financial assets, including both high quality securities with strong ratings stability and a diversified portfolio of loans to corporates, whose higher returns are viewed as justifying a greater level of risk. In accordance with its business strategy, the Bank is de-risking its asset portfolio by reducing its exposure to the International Corporate Lending portfolio, with the portfolio size having been reduced by 11% since the beginning of the previous financial period. In addition, the Bank is further diversifying its business through growth in a Dutch National Mortgage portfolio, which portfolio benefits from favourable credit risk weighting treatment as a result of the NHG provided under the Dutch national-guaranteed mortgage programme (the so called NHG mortgages); the launch of the Belgian retail mortgages and Dutch buy-to-let mortgages; and investments in AAA-rated CLO notes managed by third parties.

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

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

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

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

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

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

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

Notes to the financial statements

The Bank focuses on the quality and timeliness of the data used to inform management decisions. In particular it enhanced credit risk monitoring within the International Corporate Loan portfolio and reviewed in a timelier manner those borrowers that are more vulnerable to the impacts of Covid-19. The active risk management performed at the level of both management and the board, particularly in the case of loan recoveries, continued during 2021 and 2022, most recently with a focus on the potential impact on borrowers of the Ukraine crisis, inflationary cost pressures including energy price rises, and risk of energy rationing.

Since the outbreak of the pandemic, the Bank has continued to adopt a discounted cash flow ("DCF") approach for determining specific expected credit losses in respect of non-performing exposures within the ICL portfolio, whereby the Enterprise Value ("EV") of borrowers is prudently determined by reference to expected future cash flows under different scenarios over the upcoming three-year period. The projected cash flows used recent management information for each borrower as the starting point. Expert judgement is then applied to determine the cashflows under base and downside scenarios. This methodology enables the Bank to take a view of the steady state cashflows of borrowers over the short to medium term, after which point a terminal value is estimated. The recoverable amount under each scenario is therefore estimated by reference to the EV, plus available cash, less exit fees, discounted using the borrowers individually estimated weighted average cost of capital ("WACC"), which is determined using multiple assumptions in respect of both the cost of debt and cost of equity. An element of prudence is also built in the WACC calculation for each borrower.

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

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

	2022 **€000**	2021 €000
Net exposure:		
Financial assets measured at amortised cost		
Balances with central banks	**107,483**	187,005
Loans and advances to financial institutions	**313,151**	82,355
Loans and advances to customers	**1,870,908**	1,820,816
- International Corporate Lending portfolio	**192,179**	214,951
- Dutch Mortgage portfolio	**1,818,002**	1,643,014
- Belgian Mortgage portfolio	**132,000**	-
- IFRS basis adjustment: International Mortgage portfolio	**(271,273)**	(37,149)
Investments measured at amortised cost	**804,515**	55,669
- Securities portfolio	**389,479**	55,669
- Securitisation portfolio	**415,036**	-
Accrued income	**9,747**	5,287
Loans to related parties (included in other assets)	**30,765**	33,020
Other receivables (included in other assets)	**24,150**	11,164
	3,160,719	2,195,316
Instruments measured at fair value through other comprehensive income	**-**	784,496
- Investments - Securities portfolio	**-**	436,524
- Investments - Securitisation portfolio	**-**	347,972
Instruments mandatorily measured at fair value through profit or loss	**1,576**	1
- Held for trading derivative financial instruments	**757**	1
- Investments - Securities portfolio	**819**	-
	3,162,295	2,979,813
Commitments to purchase financial assets	**-**	10,000
Commitments to extend credit and other commitments	**236,296**	191,064

Notes to the financial statements

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

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

	2022		2021	
	Gross carrying/ nominal amount €000	**Credit loss allowance €000**	Gross carrying/ nominal amount €000	Credit loss allowance €000
Financial assets measured at amortised cost				
Balances with central banks	**107,484**	**(1)**	187,006	(1)
Loans and advances to financial institutions	**313,151**	**-**	82,355	-
Loans and advances to customers	**1,874,168**	**(3,260)**	1,823,513	(2,697)
- International Corporate Lending portfolio	**195,125**	**(2,946)**	217,499	(2,548)
- Dutch Mortgage portfolio	**1,818,186**	**(184)**	1,643,163	(149)
- Belgian Mortgage portfolio	**132,130**	**(130)**	-	-
- IFRS basis adjustment: International Mortgage portfolio	**(271,273)**	**-**	(37,149)	-
Investments measured at amortised cost	**804,615**	**(100)**	55,670	(1)
- Securities portfolio	**389,537**	**(58)**	55,670	(1)
- Securitisation portfolio	**415,078**	**(42)**	-	-
Accrued income	**9,765**	**(18)**	5,316	(29)
Loans to related parties (included in other assets)	**30,765**	**-**	33,020	-
Other receivables (included in other assets)	**24,150**	**-**	11,164	-
	3,164,098	**(3,379)**	2,198,044	(2,728)
Commitments to purchase financial assets	**-**	**-**	10,000	-
Commitments to extend credit and other commitments	**236,448**	**(152)**	191,117	(53)
	236,448	**(152)**	201,117	(53)
Total	**3,400,546**	**(3,531)**	2,399,161	(2,781)
	Fair value €000	**Credit loss allowance €000**	Fair value €000	Credit loss allowance €000
Instruments measured at fair value through other comprehensive income				
- Investments - Securities portfolio	**-**	**-**	436,536	(12)
- Investments - Securitisation portfolio	**-**	**-**	348,007	(35)

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

	2022 €000	2021 €000
Instruments mandatorily measured at fair value through profit or loss		
- Held for trading derivative financial instruments	**-**	1
- Investments - Securities portfolio	**819**	-
	819	1

Notes to the financial statements

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

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

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

Stage 1 (Performing)
1. Regular - no material credit concerns.
2. Focus - no immediate prospect that a credit loss will ultimately be suffered, but worthy of close credit oversight.

Stage 2 (Underperforming)
3. Under Surveillance - significant increase in credit risk with identified concerns and some prospect that a credit loss may ultimately be suffered.

Stage 3 (Non-performing)
4. Doubtful - it is likely that the contractual terms of the debt will not be met and that a credit loss will be suffered.
5. Write-off - full or partial write-down of exposures with little prospect of recovery.

The financial assets recorded in each stage have the following characteristics:
- Stage 1: Non credit-impaired and without significant increase in credit risk on which a 12-month ECL is recognised (Regular and Focus internal classifications)
- Stage 2: A significant increase in credit risk has been experienced since initial recognition on which a lifetime ECL is recognised (Under Surveillance internal classification)
- Stage 3: Objective evidence of impairment and are therefore considered to be in default or otherwise credit-impaired on which a lifetime specific ECL is recognised (Doubtful and Write-off internal classifications)

Deteriorating Credits

The Bank determines that a financial instrument is credit-impaired and in Stage 3 by considering relevant objective evidence, primarily whether:
- contractual payments of either principal or interest are past due by more than 90 days;
- there are other indications that the borrower is unlikely to pay, such as when a concession has been granted to the borrower for economic or legal reasons relating to the borrower's financial condition; and
- the loan is otherwise considered to be in default.

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

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

The principal guidance on the definition of NPEs, as referred to in Commission Implementing Regulation (EU) No 680/2014 (referred to as the "EBA International Technical Standard on supervisory reporting"), seeks to ensure the consistent implementation of the key drivers of the NPE definition, namely the "past due" and the "unlikely-to-pay" criteria.

According to the EBA International Technical Standards on supervisory reporting, "non-performing exposures" are those that satisfy either or both of the following criteria:
a) material exposures which are more than 90 days past-due; and
b) the debtor is assessed as unlikely to pay its credit obligations in full without realisation of collateral, regardless of the existence of any past-due amount or of the number of days past due.

Notes to the financial statements

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

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

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

The impact on borrowers' financial performance of post COVID-19 pandemic headwinds and the macroeconomic impacts of the Ukraine conflict, seeing increased cost inflation, energy inflation and interest rate rises on the financial performance of borrowers within the Bank's lending portfolios, is captured within the quantitative assessment determined within the Bank's IFRS 9 model, since it is taken into account within the macro-economic scenarios used to determine the probability weighted ECL, as well as in the life-time PiT PDs at reporting date used to determine SICR by comparing the magnitude of the difference between the corresponding reporting date implied rating and the origination date implied rating.

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

As described in more detail in section 1.5 of the financial statements, the staging criteria applied in respect of exposures classified within the Dutch Mortgage portfolio are based on credit deterioration indicators such as delinquency levels, forbearance activity and changes in PDs modelled by an external vendor on the basis of forecasted macro-economic scenarios which are revised to reflect the elevated level of economic uncertainty driven by the outbreak of the pandemic and the military conflict between Russia and Ukraine, as explained in more detail in Note 2.2.7 - 'Current Conditions and Forward-looking information incorporated in the ECL model'. In this regard, the staging criteria are still deemed to be appropriate, with the impact of the pandemic on the credit risk profile of the Dutch Mortgage portfolio being captured in the modelling of PDs. The Dutch and Belgian Mortgage portfolio were not subject to COVID-19 relief measures in the form of the moratoria.

With respect to the Belgian Residential Mortgages outstanding, no loans have shown any deterioration in credit risk and no Covid-19 relief measures were granted.

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

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

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	Performing		Under performing	Non-performing	
	Regular	Focus	Under surveillance	Doubtful	Total
As at 31 December 2022	**€000**	**€000**	**€000**	**€000**	**€000**
On balance sheet at amortised cost:					
Balances with central banks	107,483	-	-	-	107,483
Gross	*107,484*	-	-	-	*107,484*
Credit loss allowances	*(1)*	-	-	-	*(1)*
Loans and advances to financial institutions	313,151	-	-	-	313,151
Gross	*313,151*	-	-	-	*313,151*
Credit loss allowances	-	-	-	-	-
Loans and advances to customers	1,763,367	80,361	26,681	499	1,870,908
- International Corporate Lending portfolio	117,531	56,514	18,134	-	192,179
Gross	*118,967*	*57,258*	*18,900*	-	*195,125*
Credit loss allowances	*(1,436)*	*(744)*	*(766)*	-	*(2,946)*
- Dutch Mortgage portfolio	1,809,918	810	6,775	499	1,818,002
Gross	*1,810,024*	*810*	*6,846*	*506*	*1,818,186*
Credit loss allowances	*(106)*	-	*(71)*	*(7)*	*(184)*
- Belgian Mortgage portfolio	107,191	23,037	1,772	-	132,000
Gross	*107,286*	*23,056*	*1,788*	-	*132,130*
Credit loss allowances	*(95)*	*(19)*	*(16)*	-	*(130)*
- IFRS basis adjustment: International Mortgage portfolio	(271,273)	-	-	-	(271,273)
Investments measured at amortised cost	804,515	-	-	-	804,515
- Securities portfolio	389,479	-	-	-	389,479
Gross	*389,537*	-	-	-	*389,537*
Credit loss allowances	*(58)*	-	-	-	*(58)*
- Securitisation portfolio	415,036	-	-	-	415,036
Gross	*415,078*	-	-	-	*415,078*
Credit loss allowances	*(42)*	-	-	-	*(42)*
Accrued income	8,984	632	131	-	9,747
Gross	*8,989*	*640*	*136*	-	*9,765*
Credit loss allowances	*(5)*	*(8)*	*(5)*	-	*(18)*
Loans to related parties (included in other assets)	30,765	-	-	-	30,765
Other receivables (included in other assets)	24,150	-	-	-	24,150
	3,052,415	80,993	26,812	499	3,160,719
Off balance sheet at nominal amount:					
Commitments to extend credit and other commitments					
Nominal amount	*225,529*	*9,152*	*1,767*	-	*236,448*
Credit loss allowances	*(56)*	*(84)*	*(12)*	-	*(152)*
	225,473	9,068	1,755	-	236,296

Notes to the financial statements

	Performing		Under performing	Non-performing	
	Regular	**Focus**	**Under surveillance**	**Doubtful**	**Total**
	€000	**€000**	**€000**	**€000**	**€000**
As at 31 December 2021					
On balance sheet at amortised cost:					
Balances with central banks	187,005	-	-	-	187,005
Gross	*187,006*	-	-	-	*187,006*
Credit loss allowances	*(1)*	-	-	-	*(1)*
Loans and advances to financial institutions	82,355	-	-	-	82,355
Gross	*82,355*	-	-	-	*82,355*
Credit loss allowances	-	-	-	-	-
Loans and advances to customers	1,719,534	57,934	41,390	1,958	1,820,816
- International Corporate Lending portfolio	118,686	56,766	37,949	1,550	214,951
Gross	*119,155*	*57,198*	*39,365*	*1,781*	*217,499*
Credit loss allowances	*(469)*	*(432)*	*(1,416)*	*(231)*	*(2,548)*
- Dutch Mortgage portfolio	1,637,997	1,168	3,441	408	1,643,014
Gross	*1,638,068*	*1,168*	*3,503*	*424*	*1,643,163*
Credit loss allowances	*(71)*	-	*(62)*	*(16)*	*(149)*
- IFRS basis adjustment: Dutch Mortgage portfolio	(37,149)	-	-	-	(37,149)
Investments measured at amortised cost	55,669	-	-	-	55,669
- Securities portfolio	55,669	-	-	-	55,669
Gross	*55,670*	-	-	-	*55,670*
Credit loss allowances	*(1)*	-	-	-	*(1)*
Accrued income	4,544	14	703	26	5,287
Gross	*4,547*	*15*	*724*	*30*	*5,316*
Credit loss allowances	*(3)*	*(1)*	*(21)*	*(4)*	*(29)*
Loans to related parties (included in other assets)	33,020	-	-	-	33,020
Other receivables (included in other assets)	11,164	-	-	-	11,164
	2,093,291	57,948	42,093	1,984	2,195,316
Off balance sheet at nominal amount:					
Commitments to purchase financial assets					
Nominal amount	*10,000*	-	-	-	*10,000*
Credit loss allowances	-	-	-	-	-
Commitments to extend credit and other commitments					
Nominal amount	*175,162*	*14,138*	*1,817*	-	*191,117*
Credit loss allowances	*(9)*	*(32)*	*(12)*	-	*(53)*
	185,153	14,106	1,805	-	201,064
Instruments measured at fair value through other comprehensive income					
- Investments - Securities portfolio					
Fair value	*436,536*	-	-	-	*436,536*
Credit loss allowances	*(12)*	-	-	-	*(12)*
- Investments - Securitisation portfolio					
Fair value	*348,007*	-	-	-	*348,007*
Credit loss allowances	*(35)*	-	-	-	*(35)*

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For securities within both the Securities Investment and Securitisation Investment portfolios, the Bank's credit quality classifications encompass a range of more granular external rating grades attributed by external agencies to debt securities. The following table illustrates this information:

	Measured at amortised cost		Measured at fair value through other comprehensive income	
	2022 €000	2021 €000	**2022 €000**	2021 €000
Securities Investment portfolio				
National and regional government securities, supranationals and agencies				
· AAA	**262,090**	30,475	**-**	-
· AA+ to AA-	**127,389**	25,195	**-**	52,590
· A- to BBB-	**-**	-	**-**	17,512
Other securities				
· AAA	**-**	-	**-**	265,938
· AA+ to AA-	**-**	-	**-**	100,484
	389,479	55,670	**-**	436,524
Securitisation Investment portfolio				
	2022 €000	2021 €000	**2022 €000**	2021 €000
· AAA	**415,036**	-	**-**	347,972
	415,036	-	**-**	347,972
Total	**804,515**	55,670	**-**	784,496

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

As at 31 December 2022 and 2021, all the investments in the Securities Investment portfolio and the Securitisation Investment portfolio are classified as regular.

Notes to the financial statements

2.2.3 *Detailed information on credit quality of financial assets*

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

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

	Gross carrying/nominal amount				Credit loss allowance				ECL coverage %			
	Stage 1 €000	Stage 2 €000	Stage 3 €000	Total €000	Stage 1 €000	Stage 2 €000	Stage 3 €000	Total €000	Stage 1 %	Stage 2 %	Stage 3 %	Total %
As at 31 December 2022												
On balance sheet at amortised cost:												
Balances with central banks	107,484	-	-	107,484	(1)	-	-	(1)	-	-	-	-
Loans and advances to financial institutions	313,151	-	-	313,151	-	-	-	-	-	-	-	-
Loans and advances to customers												
- International Corporate Lending portfolio	176,225	18,900	-	195,125	(2,180)	(766)	-	(2,946)	1.2	4.1	-	1.5
- Dutch Mortgage portfolio	1,810,834	6,846	506	1,818,186	(106)	(71)	(7)	(184)	-	1.0	1.4	-
- Belgian Mortgage portfolio	130,342	1,788	-	132,130	(114)	(16)	-	(130)	0.1	0.9	-	0.1
- IFRS basis adjustment: International Mortgage portfolio	(271,273)	-	-	(271,273)	-	-	-	-	-	-	-	-
Investments												
- Securities portfolio	389,537	-	-	389,537	(58)	-	-	(58)	-	-	-	-
- Securitisation portfolio	415,078	-	-	415,078	(42)	-	-	(42)	-	-	-	-
Accrued income	9,629	136	-	9,765	(13)	(5)	-	(18)	0.1	3.7	-	0.2
Loans to related parties (included in other assets)	30,765	-	-	30,765	-	-	-	-	-	-	-	-
Other receivables (included in other assets)	24,150	-	-	24,150	-	-	-	-	-	-	-	-
Off balance sheet at nominal amount:												
Commitments to extend credit and other commitments	234,681	1,767	-	236,448	(140)	(12)	-	(152)	0.1	0.7	-	0.1
	3,370,603	**29,437**	**506**	**3,400,546**	**(2,654)**	**(870)**	**(7)**	**(3,531)**	**0.1**	**3.0**	**1.4**	**0.1**

	Gross carrying/nominal amount				Credit loss allowance				ECL coverage %			
	Stage 1 €000	Stage 2 €000	Stage 3 €000	Total €000	Stage 1 €000	Stage 2 €000	Stage 3 €000	Total €000	Stage 1 %	Stage 2 %	Stage 3 %	Total %
As at 31 December 2021												
On balance sheet at amortised cost:												
Balances with central banks	187,006	-	-	187,006	(1)	-	-	(1)	-	-	-	-
Loans and advances to financial institutions	82,355	-	-	82,355	-	-	-	-	-	-	-	-
Loans and advances to customers												
- International Corporate Lending portfolio	176,353	39,365	1,781	217,499	(901)	(1,416)	(231)	(2,548)	0.5	3.6	13.0	1.2
- Dutch Mortgage portfolio	1,639,236	3,503	424	1,643,163	(71)	(62)	(16)	(149)	-	1.8	3.8	-
- IFRS basis adjustment: Dutch Mortgage portfolio	(37,149)	-	-	(37,149)	-	-	-	-	-	-	-	-
Investments												
- Securities portfolio	55,670	-	-	55,670	(1)	-	-	(1)	-	-	-	-
Accrued income	4,562	724	30	5,316	(4)	(21)	(4)	(29)	0.1	2.9	13.3	0.5
Loans to related parties (included in other assets)	33,020	-	-	33,020	-	-	-	-	-	-	-	-
Other receivables (included in other assets)	11,164	-	-	11,164	-	-	-	-	-	-	-	-
Off balance sheet at nominal amount:												
Commitments to purchase financial assets	10,000	-	-	10,000	-	-	-	-	-	-	-	-
Commitments to extend credit and other commitments	189,300	1,817	-	191,117	(41)	(12)	-	(53)	-	0.7	-	-
	2,351,517	**45,409**	**2,235**	**2,399,161**	**(1,019)**	**(1,511)**	**(251)**	**(2,781)**	**-**	**3.3**	**11.2**	**0.1**

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	Fair Value				Credit loss allowance				ECL coverage %			
	Stage 1 €000	Stage 2 €000	Stage 3 €000	Total €000	Stage 1 €000	Stage 2 €000	Stage 3 €000	Total €000	Stage 1 %	Stage 2 %	Stage 3 %	Total %
As at 31 December 2021												
Investments at fair value through other comprehensive income												
- Investments - Securities portfolio	436,536	-	-	436,536	(12)	-	-	(12)	-	-	-	-
- Investments - Securitisation portfolio	348,007	-	-	348,007	(35)	-	-	(35)	-	-	-	-

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

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

Unless identified at an earlier stage, all financial assets are deemed to have experienced a significant increase in credit risk when they are more than 30 days past due. As at 31 December 2022 and 2021, no exposures within the Securities Investment and Securitisation Investment portfolios were classified as Stage 2. None of the Stage 2 exposures within the International Corporate Lending portfolio were past due as at 31 December 2022 and 2021.

In this regard, the following disclosure only presents the ageing of Stage 2 financial assets in the Dutch Mortgage portfolios. It distinguishes between those assets that are classified as Stage 2 when they are either not past due or up to 30 days past due from those that are classified as Stage 2 due to ageing and are more than 30 days past due (>30 DPD). Past due financial instruments are those loans where customers have failed to make payments in accordance with the contractual terms of their facilities. As at 31 December 2022, Stage 1 exposures with a gross carrying amount of €0.7 million (2021: €1.2 million) classified within the Dutch Mortgage portfolio, were classified as past due but not credit-impaired.

	Gross exposure			Credit loss allowance		
	Stage 2 €000	Of which up to 30 DPD €000	Of which more than 30 DPD €000	Stage 2 €000	Of which up to 30 DPD €000	Of which more than 30 DPD €000
As at 31 December 2022						
Dutch Mortgage portfolio						
- Loans and advances to customers	6,846	5,667	1,179	(71)	(1)	(70)
Belgian Mortgage portfolio						
- Loans and advances to customers	1,788	352	1,436	(24)	(16)	(8)
	8,634	**6,019**	**2,615**	**(95)**	**(17)**	**(78)**

	Gross exposure			Credit loss allowance		
	Stage 2 €000	Of which up to 30 DPD €000	Of which more than 30 DPD €000	Stage 2 €000	Of which up to 30 DPD €000	Of which more than 30 DPD €000
As at 31 December 2021						
Dutch Mortgage portfolio						
- Loans and advances to customers	3,503	782	2,721	(62)	(1)	(61)
	3,503	**782**	**2,721**	**(62)**	**(1)**	**(61)**

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

	Gross carrying amount/nominal amount						
	Regular €000	Focus €000	Under surveillance €000	Doubtful €000	Total €000	Credit loss allowance €000	Net €000
As at 31 December 2022							
On balance sheet at amortised cost:							
Balances with central banks	107,484	-	-	-	107,484	(1)	107,483
Loans and advances to financial institutions	313,151	-	-	-	313,151	-	313,151
Loans and advances to customers							
- International Corporate Lending portfolio							
- Stage 1	118,967	57,258	-	-	176,225	(2,180)	174,045
- Stage 2	-	-	18,900	-	18,900	(766)	18,134
- Dutch Mortgage portfolio							
- Stage 1	1,810,024	810	-	-	1,810,834	(106)	1,810,728
- Stage 2	-	-	6,846	-	6,846	(71)	6,775
- Stage 3	-	-	-	506	506	(7)	499
- Belgian Mortgage portfolio							
- Stage 1	107,286	23,056	-	-	130,342	(114)	130,228
- Stage 2	-	-	1,788	-	1,788	(16)	1,772
- IFRS basis adjustment: International Mortgage portfolio	(271,273)	-	-	-	(271,273)	-	(271,273)
Investments measured at amortised cost							
- Securities portfolio							
- Stage 1	389,537	-	-	-	389,537	(58)	389,479
- Securitisation portfolio							
- Stage 1	415,078	-	-	-	415,078	(42)	415,036
Accrued income							
- Stage 1	8,989	640	-	-	9,629	(13)	9,616
- Stage 2	-	-	136	-	136	(5)	131
Loans to related parties (included in other assets)							
- Stage 1	30,765	-	-	-	30,765	-	30,765
Other receivables (included in other assets)							
- Stage 1	24,150	-	-	-	24,150	-	24,150
Off balance sheet at nominal amount:							
Commitments to extend credit and other commitments							
- Stage 1	225,529	9,152	-	-	234,681	(140)	234,541
- Stage 2	-	-	1,767	-	1,767	(12)	1,755
	3,279,687	**90,916**	**29,437**	**506**	**3,400,546**	**(3,531)**	**3,397,015**

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	Gross carrying amount/nominal amount						
	Regular €000	Focus €000	Under surveillance €000	Doubtful €000	Total €000	Credit loss allowance €000	Net €000
As at 31 December 2021							
On balance sheet at amortised cost:							
Balances with central banks	187,006	-	-	-	187,006	(1)	187,005
Loans and advances to financial institutions	82,355	-	-	-	82,355	-	82,355
Loans and advances to customers							
- International Corporate Lending portfolio							
- Stage 1	119,155	57,198	-	-	176,353	(901)	175,452
- Stage 2	-	-	39,365	-	39,365	(1,416)	37,949
- Stage 3	-	-	-	1,781	1,781	(231)	1,550
- Dutch Mortgage portfolio							
- Stage 1	1,638,068	1,168	-	-	1,639,236	(71)	1,639,165
- Stage 2	-	-	3,503	-	3,503	(62)	3,441
- Stage 3	-	-	-	424	424	(16)	408
- IFRS basis adjustment: Dutch Mortgage portfolio	(37,149)	-	-	-	(37,149)	-	(37,149)
Investments measured at amortised cost							
- Securities portfolio							
- Stage 1	55,670	-	-	-	55,670	(1)	55,669
Accrued income							
- Stage 1	4,547	15	-	-	4,562	(4)	4,558
- Stage 2	-	-	724	-	724	(21)	703
- Stage 3	-	-	-	30	30	(4)	26
Loans to related parties (included in other assets)							
- Stage 1	33,020	-	-	-	33,020	-	33,020
Other receivables (included in other assets)							
- Stage 1	11,164	-	-	-	11,164	-	11,164
Off balance sheet at nominal amount:							
Commitments to purchase financial assets							
- Stage 1	10,000	-	-	-	10,000	-	10,000
Commitments to extend credit and other commitments							
- Stage 1	175,162	14,138	-	-	189,300	(41)	189,259
- Stage 2	-	-	1,817	-	1,817	(12)	1,805
	2,278,998	**72,519**	**45,409**	**2,235**	**2,399,161**	**(2,781)**	**2,396,380**

	Fair value					
	Regular €000	Focus €000	Under surveillance €000	Doubtful €000	Total €000	Credit loss allowance €000
As at 31 December 2021						
Investments measures at fair value through other comprehensive income						
- Securities portfolio						
- Stage 1	436,536	-	-	-	436,536	(12)
- Securitisation portfolio						
- Stage 1	348,007	-	-	-	348,007	(35)

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

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

Notes to the financial statements

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

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

The decrease in credit loss allowances in the financial year ended 31 December 2022 was principally driven by the general improvement in financial condition experienced by borrowers within the portfolio, leading to significant repayments and in turn a decrease in ECLs of €0.9 million.

The decrease in credit loss allowances in the financial year ended 31 December 2021 was principally driven by the general improvement in financial condition experienced by borrowers within the portfolio, leading to significant repayments and in turn a decrease in ECLs of €3.0 million. Also, the expected credit loss allowances decreased as a result of the disposal of Stage 3 loans and the realisation of ECLs on Stage 3 loans by way of write-off following restructuring amounting to €8.3 million as disclosed in the line item “Realisation of ECL through restructuring and disposals”.

As per the table below, no exposures were transferred out of Stage 1 into Stages 2 or 3 during the year (2021: €20.6 million), with net transfers to Stage 3 amounting to €0 million (2021: €11.3 million). The net remeasurement of ECLs reflects the increase in PDs and LGDs driven by point-in-time economic adjustments and more pessimistic forward-looking macroeconomic scenarios being forecasted in the modelling of ECLs. As explained in more detail in Note 2.2.7 – ‘Current Conditions and Forward-looking information incorporated in the ECL model’, the Bank deemed that forward-looking macroeconomic scenarios provided by the external supplier now appropriately reflected the uncertainty within the widereconomy and reflects this increase in PDs and LGDs.

The table below provides a reconciliation of movements in gross carrying/nominal amounts and credit loss allowances, by stage, for the International Corporate Lending portfolio.

Notes to the financial statements

	Non credit-impaired				Credit-impaired		Total	
	Stage 1		Stage 2		Stage 3			
	Gross carrying/ nominal amount €000	Credit loss allowance €000	Gross carrying/ nominal amount €000	Credit loss allowance €000	Gross carrying/ nominal amount €000	Credit loss allowance €000	Gross carrying/ nominal amount €000	Credit loss allowance €000
International Corporate Lending portfolio								
Year ended 31 December 2022								
At beginning of year	194,637	(945)	41,906	(1,447)	1,811	(235)	238,354	(2,627)
New business	78,164	(1,095)	-	-	-	-	78,164	(1,095)
Repayments and disposals	(92,458)	537	(12,750)	272	-	-	(105,208)	809
Transfers of financial instruments								
- Transfers from Stage 2 to Stage 1	10,226	(355)	(10,226)	355	-	-	-	-
- Transfers from Stage 3	-	-	1,811	(235)	(1,811)	235	-	-
Net remeasurement of ECL arising from stage transfers and changes in risk parameters		(437)		272		-	-	(165)
At end of year	190,569	(2,295)	20,741	(783)	-	-	211,310	(3,078)
ECL released for the year								(451)
Other								(2)
Change in expected credit losses and other credit impairment charges for the year								**(453)**

Change in expected credit losses and other credit impairment charges for the year

	As at 31 December 2022		Year ended 31 December 2022
	Gross carrying/ nominal amount €000	Credit loss allowance €000	ECL (charge)/ release €000
As per preceding table	211,310	(3,078)	(453)
Balances at central banks	107,484	(1)	-
Loans and advances to financial institutions	313,151	-	-
Loans and advances to customers			
- Dutch Mortgage portfolio: drawn exposures	1,546,913	(184)	(35)
- Dutch Mortgage portfolio: undrawn commitments	92,420	(4)	(2)
- Belgian Mortgage portfolio: drawn exposures	132,130	(130)	(130)
- Belgian Mortgage portfolio: undrawn commitments	63,808	(34)	(34)
Investments measured at amortised cost			
- Securities portfolio	389,537	(58)	(44)
- Securitisation portfolio	415,078	(42)	(7)
Other accrued income	9,765	(1)	-
Summary of financial instruments to which the impairment requirements in IFRS 9 are applied through profit or loss	3,281,596	(3,532)	(705)
Total credit loss allowance/total income statement ECL charge for the year		**(3,532)**	**(705)**

Notes to the financial statements

The table below provides a reconciliation of movements in gross carrying/nominal amounts and credit loss allowances by stage for the International Corporate Lending portfolio for the financial year ended 31 December 2021:

	Non credit-impaired				Credit-impaired		Total	
	Stage 1		Stage 2		Stage 3			
	Gross carrying/ nominal amount €000	Credit loss allowance €000	Gross carrying/ nominal amount €000	Credit loss allowance €000	Gross carrying/ nominal amount €000	Credit loss allowance €000	Gross carrying/ nominal amount €000	Credit loss allowance €000
International Corporate Lending portfolio								
Year ended 31 December 2021								
At beginning of year	70,298	(1,222)	19,336	(405)	25,160	(7,200)	114,794	(8,827)
New business	171,104	(622)	230	(2)	-	-	171,334	(624)
Repayments and disposals	(26,144)	540	(9,605)	249	(3,683)	2,220	(39,432)	3,009
Transfers of financial instruments								
- Transfers from Stage 1 to Stage 2	(20,621)	433	20,621	(433)	-	-	-	-
- Transfers from Stage 3	-	-	11,325	(4,980)	(11,325)	4,980	-	-
Net remeasurement of ECL arising from stage transfers and changes in risk parameters	-	181	-	4,658	-	(8,576)	-	(3,737)
Uncertainty adjustment	-	(255)	-	(534)	-	-	-	(789)
Realisation of ECL through restructuring and disposals	-	-	-	-	(8,341)	8,341	(8,341)	8,341
At end of year	194,637	(945)	41,907	(1,447)	1,811	(235)	238,355	(2,627)
ECL charge for the year								6,200
Effect of foreign exchange differences								-
Realisation of ECL through restructuring and disposals								(8,341)
Change in expected credit losses and other credit impairment charges for the year								**(2,141)**

	As at 31 December 2021		Year ended 31 December 2021
	Gross carrying/ nominal amount €000	Credit loss allowance €000	ECL (charge)/ release €000
As per preceding table	238,355	(2,627)	(2,141)
Balances at central banks	187,006	(1)	-
Loans and advances to financial institutions	82,355	-	-
Loans and advances to customers			
- Dutch Mortgage portfolio: drawn exposures	1,643,163	(149)	(2)
- Dutch Mortgage portfolio: undrawn commitments	72,079	(2)	15
Investments measured at amortised cost			
- Securities portfolio	55,670	(1)	123
Other accrued income	5,316	(1)	-
Summary of financial instruments to which the impairment requirements in IFRS 9 are applied through profit or loss	2,283,943	(2,781)	(2,005)
Investments measured at fair value through other comprehensive income			
- Securities portfolio	436,536	(12)	-
- Securitisation portfolio	348,007	(35)	(22)
Total credit loss allowance/total income statement ECL charge for the year		**(2,828)**	**(2,027)**

Notes to the financial statements

Credit loss allowances attributable to loans and advances to customers

The following table shows the credit loss allowances on loans and advances to customers recognised on the Bank's balance sheets as at 31 December 2022 and 2021, excluding credit loss allowances on accrued interest and other credit-related commitments, analysed by stage distribution.

	Stage 1 €000	Stage 2 €000	Stage 3 €000	Total €000
As at 31 December 2022				
International Corporate Lending portfolio	**2,180**	**766**	**-**	**2,946**
Dutch Mortgage portfolio	**106**	**71**	**7**	**184**
Belgian Mortgage portfolio	**114**	**16**	**-**	**130**
	2,400	**853**	**7**	**3,260**

	Stage 1 €000	Stage 2 €000	Stage 3 €000	Total €000
As at 31 December 2021				
International Corporate Lending portfolio	901	1,416	231	2,548
Dutch Mortgage portfolio	71	62	16	149
Belgian Mortgage portfolio	-	-	-	-
	972	1,478	247	2,697

The movement in credit loss allowances and the ECL charge for the financial year ended 31 December 2022 and 2021 are analysed in detail in the tables presented in the previous section.

During the financial year ended 31 December 2022, interest income amounting to €0.1 million (2021: €0.1 million) of the Bank was recognised in profit or loss on credit-impaired loans.

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

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

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

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

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

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

Notes to the financial statements

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

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

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

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

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

On renegotiation, where the existing agreement is cancelled and a new agreement is made on substantially different terms, or if the terms of an existing agreement are modified, such that the renegotiated loan is substantially a different financial instrument, the loan would be derecognised and a new loan is recognised, for accounting purposes. However, newly recognised loans retain the "non-performing forborne" classification for regulatory reporting purposes.

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

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

As at 31 December 2022 and 2021, none of the exposures within the Dutch Buy to Let mortgage portfolio, the Belgian Mortgage portfolio, Securities Investment and Securitisation Investment portfolios were forborne reflecting the fact that both the Securitisation Investment portfolio and the Securities Investment portfolio principally comprise of investment-grade exposures and that the Dutch Buy to Let mortgage and Belgian Mortgage portfolios are a relatively new portfolios. In this regard, any amounts disclosed in this section relate to forbearance activity within the International Corporate Lending and Dutch Mortgage Lending portfolios.

The following table shows the carrying amount of the Bank's loans and advances to customers classified within the International Corporate Lending portfolio reflecting forbearance activity, by stage and by past due status. For the avoidance of doubt, exposures benefiting from a general payment moratorium meeting the conditions established within Directive No. 18 and the EBA Guidelines are classified as non-forborne exposures in the table below.

Notes to the financial statements

	International Corporate Lending portfolio		
	Non-forborne exposures €000	Forborne exposures €000	Total €000
As at 31 December 2022			
Stage 1			
Neither past due nor credit-impaired	176,225	-	176,225
Stage 2			
Neither past due nor credit-impaired	-	18,900	18,900
Loans and advances to customers, net of Stage 3 credit loss allowances	**176,225**	**18,900**	**195,125**
Stage 1 credit loss allowances	(2,180)	-	(2,180)
Stage 2 credit loss allowances	-	(766)	(766)

	International Corporate Lending portfolio		
	Non-forborne exposures €000	Forborne exposures €000	Total €000
As at 31 December 2021			
Stage 1			
Neither past due nor credit-impaired	174,039	2,313	176,352
Stage 2			
Neither past due nor credit-impaired	10,124	29,242	39,366
Stage 3			
Credit-impaired, net of credit loss allowances	-	1,550	1,550
Loans and advances to customers, net of Stage 3 credit loss allowances	**184,163**	**33,105**	**217,268**
Stage 1 credit loss allowances	883	18	901
Stage 2 credit loss allowances	352	1,064	1,416
Stage 3 credit loss allowances	-	231	231

Notes to the financial statements

The following table shows the carrying amount of the Bank's loans and advances to customers classified within the Dutch and Belgian Mortgage portfolio reflecting forbearance activity, by stage and by past due status.

	Dutch Mortgage Portfolio		Belgian Mortgage Portfolio		
	Non-forborne exposures €000	Forborne exposures €000	Non-forborne exposures €000	Forborne exposures €000	Total €000
As at 31 December 2022					
Stage 1					
Neither past due nor credit-impaired	1,810,834	-	107,286	-	1,918,120
Past due but not credit-impaired:					
- by up to 30 days	-	-	23,056	-	23,056
Stage 2					
Neither past due nor credit-impaired	1,790	3,877	-	352	6,019
Past due but not credit-impaired:					
- by more than 30 days and up to 90 days	1,179	-	1,436	-	2,615
Stage 3					
Credit-impaired, net of credit loss allowances	-	499	-	-	499
Loans and advances to customers, net of Stage 3 credit loss allowances	**1,813,803**	**4,376**	**131,778**	**352**	**1,950,309**
Stage 1 credit loss allowances	106	-	114	-	220
Stage 2 credit loss allowances	63	8	8	8	87
Stage 3 credit loss allowances	-	7	-	-	7

	Dutch Mortgage Portfolio		
	Non-forborne exposures €000	Forborne exposures €000	Total €000
As at 31 December 2021			
Stage 1			
Neither past due nor credit-impaired	1,638,068	-	1,638,068
Past due but not credit-impaired:			
- by up to 30 days	1,168	-	1,168
Stage 2			
Neither past due nor credit-impaired	-	782	782
Past due but not credit-impaired:			
- by more than 30 days and up to 90 days	1,842	879	2,721
Stage 3			
Credit-impaired, net of credit loss allowances	408	-	408
Loans and advances to customers, net of Stage 3 credit loss allowances	**1,641,486**	**1,661**	**1,643,147**
Stage 1 credit loss allowances	71	-	71
Stage 2 credit loss allowances	33	29	62
Stage 3 credit loss allowances	16	-	16

As at 31 December 2022, total gross forborne loans and advances to customers as a percentage of total gross loans and advances to customers of the Bank were less than 1.3% (2021: 1.9%).

Interest income recognised by the Bank during the financial year ended 31 December 2022 in respect of forborne exposures amounted to €1.3 million (2021: €1.7 million).

Notes to the financial statements

The movement in the gross carrying amount of forborne loans and advances to customers, before credit loss allowances is analysed below:

	2022 €000	2021 €000
Year ended 31 December		
At beginning of year	**33,336**	63,674
Loans to which forbearance measures have been extended during the year/period without derecognition	**-**	41
Capitalised interest	**155**	1,100
Capitalised fees	**(18)**	(13)
Repayments or disposals	**(13,658)**	(26,298)
Write-offs	**-**	(6,655)
Amortisation of premium or discount	**57**	143
Exchange differences	**(972)**	1,344
At end of year	**18,900**	33,336

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

As at 31 December 2022, credit loss allowances in respect of the Bank's forborne loans were equivalent to €0.8 million (2021: €1.3 million). Additions to credit loss allowances on forborne loans during the year ended 31 December 2021 amounted to €0.9 million. Reversals of credit loss allowances on forborne loans during the year ended 31 December 2022 amounted to €0.8 million (2021: €5.7 million).

The following tables show the gross carrying amounts of the Bank's holdings of renegotiated loans and advances to customers analysed by industry sector and stage:

	Stage 1 €000	Stage 2 €000	Stage 3 €000	Total €000
As at 31 December 2022				
Accommodation and food service activities	-	9,693	-	9,693
Financial and insurance activities	-	9,207	-	9,207
	-	**18,900**	**-**	**18,900**

Notes to the financial statements

	Stage 1 €000	Stage 2 €000	Stage 3 €000	Total €000
As at 31 December 2021				
Accommodation and food service activities	-	10,233	-	10,233
Financial and insurance activities	2,313	7,644	1,781	11,738
Professional, scientific and technical activities	-	11,345	-	11,345
	2,313	**29,222**	**1,781**	**33,316**

The Bank's forborne loans, net of credit loss allowances, classified within the International Corporate Lending portfolio as at 31 December 2022 consist of corporate exposures based in Europe, amounting to €18.2 million (2021: €33.3 million). Forbearance measures in respect of exposures classified within the Dutch Mortgage portfolio are limited to payment arrangements, allowing customers to repay the amounts in arrears in addition to the regular monthly instalment. Past due amounts are thereby regularised within an agreed number of months. The forborne loans classified within the Dutch Mortgage portfolio are categorised as exposures to households and individuals in the tables above.

2.2.5 Write-offs

No financial assets written off by the Bank during the financial year ended 31 December 2022 (2021: €8.3 million).

2.2.6 Collateral

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

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

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

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

Notes to the financial statements

	Non-forborne		Forborne		Total	
	Gross carrying amount €000	Credit loss allowance €000	Gross carrying amount €000	Credit loss allowance €000	Gross carrying amount €000	Credit loss allowance €000
As at 31 December 2022						
Stage 1						
a) Fully collateralised						
- Up to 50% LTV	52,209	(5)	-	-	52,209	(5)
- 51% to 75% LTV	318,488	(18)	-	-	318,488	(18)
- 76% to 90% LTV	435,147	(24)	-	-	435,147	(24)
- 91% to 100% LTV	890,228	(52)	-	-	890,228	(52)
b) Partially collateralised						
- greater than 100%	114,762	(7)	-	-	114,762	(7)
	1,810,834	(106)	-	-	1,810,834	(106)
Stage 2						
a) Fully collateralised						
- 51% to 75% LTV	384	(6)	465	-	849	(6)
- 76% to 90% LTV	159	-	129	-	288	-
- 91% to 100% LTV	1,902	(48)	2,763	(7)	4,665	(55)
b) Partially collateralised						
- greater than 100%	524	(9)	520	(1)	1,044	(10)
	2,969	(63)	3,877	(8)	6,846	(71)
Stage 3						
a) Fully collateralised						
- 76% to 90% LTV	-	-	506	(7)	506	(7)
	-	-	506	(7)	506	(7)

Notes to the financial statements

	Non-forborne		Forborne		Total	
	Gross carrying amount €000	Credit loss allowance €000	Gross carrying amount €000	Credit loss allowance €000	Gross carrying amount €000	Credit loss allowance €000
As at 31 December 2021						
Stage 1						
a) Fully collateralised						
- Up to 50% LTV	33,290	-	-	-	33,290	-
- 51% to 75% LTV	238,738	(7)	-	-	238,738	(7)
- 76% to 90% LTV	373,003	(16)	-	-	373,003	(16)
- 91% to 100% LTV	896,559	(43)	-	-	896,559	(43)
b) Partially collateralised						
- greater than 100%	97,646	(5)	-	-	97,646	(5)
	1,639,236	(71)	-	-	1,639,236	(71)
Stage 2						
a) Fully collateralised						
- 51% to 75% LTV	124	(1)	119	(4)	243	(5)
- 76% to 90% LTV	223	-	133	-	356	-
- 91% to 100% LTV	1,307	(31)	956	(7)	2,263	(38)
b) Partially collateralised						
- greater than 100%	188	(1)	453	(18)	641	(19)
	1,842	(33)	1,661	(29)	3,503	(62)
Stage 3						
a) Fully collateralised						
- 51% to 75% LTV	267	(10)	-	-	267	(10)
- 76% to 90% LTV	157	(6)	-	-	157	(6)
	424	(16)	-	-	424	(16)

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

Notes to the financial statements

	Non-forborne		Forborne		Total	
	Gross carrying amount €000	Credit loss allowance €000	Gross carrying amount €000	Credit loss allowance €000	Gross carrying amount €000	Credit loss allowance €000
As at 31 December 2022						
Stage 1						
a) Fully collateralised						
- Up to 50% LTV	10,855	(7)	-	-	10,855	(7)
- 51% to 75% LTV	32,473	(26)	-	-	32,473	(26)
- 76% to 90% LTV	72,850	(67)	-	-	72,850	(67)
- 91% to 100% LTV	13,307	(13)	-	-	13,307	(13)
b) Partially collateralised						
Greater than 100% LTV	857	(1)	-	-	857	(1)
	130,342	(114)	-	-	130,342	(114)
Stage 2						
a) Fully collateralised						
- Up to 50% LTV	152	(1)	-	-	152	(1)
- 76% to 90% LTV	978	-	164	(3)	1,142	(3)
- 91% to 100% LTV	-	(8)	188	(4)	188	(12)
b) Partially collateralised						
Greater than 100% LTV	306	-	-	-	306	-
	1,436	(9)	352	(7)	1,788	(16)
	131,778	(123)	352	(7)	132,130	(130)

As at 31 December 2022 the Bank held senior secured loans to international borrowers classified under the International Corporate Lending portfolio which amounted to €0.2 billion (2021: €0.2 billion). In respect of such financial assets, the Bank normally has a right over the borrower's unencumbered assets.

All the Bank's exposures classified under the Securities Investment portfolio as at 31 December 2022 and 2021 are unsecured with the exception of a sub-portfolio of covered bonds amounting to €285 million (2021: €391.9 million), which are backed by a separate group of assets in the form of loans. Similarly, all exposures classified under the Securitisation Investment portfolio as at 31 December 2022 and 2021 are also backed by a separate group of assets in the form of loans.

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

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

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

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

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

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

For the Belgian mortgages, the PiT PDs are mainly based on the actual NPL ratio published by the European Banking Authority in its Risk Dashboard Report adjusted to incorporate forward-looking macroeconomic variables including unemployment rates and the House Price Index.

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

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

As at 31 December 2022, a degree of uncertainty remains as a mild contraction in the economic activity is expected owing to surging energy and food prices caused by the conflict between Russia and Ukraine combined with rapid tightening of monetary policy by the ECB. In this respect, the macroeconomic modelling aspect within the estimation of ECLs has been particularly affected by the Russia Ukraine conflict, and the forecasting of economic conditions is still subject to an inherent level of risk and highly subjective.

This has required an elevated level of review and expert judgement to ensure that the macroeconomic methodology used by the Bank results in plausible scenarios which adequately capture the risks resulting from the end of the pandemic and the military conflict between Russia and Ukraine to the best extent possible.

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

Forecasts of future economic conditions

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

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

The macroeconomic scenarios used in the Bank's modelling of credit loss allowances reflect possible macroeconomic paths taking into consideration a range of potential economic impacts driven by epidemiological assumptions in respect of future waves of the pandemic, monetary policy assumptions regarding the ECB tightening of the policy rates, as well as the continuation of conflict between Russia and Ukraine. Therefore, economic forecasts remain subject to a high degree of uncertainty in the current environment.

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In the aftermath of the outbreak of the COVID-19 pandemic and with the current Russia-Ukraine conflict, more rigorous monitoring of macroeconomic forecasts developed by the external vendor was performed by the Bank in order to challenge the adequacy and reasonableness of the developed scenarios. In this respect, the macroeconomic scenarios were reviewed on a quarterly basis in full consideration of the guidance issued by the ECB to Significant Institutions on 1 April 2020 ("IFRS 9 in the context of the coronavirus (COVID-19) pandemic").

The scenarios have been benchmarked and assessed against the macroeconomic forecasts for the Euro area published by the ECB, in line with ECB guidance, with the latest publication available being the one published in December 2022. In this respect, the Bank's forward-looking macroeconomic scenarios are deemed to be aligned with the ECB's macroeconomic forecasts for the Euro area. Therefore, necessary adjustments were made to the number, selection, and probability weightings of macroeconomic forecasts from externally sourced modelled scenarios.

As at 31 December 2022, Management selected to use three scenarios developed and recommended by the external vendor which are deemed to be mostly aligned with the December 2022 ECB Staff projections. Specifically, Management selected the Baseline, the Upside, and the Downside 2 scenarios. In the preceding year, Management had selected the Baseline, the Upside, the Downside 1 and Downside 2 scenarios.

The scenarios used for the purposes of determining the ECL as at 31 December 2022 are described below.

Baseline
- Economy experiences a growth recession, with growth suffering from the effects of energy crisis combined with a rapid tightening of monetary policy
- Global oil prices remain around current levels until mid-2023
- Natural gas prices remain extremely high
- Businesses and households conserve energy but there is no need for gas rationing
- Supply chain bottlenecks ease throughout the second half of 2022 but do not completely abate before 2023
- Inflation peaks during the fall and starts declining afterwards. The decline is drawn-out over the whole of 2023, and core inflation does not fall back to 2% before 2024.

Downside 1
- The fading of the pandemic and geopolitical tensions leads to a strong rebound in demand
- The supply side of the economy expands robustly, driven by productivity gains, while slack in the economy proves more substantial than initially thought, allowing output to expand quickly without causing higher inflation
- Global energy prices are slightly higher than in the baseline, reflecting stronger demand that is met by robust supply

Downside 2
- Geopolitical tensions caused by theconflict between Russi and Ukraine escalates further, causing a sharp deterioration in the economic sentiment
- Policy disagreements between the U.S. and China worsen, leading to barriers to shipping along the Taiwan Strait. The disruption further damages supply chains and exacerbate shortages for manufactured goods, pushing up prices
- Escalating geopolitical tensions combined with pressure on private and public finances lead to the re-emergence of domestic political tensions that cause a selloff in financial markets
- A sustained period of low investment in innovative industries and human capital weighs on productivity growth, eroding the economy's potential

The year-on-year forecasts for 2022 to 2025 for key macro-economic variables (MEVs) under each of the scenarios described above together with the MEVs for the Severe Upside and Severe Downside scenarios are disclosed below.

Moreover, during 2022, Management has re-calibrated its probability weights with the severity of the scenarios. In this respect, the Bank's weighting allocation approach is that weights represent the share of outcomes that are best approximated by a scenario (not the likelihood of a specific scenario occurring). The Bank has assigned the probability weightings to each scenario using the mid-point approach through which the probability weight assigned to each scenario would be dependent on the mid-points between the percentiles (representing the severity of the scenario) which each scenario represents along the distribution curve. Management selected this mid-point approach since it is an approach recommended by the external vendor and, the scenarios and probability weight chosen are deemed to be mostly aligned with the December 2022 ECB Staff projections.

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

External vendor Scenarios	Severe Upside	Upside	Baseline	Downside 1	Downside 2	Severe Downside
External Vendor Severity	96%	90%	50%	25%	10%	4%
Probability Weight 2021		25%	50%	20%	5%	
Probability Weight 2022		30%	40%		30%	

The following tables present the year-on-year growth rates for the key macroeconomic variables provided by the external vendor under the baseline and the five alternative scenarios referred to above for the measurement of ECL for all portfolios as at 31 December 2022 and 2021.

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

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

For the Belgian Residential Mortgages portfolio, the key MEVs used for the estimation of ECL are national levels of House Price Index and Unemployment Rate, and real GDP growth.

The ECL model for the measurement of credit loss allowances in respect of exposures classified within the Securitisation Investment portfolio uses Euribor and GBP Libor 3-month and 1-month rates as well as the same MEVs used for the purposes of the International Corporate Lending portfolio, since the pool of underlying assets securing the Bank's investment in CLO structured tranches is similar to the exposures classified within the International Corporate Lending portfolio.

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Economic Scenarios: Year-on-year Forecasts (2022 – 2025) for key MEVs

		International Lending & Securities												Dutch Mortgages				Belgian Mortgages			
		UK				US				Eurozone				Netherlands				Belgium			
Key Drivers	ECL Scenario	2022	2023	2024	2025	2022	2023	2024	2025	2022	2023	2024	2025	2022	2023	2024	2025	2022	2023	2024	2025
Real GDP - Growth %	Severe Upside	0.3%	3.1%	1.8%	1.0%	0.4%	6.2%	3.2%	2.9%	1.2%	4.5%	2.7%	2.0%	-	-	-	-	0.9%	6.2%	1.5%	1.1%
	Upside	0.3%	1.9%	1.2%	1.1%	0.4%	3.5%	2.5%	2.3%	1.2%	3.5%	2.3%	2.0%	-	-	-	-	0.9%	4.8%	1.0%	1.2%
	Baseline	0.3%	-0.8%	1.2%	1.4%	0.4%	1.0%	2.6%	2.8%	1.2%	1.2%	2.6%	2.2%	-	-	-	-	0.9%	2.1%	1.3%	1.3%
	Downside 1	0.3%	-4.4%	2.7%	1.6%	0.4%	-1.3%	3.1%	3.4%	1.2%	-1.0%	3.4%	2.3%	-	-	-	-	0.9%	0.7%	1.9%	1.4%
	Downside 2	0.3%	-6.9%	1.3%	2.5%	0.4%	-2.3%	1.7%	3.8%	1.2%	-5.0%	3.2%	3.5%	-	-	-	-	0.9%	-4.3%	2.0%	2.6%
	Severe Downside	0.3%	-8.3%	-0.3%	3.5%	0.4%	-4.1%	0.9%	3.9%	1.2%	-7.1%	1.0%	4.9%	-	-	-	-	0.9%	-6.7%	-0.3%	4.1%
Unemployment Rate - Average %	Severe Upside	3.7%	3.5%	3.2%	3.3%	3.7%	3.1%	3.1%	3.0%	6.7%	6.7%	6.3%	6.4%	3.5%	3.2%	2.6%	3.0%	5.5%	4.7%	4.5%	5.3%
	Upside	3.7%	3.8%	3.7%	3.7%	3.7%	3.5%	3.4%	3.4%	6.7%	6.8%	6.6%	6.6%	3.5%	3.3%	2.9%	3.3%	5.5%	4.7%	4.7%	5.5%
	Baseline	3.7%	4.2%	4.4%	4.5%	3.7%	4.0%	4.1%	3.8%	6.7%	7.1%	7.1%	7.0%	3.5%	3.5%	3.6%	3.7%	5.5%	5.0%	5.0%	5.5%
	Downside 1	3.7%	4.6%	4.8%	4.7%	3.7%	5.7%	5.4%	3.9%	6.7%	7.4%	7.8%	7.6%	3.5%	3.7%	4.1%	4.0%	5.5%	5.2%	5.5%	5.8%
	Downside 2	3.7%	5.3%	7.0%	7.3%	3.7%	6.8%	7.4%	5.9%	6.7%	8.3%	9.5%	8.9%	3.5%	4.0%	5.5%	5.1%	5.5%	5.8%	7.7%	8.5%
	Severe Downside	3.7%	6.0%	8.3%	8.2%	3.7%	7.4%	8.9%	8.4%	6.7%	8.6%	10.6%	10.5%	3.5%	4.1%	6.2%	6.2%	5.5%	6.1%	9.1%	11.0%
Stock Market Index - Growth %	Severe Upside	-1.3%	20.3%	-1.3%	4.1%	-17.6%	19.6%	0.1%	6.0%	-12.5%	20.0%	0.9%	3.7%	-	-	-	-	-	-	-	-
	Upside	-1.3%	15.8%	0.2%	3.8%	-17.6%	14.3%	-0.2%	5.2%	-12.5%	15.9%	1.3%	3.7%	-	-	-	-	-	-	-	-
	Baseline	-1.3%	5.1%	2.9%	6.6%	-17.6%	7.9%	0.3%	6.5%	-12.5%	5.7%	1.5%	5.5%	-	-	-	-	-	-	-	-
	Downside 1	-1.3%	2.0%	1.5%	7.5%	-17.6%	-20.8%	12.0%	16.4%	-12.5%	-4.5%	3.7%	8.0%	-	-	-	-	-	-	-	-
	Downside 2	-1.3%	-15.3%	11.8%	13.0%	-17.6%	-34.7%	7.3%	24.2%	-12.5%	-29.0%	22.8%	16.6%	-	-	-	-	-	-	-	-
	Severe Downside	-1.3%	-29.3%	7.8%	19.4%	-17.6%	-41.6%	0.5%	17.6%	-12.5%	-42.1%	16.1%	32.1%	-	-	-	-	-	-	-	-
10Yr Treasury Rate - Average %	Severe Upside	-	-	-	-	-	-	-	-	-	-	-	-	1.4%	2.5%	2.7%	2.8%	-	-	-	-
	Upside	-	-	-	-	-	-	-	-	-	-	-	-	1.4%	2.5%	2.6%	2.6%	-	-	-	-
	Baseline	-	-	-	-	-	-	-	-	-	-	-	-	1.4%	2.4%	2.5%	2.3%	-	-	-	-
	Downside 1	-	-	-	-	-	-	-	-	-	-	-	-	1.4%	1.9%	2.1%	2.2%	-	-	-	-
	Downside 2	-	-	-	-	-	-	-	-	-	-	-	-	1.4%	1.6%	1.4%	1.3%	-	-	-	-
	Severe Downside	-	-	-	-	-	-	-	-	-	-	-	-	1.4%	1.3%	1.0%	0.8%	-	-	-	-
House Price Index %	Severe Upside	-	-	-	-	-	-	-	-	-	-	-	-	-1.7%	-1.3%	4.6%	2.8%	1.5%	2.1%	6.1%	4.1%
	Upside	-	-	-	-	-	-	-	-	-	-	-	-	-1.7%	-4.0%	1.9%	2.1%	1.5%	0.6%	5.0%	3.7%
	Baseline	-	-	-	-	-	-	-	-	-	-	-	-	-1.7%	-5.7%	-0.7%	1.8%	1.5%	-1.0%	3.5%	3.6%
	Downside 1	-	-	-	-	-	-	-	-	-	-	-	-	-1.7%	-6.1%	-1.5%	1.6%	1.5%	-0.5%	3.1%	2.8%
	Downside 2	-	-	-	-	-	-	-	-	-	-	-	-	-1.7%	-9.4%	-6.7%	1.0%	1.5%	-4.7%	1.5%	2.2%
	Severe Downside	-	-	-	-	-	-	-	-	-	-	-	-	-1.7%	-7.3%	-13.7%	-3.6%	1.5%	-3.6%	1.6%	0.7%

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Economic Scenarios: Year-on-year Forecasts (2021 - 2024) for key MEVs

		International Lending & Treasury												Dutch Mortgages				Belgian Mortgages			
		UK				US				Eurozone				Netherlands				Belgium			
Key Drivers	ECL Scenario	2021	2022	2023	2024	2021	2022	2023	2024	2021	2022	2023	2024	2021	2022	2023	2024	2021	2022	2023	2024
Real GDP - Growth %	Severe Upside	6.6%	9.1%	2.1%	1.3%	5.4%	8.6%	2.2%	1.6%	4.5%	6.9%	2.9%	1.6%	-	-	-	-	4.4%	7.9%	2.0%	0.6%
	Upside	6.6%	7.7%	1.7%	1.2%	5.4%	6.1%	1.5%	2.0%	4.5%	5.5%	2.4%	1.6%	-	-	-	-	4.4%	5.6%	2.0%	0.8%
	Baseline	6.6%	3.9%	3.1%	1.4%	5.4%	3.5%	2.9%	2.7%	4.5%	3.0%	2.4%	1.9%	-	-	-	-	4.4%	2.3%	2.3%	1.4%
	Downside 1	6.6%	0.4%	4.4%	1.8%	5.4%	1.1%	2.8%	2.9%	4.5%	1.4%	2.6%	2.1%	-	-	-	-	4.4%	1.1%	2.8%	1.5%
	Downside 2	6.6%	-2.3%	5.7%	2.4%	5.4%	-2.2%	2.8%	3.6%	4.5%	-2.6%	2.9%	2.8%	-	-	-	-	4.4%	-3.5%	3.0%	2.3%
	Severe Downside	6.6%	-3.9%	5.4%	2.2%	5.4%	-3.8%	0.3%	3.7%	4.5%	-5.3%	3.3%	2.8%	-	-	-	-	4.4%	-6.9%	3.8%	2.6%
Unemployment Rate - Average %	Severe Upside	4.6%	3.9%	2.7%	2.5%	5.4%	2.7%	2.5%	2.6%	8.3%	7.2%	6.6%	6.7%	3.2%	3.4%	3.3%	3.5%	6.3%	4.8%	3.3%	3.2%
	Upside	4.6%	4.4%	3.4%	3.4%	5.4%	3.3%	3.0%	3.1%	8.3%	7.5%	7.1%	7.1%	3.2%	3.4%	3.6%	3.7%	6.3%	5.1%	4.2%	4.3%
	Baseline	4.6%	4.8%	4.5%	4.4%	5.4%	3.6%	3.5%	3.6%	8.3%	8.0%	7.7%	7.7%	3.2%	3.6%	3.8%	4.0%	6.3%	5.5%	5.3%	5.5%
	Downside 1	4.6%	5.5%	5.6%	5.5%	5.4%	5.9%	4.3%	4.4%	8.3%	8.4%	8.4%	8.3%	3.2%	3.7%	4.1%	4.1%	6.3%	5.8%	5.7%	5.8%
	Downside 2	4.6%	5.7%	6.6%	6.6%	5.4%	7.7%	8.2%	6.2%	8.3%	9.3%	10.1%	10.0%	3.2%	3.9%	5.3%	5.4%	6.3%	6.3%	7.8%	8.4%
	Severe Downside	4.6%	6.2%	7.6%	7.2%	5.4%	7.9%	10.0%	9.4%	8.3%	10.0%	11.3%	11.4%	3.2%	4.1%	5.8%	6.5%	6.3%	6.8%	9.3%	10.4%
10Yr Treasury Rate - Average %	Severe Upside	17.1%	10.8%	-2.7%	-0.3%	28.6%	8.9%	1.4%	3.6%	25.0%	18.6%	0.1%	-1.3%	-	-	-	-	-	-	-	-
	Upside	17.1%	7.9%	-2.4%	-0.1%	28.6%	4.1%	1.2%	2.9%	25.0%	12.5%	0.1%	-1.2%	-	-	-	-	-	-	-	-
	Baseline	17.1%	-2.2%	0.2%	2.6%	28.6%	-9.2%	-1.9%	4.2%	25.0%	0.4%	0.9%	2.0%	-	-	-	-	-	-	-	-
	Downside 1	17.1%	-4.9%	0.1%	2.9%	28.6%	-12.2%	-2.3%	2.7%	25.0%	-6.5%	3.2%	2.7%	-	-	-	-	-	-	-	-
	Downside 2	17.1%	-20.4%	9.2%	8.3%	28.6%	-31.9%	8.9%	5.2%	25.0%	-22.4%	12.2%	6.8%	-	-	-	-	-	-	-	-
	Severe Downside	17.1%	-33.5%	5.7%	12.2%	28.6%	-39.7%	0.6%	4.7%	25.0%	-37.3%	15.5%	11.8%	-	-	-	-	-	-	-	-
10Yr Treasury Rate - Average %	Severe Upside	-	-	-	-	-	-	-	-	-	-	-	-	-0.3%	0.4%	1.3%	2.4%	-	-	-	-
	Upside	-	-	-	-	-	-	-	-	-	-	-	-	-0.3%	0.1%	0.8%	1.7%	-	-	-	-
	Baseline	-	-	-	-	-	-	-	-	-	-	-	-	-0.3%	-0.1%	0.2%	0.7%	-	-	-	-
	Downside 1	-	-	-	-	-	-	-	-	-	-	-	-	-0.3%	-0.4%	-0.3%	0.4%	-	-	-	-
	Downside 2	-	-	-	-	-	-	-	-	-	-	-	-	-0.3%	-0.6%	-0.5%	-0.1%	-	-	-	-
	Severe Downside	-	-	-	-	-	-	-	-	-	-	-	-	-0.3%	-0.7%	-0.6%	-0.4%	-	-	-	-
House Price Index %	Severe Upside	-	-	-	-	-	-	-	-	-	-	-	-	10.8%	3.3%	2.8%	-0.8%	10.8%	14.1%	7.5%	2.3%
	Upside	-	-	-	-	-	-	-	-	-	-	-	-	10.8%	1.0%	0.9%	-1.5%	10.8%	12.1%	6.1%	2.5%
	Baseline	-	-	-	-	-	-	-	-	-	-	-	-	10.8%	-0.1%	-0.7%	-1.4%	10.8%	8.6%	6.4%	3.9%
	Downside 1	-	-	-	-	-	-	-	-	-	-	-	-	10.8%	-0.9%	-2.0%	-2.0%	10.8%	7.8%	5.8%	4.1%
	Downside 2	-	-	-	-	-	-	-	-	-	-	-	-	10.8%	-5.4%	-7.2%	-3.5%	10.8%	7.6%	3.9%	2.8%
	Severe Downside	-	-	-	-	-	-	-	-	-	-	-	-	10.8%	-7.1%	-12.2%	-6.6%	10.8%	8.2%	3.6%	1.4%

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Model adjustments and management overlays

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

To ensure that the Bank is adequately capturing the level of credit risk in its International Corporate Lending portfolio, an assessment was performed and the Bank introduced caps to implied internal ratings to borrowers that have undergone distressed restructuring and where necessary have applied notch downgrades to exposures that are classified as 'Under Surveillance' through qualitative factors not captured by the models to reflect the increase in credit risk since origination.

Given the sensitivity of the models used by the Bank to equity values of comparable firms in determining PiT PDs, the significant drop in equity prices during 2022 has led to a significant increase in PiT PDs within the Bank's ECL model for Corporates.

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

ECL sensitivity analysis in respect of macroeconomic scenarios

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

The Bank is hereby presenting the sensitivity analysis in respect of credit loss allowances attributable to Stage 1 and Stage 2 exposures classified within the International Corporate Lending portfolio as at 31 December 2022 and 2021, estimated by determining the range of credit loss allowances which would have been measured as at each date by assigning a 100% weighting to each of the macroeconomic scenarios developed by the external vendor, as presented in the table below.

Scenario sensitivity	Severe Upside	Upside	Baseline	Downside 1	Downside 2	Severe Downside
2022						
Probability Weight 2022	-	30%	40%	-	30%	-
ECL as at 31 December 2022	-	1,265,625	2,162,056	-	6,121,588	-
2021						
Probability Weight 2021	-	25%	50%	20%	5%	
ECL as at 31 December 2021	-	1,491,935	2,101,246	3,275,771	6,793,555	-

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

The estimated weighted average ECL under each scenario as at 31 December 2022, presented in the table above, is not directly comparable with the estimated weighted average ECL under each scenario as at 31 December 2021, since the size of the International Corporate Lending portfolio decreased significantly compared to the prior financial year.

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

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The sensitivity impact of macroeconomic scenarios on the ECL outcome measured in respect of exposures classified within the Dutch and Belgian Mortgage, Securities Investment and Securitisation Investment portfolios is not considered to be significant taking cognisance of the level of credit loss allowances estimated at 31 December 2022 and 2021.

2.2.8 Concentration of credit risk exposures

2.2.8.1 Concentration of investment securities

Securities Investment portfolio

The Bank's exposure to sovereign Eurozone government bonds as at 31 December 2022 represented 7.7% (2021: 18.6%), of the total investment securities within the Securities Investment portfolio.

Credit loss allowances amounting to €39.5 thousand were recognised in respect of these exposures as at 31 December 2022 (2021: €8.5 thousand).

The Bank monitors concentrations of investment securities for credit risk by type of exposure. An analysis of concentrations of credit risk at the reporting date for the financial year ended 31 December 2022 and 2021 is shown below.

	Measured at amortised cost		Measured at fair value through other comprehensive income	
	2022 €000	**2021 €000**	**2022 €000**	**2021 €000**
Concentration by type				
As at 31 December:				
Carrying amount:				
Covered bonds	**285,286**	-	**-**	366,422
National and regional government	**74,064**	25,196	**-**	66,083
Supranational and agencies	**30,129**	30,474	**-**	4,019
Total	**389,479**	55,670	**-**	436,524

Securitisation Investment portfolio

The Bank's Securitisation Investment portfolio comprises the investment in CLO transactions managed by third-party entities, amounting to €415 million (2021: €348 million). The Bank's investment in CLO transactions managed by third-party entities comprises positions in the most senior tranche of 18 different CLOs (2021: 15), all of which are also collateralised by a pool of leveraged loans.

As at 31 December 2022, credit loss allowances in respect of exposures classified under these two sub-portfolios and measured at amortised cost amounted to €41.5 thousand (2021: €35 thousand).

2.2.8.2 Concentration of loans and advances to customers

An analysis of concentration of loans and advances to customers by industry sector and geography is shown in the following tables.

As at 31 December 2022, exposures to UK counterparties classified under the International Corporate Lending portfolio and categorised as 'Other European countries' in the tables below amounted to €53.9 million (2021: €48.3 million).

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

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	Gross carrying amount				Credit loss allowance			
	EU €000	Other European countries €000	North America €000	Total €000	EU €000	Other European countries €000	North America €000	Total €000
Stage 1								
As at 31 December 2022								
Administrative and support service activities	7,451	-	-	7,451	(121)	-	-	(121)
Construction	7,894	-	-	7,894	(152)	-	-	(152)
Financial and insurance activities	57,122	23,684	16,994	97,800	(647)	(313)	(175)	(1,135)
Households and individuals	1,941,176	-	-	1,941,176	(220)	-	-	(220)
Information and communication	10,001	-	-	10,001	(232)	-	-	(232)
Manufacturing	9,958	-	-	9,958	(94)	-	-	(94)
Professional, scientific and technical activities	9,988	13,269	-	23,257	(91)	(68)	-	(159)
Wholesale and retail trade, repairs of motor vehicles and motorcycles	11,888	-	7,976	19,864	(220)	-	(67)	(287)
	2,055,478	**36,953**	**24,970**	**2,117,401**	**(1,777)**	**(381)**	**(242)**	**(2,400)**
Stage 2								
As at 31 December 2022								
Accommodation and food service activities	-	9,693	-	9,693	-	(700)	-	(700)
Financial and insurance activities	1,905	7,302	-	9,207	(19)	(47)	-	(66)
Households and individuals	8,634	-	-	8,634	(87)	-	-	(87)
	10,539	**16,995**	**-**	**27,534**	**(106)**	**(747)**	**-**	**(853)**
Stage 3								
As at 31 December 2022								
Households and individuals	506	-	-	506	(7)	-	-	(7)
	506	**-**	**-**	**506**	**(7)**	**-**	**-**	**(7)**

	Nominal amount				Credit loss allowance			
	EU €000	Other European countries €000	North America €000	Total €000	EU €000	Other European countries €000	North America €000	Total €000
Commitments to purchase financial assets, commitments to extend credit and other commitments								
As at 31 December 2022								
Accommodation and food service activities	-	1,721	-	1,721	-	(12)	-	(12)
Financial and insurance activities	63,347	-	9,152	72,499	(18)	-	(84)	(102)
Households and individuals	162,228	-	-	162,228	(38)	-	-	(38)
	225,575	**1,721**	**9,152**	**236,448**	**(56)**	**(12)**	**(84)**	**(152)**

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	Gross carrying amount				Credit loss allowance			
	EU €000	Other European countries €000	North America €000	Total €000	EU €000	Other European countries €000	North America €000	Total €000
Stage 1								
As at 31 December 2021								
Administrative and support service activities	7,448	-	-	7,448	(50)	-	-	(50)
Financial and insurance activities	57,364	16,357	14,150	87,871	(290)	(113)	(72)	(475)
Human health and social work activities	3,491	-	-	3,491	(14)	-	-	(14)
Manufacturing	19,064	-	-	19,064	(146)	-	-	(146)
Professional, scientific and technical activities	37,474	14,022	-	51,496	(135)	(44)	-	(179)
Wholesale and retail trade, repairs of motor vehicles and motorcycles	6,983	-	-	6,983	(37)	-	-	(37)
	131,824	**30,379**	**14,150**	**176,353**	**(672)**	**(157)**	**(72)**	**(901)**
Stage 2								
As at 31 December 2021								
Accommodation and food service activities	-	10,233	-	10,233	-	(686)	-	(686)
Financial and insurance activities	10,124	7,664	-	17,788	(352)	(117)	-	(469)
Professional, scientific and technical activities	11,344	-	-	11,344	(261)	-	-	(261)
	21,468	**17,897**	**-**	**39,365**	**(613)**	**(803)**	**-**	**(1,416)**
Stage 3								
As at 31 December 2021								
Financial and insurance activities	1,781	-	-	1,781	(231	-	-	(231
	1,781	**-**	**-**	**1,781**	**(231)**	**-**	**-**	**(231)**

	Nominal amount				Credit loss allowance			
	EU €000	Other European countries €000	North America €000	Total €000	EU €000	Other European countries €000	North America €000	Total €000
Commitments to purchase financial assets, commitments to extend credit and other commitments								
As at 31 December 2021								
Accommodation and food service activities	-	1,817	-	1,817	-	(12)	-	(12)
Financial and insurance activities	4,083	-	14,138	18,221	(6)	-	(32)	(38)
Households and individuals	171,079	-	-	171,079	(2)	-	-	(2)
Information and communication	10,000	-	-	10,000	(1)	-	-	(1)
	185,162	**1,817**	**14,138**	**201,117**	**(9)**	**(12)**	**(32)**	**(53)**

2.2.9 Offsetting financial assets and financial liabilities

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

The following tables set out:

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

The Bank enters into derivative transactions under International Swap and Derivatives Association (ISDA) master netting agreements. In general, under such agreements the amounts owed by each counterparty on a single day in respect of all transactions outstanding

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in the same currency are aggregated into a single net amount that is payable by one party to the other. In certain circumstances such as when an event of default occurs, all outstanding transactions under the agreement are terminated and settled in a single net amount per currency.

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

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

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

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

				Related amounts not offset in the statement of financial position		
	Gross amounts of recognised financial instruments €000	**Gross amounts of recognised financial instruments offset in the statement of financial position €000**	**Net amounts of financial instruments presented in the statement of financial position €000**	**Amounts subject to master netting arrangements €000**	**Financial collateral pledged /(received) (inc cash) €000**	**Net amount €000**
As at 31 December 2022						
Financial assets						
Derivative financial instruments	355,337	-	355,337	(753)	-	354,584
Loans and advances to financial institutions	393,723	(80,572)	313,151	-	(4,553)	308,598
Investments - Securities Portfolio	389,479	-	389,479	-	(66,594)	322,885
Investments - Securitisation Portfolio	415,036	-	415,036	-	(33,442)	381,594
	1,553,575	(80,572)	1,473,003	(753)	(104,589)	1,367,661
Financial liabilities						
Derivative financial instruments	(85,878)	80,572	(5,306)	753	4,553	-
Amounts owed to financial institutions	(265,410)	-	(265,410)	-	100,035	(165,375)
	(351,288)	80,572	(270,716)	753	104,588	(165,375)

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	Gross amounts of recognised financial instruments €000	Gross amounts of recognised financial instruments offset in the statement of financial position €000	Net amounts of financial instruments presented in the statement of financial position €000	Related amounts not offset in the statement of financial position: Amounts subject to master netting arrangements €000	Related amounts not offset in the statement of financial position: Financial collateral pledged /(received) (inc cash) €000	Net amount €000
As at 31 December 2021						
Financial assets						
Derivative financial instruments	41,448	-	41,448	(1)	-	41,447
Loans and advances to financial institutions	82,355	-	82,355	-	(985)	81,370
Investments - Securities Portfolio	492,193	-	492,193	-	-	492,193
Investments - Securitisation Portfolio	347,972	-	347,972	-	-	347,972
Amounts receivable from related parties (included in Other assets)	177,224	(144,204)	33,020	-	-	33,020
	1,141,192	(144,204)	996,988	(1)	(985)	962,982
Financial liabilities						
Derivative financial instruments	(988)	-	(988)	1	985	(2)
Amounts owed to financial institutions	(8,519)	-	(8,519)	-	-	(8,519)
Amounts owed to parent company (included in Other liabilities)	(148,200)	144,204	(3,996)	-	-	(3,996)
	(157,707)	144,204	(13,503)	1	985	(12,517)

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

As at 31 December 2022, the Bank's derivative financial liabilities subject to master-netting agreements have a fair value of €0.8 million (2021: €0.9 million) . Within the table above, these have been capped at the fair value of the derivative assets of the Bank amounting to €0.8 thousand (2021: €1 thousand).

On 23 December 2021, MeDirect Belgium and MeDirect Malta agreed to instruct GH I and the Collateral Manager to dispose of all the collateral in the form of international corporate loans. MeDirect Belgium acquired collateral loans at a consideration of €142.5 million and £11.8 million and MeDirect Malta acquired collateral loans from GH I at a consideration of €156.1 million and £77.5 million. As a result of the proceeds from such sale of loans, with transfer prices being at arm's length, GH I repaid the Senior Loan of MeDirect Belgium that at that date was equivalent to €103.3 million and £44.1 million, with the remaining funds available, after settlement of expenses, released to MeDirect Malta in respect of its Junior Loan. Pursuant to an agreement between MeDirect Belgium and GH I, the parties agreed to a netting mechanism governed by Belgian civil law resulting in the amounts payable to immediate parent company that represented amounts due by MeDirect Belgium to GH I in relation to the acquisition of international corporate loans and the amounts owed to immediate parent company that represented amounts owed by GH I to MeDirect Belgium in relation to the repayment of the Senior Loan (with the exception of £11 million) being netted off. The euro equivalent of the amounts netted off as at 31 December 2021 was €144.2 million.

2.3 Liquidity Risk

2.3.1 Management of liquidity risk

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

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

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

Management Asset and Liability Committee

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

Board Risk Committee

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

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

Roles and responsibilities

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

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

Funding strategy

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

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

- Limiting its exposure to customer deposit withdrawal through the use of term and notice accounts rather than overnight deposits as its primary instrument of customer funding by focusing on the retail market to maximise granularity;
- Limiting its exposure to wholesale funding withdrawal by locking in term, rather than short-dated, funding against illiquid assets (where this is used at all: illiquid assets are primarily deposit funded) and by either diversifying its sources of funding in general or ensuring that it does not rely on funding that is at the discretion of market counterparties;

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- Maintaining a contingency source of funding by ensuring that substantially all of its HQLA Securities Investment portfolio is eligible for funding at the ECB or at Eurex, as well as ensuring that other AAA-rated debt instruments are eligible for use as collateral against multiple repo lines, if alternative sources are unavailable; and
- Holding a much higher than typical proportion of assets that could over time be liquidated in the secondary market.

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

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

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

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

The table below displays the Bank's LCR as at 31 December 2022 and 2021:

	2022	2021
	%	%
Actual LCR	**163**	253

During the year ended 31 December 2022 and 2021, the LCR was within both the regulatory minimum and the risk appetite set by the Bank.
- The Net Stable Funding Ratio ("NSFR"): This ratio looks at the relationship between long-term assets and long-term funding. The NSFR requires institutions to maintain sufficient stable funding relative to required stable funding and reflects a bank's long-term funding profile (funding with a term of more than a year). It is designed to complement the LCR. The NSFR requirement of 100% came into force with the implementation of CRR II as from June 2021.

The table below displays the Bank's NSFR as at 31 December 2022 and 2021:

	2022	2021
	%	%
Actual NSFR	**126**	165

The Bank's NSFR remained above the minimum legal requirement of 100% at all times during the financial year ended 31 December 2022.

2.3.2 Liquidity risk reporting

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

The Bank's Risk team performs regular stress testing of its liquidity profile, as well as the availability of contingency funding options through both its ILAAP and monthly Maximum Cumulative Outflow ("MCO") report. The MCO analyses the likely risks to the Bank's liquidity position and quantifies its ability to withstand the associated shocks through deployment of management contingency funding plan options. Summarised results from all the various analyses are used as inputs to the MCO, with the liquidity impacts of

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different levels of severity of both idiosyncratic and market-wide scenarios modelled across a twelve-month time horizon. In addition, the Bank's Liquidity Contingency Plan ("LCP") analyses the availability and practicability of its contingency funding measures with regards to idiosyncratic and market-wide stress scenarios.

The Bank's liquidity risk reporting reinforces the Bank's oversight of liquidity risk, by not only focusing its risk reporting on the 'current' state, but also providing regular and timely reporting of the potential 'stress' liquidity profile of the Bank.

The Risk team also monitors the product maturity ladder.

2.3.3 Contractual maturity ladder

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

	Not more than 1 month	Between 1 and 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years	No maturity date	Total
	€000	€000	€000	€000	€000	€000	€000
As at 31 December 2022							
Assets							
Balances with central banks	87,555	-	-	-	-	19,928	107,483
Derivative financial instruments	433	320	-	73,031	281,553	-	355,337
Loans and advances to financial institutions	313,151	-	-	-	-	-	313,151
Loans and advances to customers	12,190	24,771	160,637	719,946	1,224,637	(271,273)	1,870,908
- International Corporate Lending portfolio	-	-	42,131	150,048	-	-	192,179
- Dutch Mortgage portfolio	10,914	22,251	106,749	523,659	1,154,429	-	1,818,002
- Belgian Mortgage portfolio	1,276	2,520	11,757	46,239	70,208	-	132,000
- IFRS basis adjustment: International Mortgage portfolio	-	-	-	-	-	(271,273)	(271,273)
Investments	-	14,723	87,571	272,464	429,757	819	805,334
- Securities portfolio	-	14,723	87,571	272,464	14,721	819	390,298
- Securitisation portfolio	-	-	-	-	415,036	-	415,036
Accrued income	732	8,542	473	-	-	-	9,747
Loans to related parties (incl. in other assets)	-	8,062	-	-	-	22,703	30,765
Other receivables (incl. in other assets)	-	-	-	-	-	24,150	24,150
Total financial assets	414,061	56,418	248,681	1,065,441	1,935,947	(203,673)	3,516,875
Liabilities							
Derivative financial instruments	-	5,306	-	-	-	-	5,306
Amounts owed to financial institutions	265,410	-	-	-	-	-	265,410
Amounts owed to customers	1,591,802	21,196	293,973	173,558	-	-	2,080,529
Debt securities in issue	7,802	15,812	72,771	873,184	-	-	969,569
Accrued interest expense (incl. in accruals and deferred income)	5,157	225	3,824	-	-	-	9,206
Lease liabilities (incl. in other liabilities)	79	161	539	1,457	136	-	2,372
Amounts due to related parties (incl. in other liabilities)	-	-	-	-	-	520	520
Total financial liabilities	1,870,250	42,700	371,107	1,048,199	136	520	3,332,912
Liquidity gap	**(1,456,189)**	**13,718**	**(122,426)**	**17,242**	**1,935,811**		
Cumulative liquidity gap	**(1,456,189)**	**(1,442,471)**	**(1,564,897)**	**(1,547,655)**	**388,156**		

Notes to the financial statements

	Not more than 1 month	Between 1 and 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years	No maturity date	Total
	€000	€000	€000	€000	€000	€000	€000
As at 31 December 2021							
Assets							
Balances with central banks	167,414	-	-	-	-	19,591	187,005
Derivative financial instruments	5,052	-	-	2,923	33,473	-	41,448
Loans and advances to financial institutions	82,355	-	-	-	-	-	82,355
Loans and advances to customers	3,567	7,546	124,807	317,267	1,404,778	(37,149)	1,820,816
- International Corporate Lending portfolio	-	-	88,995	125,956	-	-	214,951
- Dutch Mortgage portfolio	3,567	7,546	35,812	191,311	1,404,778	-	1,643,014
- IFRS basis adjustment: Dutch Mortgage portfolio	-	-	-	-	-	(37,149)	(37,149)
Investments	6,183	36,944	204,213	244,853	347,972	-	840,165
- Securities portfolio	6,183	36,944	204,213	244,853	-	-	492,193
- Securitisation portfolio	-	-	-	-	347,972	-	347,972
Accrued income	1,654	2,173	1,460	-	-	-	5,287
Loans to related parties (incl. in other assets)	-	11,333	-	-	-	21,687	33,020
Other receivables (incl. in other assets)	9,631	-	-	-	-	1,533	11,164
Total financial assets	275,856	57,996	330,480	565,043	1,786,223	5,662	3,021,260
Liabilities							
Derivative financial instruments	832	-	43	76	37	-	988
Amounts owed to financial institutions	8,519	-	-	-	-	-	8,519
Amounts owed to customers	1,598,924	16,778	318,550	201,823	10,166	-	2,146,241
Debt securities in issue	7,268	5,883	32,185	612,957	-	-	658,293
Accrued interest expense (incl. in accruals and deferred income)	113	260	3,926	-	895	-	5,194
Lease liabilities (incl. in other liabilities)	95	182	846	1,904	159	-	3,186
Amounts due to related parties (incl. in other liabilities)	-	-	-	-	-	4,090	4,090
Total financial liabilities	1,615,751	23,103	355,550	816,760	11,257	4,090	2,826,511
Liquidity gap	(1,339,895)	34,893	(25,070)	(251,717)	1,774,966		
Cumulative liquidity gap	(1,339,895)	(1,305,002)	(1,330,072)	(1,581,789)	193,177		

Current accounts and savings deposits payable on demand or at short notice of the Bank amounted to €1.6 billion (2021: €1.6 billion) as at 31 December 2022. This amount is disclosed within the 'Not more than 1 month' maturity grouping. As at 31 December 2022 savings deposits with a withdrawal notice period of one month amounting to €5.4 million (2021: €2.3), are disclosed within the 'Between 1 and 3 months' maturity grouping. In addition, as at 31 December 2022 savings deposits with a withdrawal notice period of three to six months amounting to €437 million (2021: €317 million), are disclosed within the 'Between 3 months and 1 year' maturity grouping. Furthermore, as at 31 December 2022, savings deposits with a withdrawal notice period of one year for the Bank amounting to €191 million (2021: €135 million) are disclosed within the 'Between 1 year and 5 years' maturity grouping. However, in practice these deposits are maintained with the Bank for longer periods; hence the effective date of repayment is later than the contractual date.

As of 31 December 2022, unencumbered financial assets classified as Securities Investments measured at fair value through other comprehensive income, with a carrying amount of nil (2021: €339 million) and Securities Investments measured at amortised cost with a carrying amount of €390.7 million (2021: €55.4 million), form part of the high quality liquid asset portfolio for LCR purposes. Accordingly, they may be liquidated within one month. In addition to these instruments the Bank held unencumbered financial assets classified as Securities Investments measured at amortised cost with a carrying amount of €261.44 million (2021: €55.4 million) included in the category between 1 and 3 months in the preceding table (2021: within one month).

The Bank's cash from margin balances amounting to €51.3 million (2021: €50.3 million), can be available upon maturity of the contract, favourable change in the market value/change in the exchange rates or reduction in the initial margins.

Notes to the financial statements

2.3.4 *Residual contractual maturities of financial liabilities*

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

	Carrying amount	Total outflows	Less than 1 month	Between 1 and 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years
	€000	€000	€000	€000	€000	€000	€000
31 December 2022							
Non-derivative liabilities							
Amounts owed to financial institutions							
- Due to other banks	265,410	265,410	265,410	-	-	-	-
Amounts owed to customers	2,080,529	2,084,899	1,591,802	21,197	294,446	177,454	-
Debt securities in issue	969,569	995,254	6,916	16,698	72,771	411,799	487,070
Lease liabilities (included in other liabilities)	2,372	3,071	163	217	761	1,667	263
	3,317,880	3,348,634	1,864,291	38,112	367,978	590,920	487,333

	Carrying amount	Total outflows	Less than 1 month	Between 1 and 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years
	€000	€000	€000	€000	€000	€000	€000
31 December 2021							
Non-derivative liabilities							
Amounts owed to financial institutions							
- Due to other banks	8,519	8,519	8,519	-	-	-	-
Amounts owed to customers	2,146,241	2,152,261	1,598,925	16,778	318,754	207,180	10,624
Debt securities in issue	658,293	661,447	7,310	6,018	32,716	615,403	-
Lease liabilities (included in other liabilities)	3,186	4,457	211	294	1,228	2,506	218
	2,816,239	2,826,684	1,614,965	23,090	352,698	825,089	10,842

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

	Carrying amount	Total outflows	Less than 1 month	Between 1 and 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years
	€000	€000	€000	€000	€000	€000	€000
31 December 2022							
Derivative assets							
Derivative financial instruments							
- Interest rate swaps	354,580	322,986	242	3,645	25,780	129,613	163,706
- Foreign exchange swaps	757	(778)	(445)	(333)	-	-	-
Inflows		37,175	21,952	15,223	-	-	-
Outflows		(37,953)	(22,397)	(15,556)	-	-	-
	355,337	322,208	(203)	3,312	25,780	129,613	163,706
Derivative liabilities							
Derivative financial instruments							
- Interest rate swaps	5,306	6,112	976	-	5,136	-	-
- Foreign exchange swaps	-	(1)	(1)	-	-	-	-
Inflows		47	47	-	-	-	-
Outflows		(48)	(48)	-	-	-	-
	5,306	6,111	975	-	5,136	-	-

Notes to the financial statements

	Carrying amount €000	Total outflows €000	Less than 1 month €000	Between 1 and 3 months €000	Between 3 months and 1 year €000	Between 1 and 5 years €000	More than 5 years €000
31 December 2021							
Derivative assets							
Derivative financial instruments							
- Interest rate swaps	41,447	136,921	(105)	(865)	(3,344)	108,557	32,678
- Foreign exchange swaps	1	1	1	-	-	-	-
Inflows		102	102	-	-	-	-
Outflows		(101)	(101)	-	-	-	-
	41,448	136,923	(104)	(865)	(3,344)	108,557	32,678
Derivative liabilities							
Derivative financial instruments							
- Interest rate swaps	158	(426)	19	22	139	(332)	(274)
- Foreign exchange swaps	830	(844)	(844)	-	-	-	-
Inflows		83,873	74,944	8,929	-	-	-
Outflows		(84,717)	(75,788)	(8,929)	-	-	-
	988	(1,270)	(825)	22	139	(332)	(274)

2.3.5 Encumbered assets

The following tables set out the availability of the Bank's financial assets to support future funding.

	Encumbered		Unencumbered		
	Pledged as collateral €000	Other* €000	Available as collateral €000	Other** €000	Total €000
31 December 2022					
Balances with central banks (Note 4)	-	19,928	87,555	-	107,483
Derivative financial instruments	-	-	-	355,337	355,337
Loans and advances to financial institutions (Note 6)	270,991	-	-	42,160	313,151
Loans and advances to customers	-	-	-	1,870,908	1,870,908
- International Corporate Lending portfolio	-	-	-	192,179	192,179
- Dutch Mortgage portfolio	-	-	-	1,546,729	1,546,729
- Belgian Mortgage portfolio	-	-	-	132,000	132,000
Investments (Note 8)	104,949	-	699,566	819	805,334
- Securities portfolio	68,203	-	321,276	819	390,298
- Securitisation portfolio	36,746	-	378,290	-	415,036
Accrued income	-	-	-	9,747	9,747
Loans and advances to related parties (included in other assets)	-	-	-	30,765	30,765
Other receivables (included in other assets)	-	-	-	24,150	24,150
	375,940	19,928	787,121	2,333,886	3,516,875

Notes to the financial statements

	Encumbered		Unencumbered		
	Pledged as collateral €000	Other* €000	Available as collateral €000	Other** €000	Total €000
31 December 2021					
Balances with central banks (Note 4)	-	19,591	167,414	-	187,005
Derivative financial instruments	-	-	-	41,448	41,448
Loans and advances to financial institutions (Note 6)	55,376	-	-	26,979	82,355
Loans and advances to customers	-	-	-	1,820,816	1,820,816
- International Corporate Lending portfolio	-	-	-	214,951	214,951
- Dutch Mortgage portfolio	-	-	-	1,605,865	1,605,865
Investments (Note 8)	98,237	-	393,956	347,972	840,165
- Securities portfolio	98,237	-	393,956	-	492,193
- Securitisation portfolio	-	-	-	347,972	347,972
Accrued income	-	-	-	5,287	5,287
Loans and advances to related parties (included in other assets)	-	-	-	33,020	33,020
Other receivables (included in other assets)	-	-	-	11,164	11,164
	153,613	19,591	561,370	2,286,686	3,021,260

**Represents assets that are not pledged for funding purposes but that the Bank believes it is restricted from using to secure funding, for legal or other reasons.*
***Represents assets that are not restricted for use as collateral, but that the Bank would not consider as readily available to secure funding in the normal course of business.*

2.4 Market risk

Market risk is the risk that changes in market prices, such as interest rates, foreign exchange rates and credit spreads (not relating to changes in the obligor's/issuer's credit standing) will affect the Bank's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

2.4.1 Management of market risks

Management of market risk is the responsibility of the Bank's Treasury team and is overseen by the Bank's Risk team, under the oversight of the Bank's ALCO and the Board Risk Committee, and as set out in the foreign exchange ("FX") risk policy and Interest Rate Risk in the Banking Book ("IRRBB") policy.

2.4.2 Foreign exchange risk

FX risk is the risk that the value of the Bank's positions may fluctuate due to movements in underlying foreign currency exchange rates. The Bank seeks to minimise FX risk and thus hedges all major exposures in accordance with its risk appetite. The Bank is mainly exposed to currency risk on FX movements relating to the US Dollar and GB Pound, originating from the Bank's corporate banking business. In the majority of cases, the Bank hedges this risk by ensuring that its foreign currency denominated liabilities are matched with corresponding assets in the same currency. Any mismatches that arise are monitored closely. The Bank's Treasury team is permitted to use spots, forwards and swaps in order to hedge the Bank's FX risk.

Notes to the financial statements

The following table provides an analysis of the principal financial assets and financial liabilities of the Bank into relevant currency groupings.

	EUR currency €000	GBP currency €000	USD currency €000	Other €000	Total €000
As at 31 December 2022					
Financial assets					
Balances with central banks	107,483	-	-	-	107,483
Derivative financial instruments	354,470	724	31	112	355,337
Loans and advances to financial institutions	313,810	(1,696)	542	495	313,151
Loans and advances to customers	1,834,018	36,890	-	-	1,870,908
- International Corporate Lending portfolio	155,289	36,890	-	-	192,179
- Dutch Mortgage portfolio	1,546,729	-	-	-	1,546,729
- Belgian Mortgage portfolio	132,000	-	-	-	132,000
Investments	804,515	819	-	-	805,334
- Securities portfolio	389,479	819	-	-	390,298
- Securitisation portfolio	415,036	-	-	-	415,036
Accrued income	9,494	253	-	-	9,747
Loans to related parties (included in other assets)	25,787	3,731	362	885	30,765
Other receivables (included in other assets)	24,117	33	-	-	24,150
	3,473,694	40,754	935	1,492	3,516,875
Financial liabilities					
Derivative financial instruments	5,305	-	1	-	5,306
Amounts owed to financial institutions	265,410	-	-	-	265,410
Amounts owed to customers	2,069,028	2,199	8,009	1,293	2,080,529
Debt securities in issue	969,569	-	-	-	969,569
Accrued interest expense (incl. in accruals and deferred income)	9,195	5	6	-	9,206
Lease liabilities (included in other liabilities)	2,372	-	-	-	2,372
Amounts owed to related parties (incl. in other liabilities)	14	65	437	4	520
	3,320,893	2,269	8,453	1,297	3,332,912
Net on-balance sheet financial position		38,485	(7,518)	195	
Notional of derivative financial instruments		(37,172)	7,558	(7,000)	
Residual exposure		1,313	40	(6,805)	

Notes to the financial statements

	EUR currency €000	GBP currency €000	USD currency €000	Other €000	Total €000
As at 31 December 2021					
Financial assets					
Balances with central banks	187,005	-	-	-	187,005
Derivative financial instruments	41,447	-	-	1	41,448
Loans and advances to financial institutions	76,865	2,090	3,008	392	82,355
Loans and advances to customers	1,785,887	34,929	-	-	1,820,816
- International Corporate Lending portfolio	180,022	34,929	-	-	214,951
- Dutch Mortgage portfolio	1,605,865	-	-	-	1,605,865
Investments	840,165	-	-	-	840,165
- Securities portfolio	492,193	-	-	-	492,193
- Securitisation portfolio	347,972	-	-	-	347,972
Accrued income	5,289	100	-	-	5,389
Loans to related parties (included in other assets)	19,358	13,161	-	501	33,020
Other receivables (included in other assets)	11,129	35	-	-	11,164
	2,967,145	50,315	3,008	894	3,021,362
Financial liabilities					
Derivative financial instruments	158	801	29	-	988
Amounts owed to financial institutions	8,519	-	-	-	8,519
Amounts owed to customers	2,135,595	2,251	7,628	767	2,146,241
Debt securities in issue	658,293	-	-	-	658,293
Accrued interest expense (incl. in accruals and deferred income)	5,181	7	6	-	5,194
Lease liabilities (included in other liabilities)	3,186	-	-	-	3,186
Amounts owed to related parties (incl. in other liabilities)	3,249	34	784	23	4,090
	2,814,181	3,093	8,447	790	2,826,511
Net on-balance sheet financial position		47,222	(5,439)	104	
Notional of derivative financial instruments		(75,617)	5,496	(58)	
Residual exposure		(28,395)	57	46	

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

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

2.4.3 Interest rate risk

The Bank's Interest Rate Risk in the Banking Book (IRRBB) position is managed through the three lines of defence: the First Line of Defence comprising the asset and liability management process managed by the Bank's Treasury team, the Second Line of Defence being the Risk team and the Third Line of Defence being Internal Audit. It is managed according to the Bank's IRRBB policy with limits established by the Risk team and monitored by both the First and Second Lines of Defence.

The monitoring/reporting activity is reviewed and managed independently by the Bank's ALCO for the First Line of Defence, by the Risk Committee for the Second Line of Defence, and by the Audit Committee for the Third Line of Defence.

Interest rate risk is managed by comparing the interest rate risk profile of assets with the profile of liabilities, and by hedging unmatched interest rate risk arising in the balance sheet by purchasing interest rate derivatives, primarily interest rate swaps.

Notes to the financial statements

Interest rate risk reporting and analysis

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

- Projected net interest margin – ΔNII;
- Bank's capital position – ΔEVE; and
- Time bucket sensitivity – PV01.

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

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

		Repricing in:				
	Carrying amount €000	**Not more than 3 months €000**	**Between 3 months to 1 year €000**	**Between 1 and 3 years €000**	**Between 3 and 5 years €000**	**More than 5 years €000**
As at 31 December 2022						
Balances with central banks	107,483	107,483	-	-	-	-
Loans and advances to financial institutions	313,151	313,151	-	-	-	-
Loans and advances to customers	1,870,908	175,576	18,799	3,407	1,193	1,671,933
- International Corporate Lending portfolio	192,179	175,315	16,864	-	-	-
- Dutch Mortgage portfolio	1,818,002	261	1,935	3,407	1,193	1,811,206
- Belgian Mortgage portfolio	132,000	-	-	-	-	132,000
- IFRS basis adjustment: International Mortgage portfolio	(271,273)	-	-	-	-	(271,273)
Investments	804,515	455,268	72,152	60,627	201,747	14,721
- Securities portfolio	389,479	40,232	72,152	60,627	201,747	14,721
- Securitisation portfolio	415,036	415,036	-	-	-	-
	3,096,057	1,051,478	90,951	64,034	202,940	1,686,654
Amounts owed to financial institutions:	265,410	265,410	-	-	-	-
- Due to other banks	265,410	265,410	-	-	-	-
Amounts owed to customers	2,080,529	1,612,998	293,973	156,102	17,456	-
Debt securities in issue	969,569	23,615	79,224	649,832	216,898	-
	3,315,508	1,902,023	373,197	805,934	234,354	-
Interest rate repricing gap		(850,545)	(282,246)	(741,900)	(31,414)	1,686,654
Impact of hedging interest rate derivatives – notional amounts	354,580	1,379,250	-	(49,500)	(254,733)	(1,075,017)
Net interest rate repricing gap		528,705	(282,246)	(791,400)	(286,147)	611,637

Notes to the financial statements

		Repricing in:				
	Carrying amount €000	Not more than 3 months €000	Between 3 months to 1 year €000	Between 1 and 3 years €000	Between 3 and 5 years €000	More than 5 years €000
As at 31 December 2021						
Balances with central banks	187,005	187,005	-	-	-	-
Loans and advances to financial institutions	82,355	82,355	-	-	-	-
Loans and advances to customers	1,820,816	169,807	46,582	77	800	1,603,550
- International Corporate Lending portfolio	214,951	168,874	46,077	-	-	-
- Dutch Mortgage portfolio	1,643,014	955	517	79	818	1,640,645
- IFRS basis adjustment: Dutch Mortgage portfolio	(37,149)	(22)	(12)	(2)	(18)	(37,095)
Investments	840,165	150,625	444,689	162,227	82,624	-
- Securities portfolio	492,193	43,127	204,215	162,227	82,624	-
- Securitisation portfolio	347,972	240,474	107,498	-	-	-
Amount due to other related party (included in other assets)	30,963	10,963	20,000			
	2,961,304	733,731	378,295	162,304	83,424	1,603,550
Amounts owed to financial institutions:	8,519	8,519	-	-	-	-
- Due to other banks	8,519	8,519	-	-	-	-
Amounts owed to customers	2,146,241	1,615,702	318,550	130,339	71,484	10,166
Debt securities in issue	658,293	13,151	32,185	-	612,957	-
	2,813,053	1,637,372	350,735	130,339	684,441	10,166
Interest rate repricing gap		(903,641)	27,560	31,965	(601,017)	1,593,384
Impact of hedging interest rate derivatives – notional amounts	36,295	1,334,236	(50,200)	(187,436)	(203,383)	(893,217)
Net interest rate repricing gap		430,595	(22,640)	(155,471)	(804,400)	700,167

The Bank's exposure to interest rate risk arises predominantly from its asset/liability structure, specifically mismatches between the repricing term of its International Corporate Lending and Mortgage lending portfolios and the term structure of customer deposits, as well as from possible impacts on the Mark-to-Market ("MtM") value of its fixed rate instruments if market interest rates increase.

The presence of interest rate floors embedded in most of the International Corporate Lending portfolio enables the Bank to mitigate its repricing risk from the Bank's asset/liability structure, whilst the Bank generally hedges the repricing risk from its financial assets, namely the treasury securities, and wholesale repo funding.

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

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

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

Notes to the financial statements

The estimated impact on the Bank's Net Interest Margin ("NIM") and on Economic Value based on scenarios and assumptions prescribed by the EBA guidelines on the management of interest rate risk arising from non trading book activities (EBA/GL/2018/02) would be as follows:

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- NIM would increase by €4.0 million in a parallel up scenario and decrease by €9.4 million in the parallel down scenario.
- Economic value of equity would decrease by €3.3 million in a parallel up scenario and increase by €4.2 million in the parallel down scenario.

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- NIM would increase by €13.7 million in a parallel up scenario and decrease by €5.0 million in the parallel down scenario.
- Economic value of equity would increase by €10.4 million in a parallel up scenario and decrease by €0.2 million in the parallel down scenario.

The main assumptions used in the model utilised to measure the benchmarks referred to above are:
- Interest bearing assets are assumed to mature on their expected maturity and are not replaced for the ΔEVE purposes (run off balance sheet);
- Interest bearing assets are assumed to mature on their expected maturity and are replaced on like for like basis for the ΔNII purposes (constant balance sheet);
- The Dutch NHG and Belgian Retail mortgages are assumed to follow a CPR curve over and above the contractual principal payment schedule;
- In addition to the legal floor on regulated savings accounts of MeDirect Belgium, there is an implicit zero floor option on retail customer deposits as the Bank will not charge negative rates to the retail segment of its customer base;
- The Δ NII and Δ EV metrics includes the effect of changes in value of the contractual automatic options embedded in the banking book assets; and
- Customer deposits follow their behavioural schedule.

Sensitivities to behavioural assumptions are measured on a quarterly basis as part of the ICAAP whereas the IRRBB measurement has been validated and adapted to cater for novel characteristics of new product lines.

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

2.5 Operational risk

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

Operational Risk Management ensure that the Bank's risk appetite for operational risk is translated in a form that can be implemented and managed in practice. As covered in the Risk Appetite Statement, the Bank has low tolerance for operational risk events that could jeopardise its financial performance, customer outcomes or reputation. The Bank's objective is to manage operational risk to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness.

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

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

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

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

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

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

A financial measurement of this risk is calculated by the Bank for the purpose of allocating risk capital using the Basic Indicator Approach under Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013, also known as the CRR. The risk weighted assets for operational risk under this method as at 31 December 2022 were calculated at €45.9 million (2021: €28.5 million).

ICT Security

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

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

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

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

The ICT security programme may be summarised into two sections: ICT Risk Identification and ICT Risk Mitigation:

- ICT Risk Identification: the Bank utilises multiple sources to identify ICT risks. Risk sources include ICT security risk assessments,

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cyber security and operational incidents, vulnerability management, IT security policy spot checks, RCSAs, external security assessments, ICT security audits, third-party risk assessments and IT Security policy exemptions;

- ICT Risk Mitigation: risks are documented in the ICT risk register and are followed up by the IT Security function. A risk treatment plan is documented for each risk. A control owner is defined and an implementation timeline for each control is documented. Implementation of controls is followed up by the IT Security function with the relevant control owner(s);
- ICT Security controls implemented by the Bank through the IT Security strategy are grouped into the following categories:

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

2.6 Environmental, social and governance-related ("ESG") risk

The Group has started to integrate climate-related and environmental risks (the "CER") in the MeDirect framework in order to track these risks and analyse their impact.

CER is directly overseen by the ESG Committee, consisting of top managers managing main business areas including amongst others finance (Group CFO, Belgium CFO, Procurement manager), risk (Malta CRO, Belgium CRO), compliance and business functions. The Group CFO is the chairman of the committee and Belgium CRO is the co-chairman.

The Group Board maintains oversight of CER via regular updates that are given during the routine Group Board meetings by the Group Head of Sustainability. In addition, the Group Board approves main risk policies and ESG Strategy that incorporated CER procedures and commitments.

Moreover, the Group incorporated CER across the three lines of defence (LoD) by updating business procedures and policies, the risk management framework, compliance monitoring plans and internal audit plan. The front-line business applies all the internal regulation related to CER and incorporates CER in the various stages of the business processes including credit process. Risk functions are responsible for developing and tracking a dashboard of relevant CER within the existing risk reporting frameworks of the Group, with continuous enhancement over time. The Compliance Function prepares compliance plans which are approved by the Risk Committee that may consider CER if required. The Compliance Function operates independently from the business units, albeit advising and assisting the business units and other internal functions to ensure that operations are in line with policies, procedures and regulation. The Internal Audit Functions (IAF) proceeds with the execution of an integrated perennial audit plan across the Group and on a cycle basis, provides (global or targeted) assurance on the integration and proper implementation of CER risks across the governance, internal control, operational and business processes of the Group.

The Group also recruited a Head of Sustainability that is the primary coordination point driving ESG/CER agenda, engaging with the MeDirect Boards and interacting with the Group's business, support and control functions.

Climate risk was also embedded in the Group risk management framework and in ESG Strategy 2024/2025. A number of policies and procedures have been updated, in particular Credit Frameworks and the Stress Testing Framework to ensure CER is properly identified, managed, monitored, and mitigated.

In 2022 the Group conducted an initial CER materiality assessment to analyse the main CER that may impact MeDirect strategy, business model, asset portfolios, funding sources, treasury and hedging, wealth management services, as well as the business operating centres in which it operates.

The assessment included all balance sheet elements and off-balance sheet services, covering physical risks (Floods/ Fluvial, Sea Level Risk, Drought / Ext. Heat, Forest Fire / Wildfire, Biodiversity Loss, Water Stress) and transition risks (Policy / Regulations, Stranding Risk, Market Sentiment, Technology Change) including high-level impact horizons (short, medium and long). We used the European Climate Risk Typology, European Environment Agency maps and Moody's Investor Services analysis including sectoral heatmaps while analysing individual physical risks. To analyse transition risk we used Moody's Analytics researches and publicly available Grantham Research Institute on Climate Change and the Environment. The assessment was conducted on a proportional and risk-based approach, utilising currently available sources and data. The materiality assessment was conducted by Risk functions with the support of business functions responsible for respective MeDirect areas. The initial assessment was presented to the ESG Committee in 2022 and the updated assessment was validated in early 2023 by the Group Board. The Group will update the materiality assessment on an annual basis.

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The materiality assessment concluded that the overall strategic Group's exposure to CER is limited given the Group's business profile and its strategy, however the Group continues to monitor and reassess the evolution of CER regularly and update its assessments accordingly.

The assessment indicated that the assets could be impacted by CER primarily through credit risk (deterioration of collateral valuation, deterioration of credit standing of the borrower), retail funding primarily through reputational risk (deposit outflows), wholesale funding primarily through counterparty/country risk and deterioration of securities collateral valuation, wealth management services through market sentiment (fund classes) and operational centres through operational risk (higher energy requirements, physical risk of destruction or failure).

During the assessment the Group identified higher long-term inherent climate physical risk related to Floods/ Fluvial and Sea Level in Dutch and Belgium mortgage portfolios and to Drought / Ext. Heat in Malta corporate portfolio (CRE) and Malta operational centre. Higher water stress was identified in Malta corporate portfolio (CRE) and Malta residential mortgage portfolio. In terms of transition risk the Group identified higher risk in residential mortgage portfolios driven by stranding assets risk and in Malta corporate portfolio (CRE) driven by policy/regulation risks. Higher market sentiment risk was identified in wealth management services. Short-term risk related to physical, or transition climate risk is low. The Group implemented some initiatives to mitigates these risks.

The Group also assessed the impact of MeDirect Group on the climate. The direct impact of MeDirect operation is not material as the Group mainly operates in digital channels and its greenhouse gas emissions and resources consumption are limited. The impact is mainly indirect through financing clients from the sectors contributing to the climate change or through green financing.

2.7 Capital management - regulatory capital

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

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

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

- Common Equity Tier 1 Capital which includes ordinary share capital, retained earnings, fair value reserve and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes including deductions relating to Reserve for Depositor Compensation Scheme ('Other reserves') and certain other regulatory items; and
- Tier 2 Capital consists of unrealised gains included within the fair value reserve.

	2022	2021
	%	%
CET 1 Ratio	**22.3**	28.5
Total capital ratio	**22.3**	28.9

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

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

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

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

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2.8 Fair value measurement

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

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

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

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

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

2.8.1 Fair value hierarchy

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

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

2.8.2 Use of valuation techniques

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

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

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

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

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

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

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

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

2.8.3 Financial instruments measured at fair value

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

	As at 31 December 2022				As at 31 December 2021			
	Level 1 €000	**Level 2 €000**	**Level 3 €000**	**Total €000**	**Level 1 €000**	**Level 2 €000**	**Level 3 €000**	**Total €000**
Assets								
Instruments measured at fair value through other comprehensive income								
- Securities investment portfolio								
- Debt and other fixed income securities	-	-	-	-	436,524	-	-	436,524
- Securitisation investment portfolio								
- Debt and other fixed income securities	-	-	-	-	-	-	347,972	347,972
Instruments mandatorily measured at fair value through profit or loss								
- Derivative financial instruments	-	275,276	80,061	355,337	-	36,397	5,051	41,448
- Securities investment portfolio - Equity instruments	-	-	819	819	-	-	-	-
Total financial assets	-	275,276	80,880	356,156	436,524	36,397	353,023	825,944
Liabilities								
Derivative financial instruments	-	5,306	-	5,306	-	988	-	988

As at 31 December 2022, the fair value of debt securities within the Securities Investment portfolio represented the closing bid price quoted in an active market, and such instruments are therefore categorised as Level 1 assets.

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

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Level 3 assets consist of the following: -

- As at 31 December 2021, Level 3 assets consisted of the the Bank's investments in tranches of securitisation structures with a carrying amount of €327.1 million were mainly rated AAA, and their fair value was determined using third party valuation models to estimate the net present value of a series of expected cash flows, taking into consideration instrument-specific contractual terms (discounted cash flow approach). Amongst other things, these models took into consideration the characteristics of the underlying portfolio of assets (including quality of underlying assets), historical portfolio performance, and the liability structure of the CLO transaction. These models also make use of independently sourced market parameters including, for example, interest rate yield curves. Throughout the year these investments were reclassified to the amortised cost category.
- MeDirect has entered into back-to-back structured interest rate swaps that reinternalise interest rate risk of the securitised mortgage loan receivables. The valuation of these derivatives is performed based on the expected cashflows on the swap transaction measured until the First Optional Redemption Date (FORD) of these related securitisations transactions. The valuation includes both market observable inputs (interest rate curves) as well as mortgage loan prepayment estimates consistent with MeDirect IRRBB assumptions.
- As part of a derecognition of loans and advances to a European corporation as a result of restructuring procedures that occurred in 2021, the Bank obtained equity instruments as part of this restructuring procedure which it initially held at nil value due to the unlikely scenario of recovering any value on the equity at that time. During 2022, the Bank was notified of an agreement to sell the corporation against which the Bank would be receiving proceeds for the equity positions it held. Following the closing of this transaction the Bank received €0.8 million.

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

	Securitisation investment portfolio Measured at fair value through other comprehensive income		**Securities investment portfolio Measured at fair value through profit or loss**		**Derivative financial instruments Measured at fair value through profit or loss**	
	2022 €000	**2021 €000**	**2022 €000**	**2021 €000**	**2022 €000**	**2021 €000**
Year ended 31 December						
At beginning of year	**347,972**	125,952	**-**	-	**5,051**	8,213
Additions	**-**	292,296	**-**	-	**-**	-
Amortisation of premium/discount	**3**	(70,000)	**-**	-	**-**	-
Changes in fair value	**96**	(276)	**819**	-	**75,010**	(3,162)
Transfer to amortised cost category	**(348,071)**	-	**-**	-	**-**	**-**
At end of year	**-**	347,972	**819**	-	**80,061**	5,051

As previously mentioned, the Bank's main exposure to Level 3 assets consist of derivative assets as part of back-to-back structured interest swaps. It has been determined that any changes to the unobservable inputs to the underlying models will result in changes to the value of the back-to-back structured interest swaps, but this will result in a corresponding change in the valuation of the derivative liabilities off-set with the loans and advances to financial institutions, as discussed further in note 2.2.9.

Accordingly, a sensitivity analysis of the fair value measurement to changes in observable inputs is not deemed relevant.

2.8.3.1 Transfers between levels

The Bank recognises transfers between levels of the fair value hierarchy as of the end of the reporting year during which the transfer has occurred. There were no transfers between levels of the fair value hierarchy during the financial years ended 31 December 2022 and 2021.

2.8.4 Financial instruments not measured at fair value

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

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As at 31 December 2022

	Level 1 €000	Level 2 €000	Level 3 €000	Total fair values €000	Total carrying amount €000
Assets					
Loans and advances to customers	-	21,470	1,654,518	1,675,988	2,012,163
- International Corporate Lending portfolio	-	*21,470*	*35,733*	*57,203*	*62,161*
- Dutch Mortgage portfolio	-	-	*1,486,918*	*1,486,918*	*1,818,002*
- Belgian Mortgage portfolio	-	-	*131,867*	*131,867*	*132,000*
Investments	365,729	-	398,544	764,273	804,515
- Securities portfolio	*365,729*	-	-	*365,729*	*389,479*
- Securitisation portfolio	-	-	*398,544*	*398,544*	*415,036*
Total financial assets	365,729	21,470	2,053,062	2,440,261	2,816,678
Liabilities					
Debt securities in issue	-	-	971,209	971,209	969,569
Total financial liabilities	-	-	971,209	971,209	969,569

As at 31 December 2021

	Level 1 €000	Level 2 €000	Level 3 €000	Total fair values €000	Total carrying amount €000
Assets					
Loans and advances to customers	-	46,746	1,732,704	1,779,450	1,744,954
- International Corporate Lending portfolio	-	*46,746*	*55,268*	*102,014*	*101,940*
- Dutch Mortgage portfolio	-	-	*1,677,436*	*1,677,436*	*1,643,014*
Investments	55,430	-	-	55,430	55,669
- Securities portfolio	*55,430*	-	-	*55,430*	*55,669*
Total financial assets	55,430	46,746	1,732,704	1,834,880	1,800,623
Liabilities					
Debt securities in issue	-	-	663,606	663,606	658,293
Total financial liabilities	-	-	663,606	663,606	658,293

The International mortgage portfolios disclosed in the preceding tables are presented exclusive of the IFRS basis negative adjustment, equivalent to €271.3 million (2021: €37.1 million),

The Level 1 fair values reflected in the tables above consist of the closing bid price quoted in an active market in respect of debt

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securities classified under the Securities Investment portfolio.

The Level 2 and Level 3 fair value disclosures of the International Corporate Lending portfolio mainly comprise price quotations sourced from an online platform in respect of internationally traded loans and advances, consisting of the Bank's international loan book with foreign corporates. Loans and advances to customers forming part of the International Corporate Lending portfolio of the Bank amounting to €130.1 million (2021: €113 million), net of expected credit losses have not been reflected within the preceding table given that there were no observable market prices or any public information available but the contractual terms of these instruments, that mainly re-price within three months, and the nature of the borrowers, are similar to those of the instruments in the preceding table and thus their fair valuation characteristics would not differ significantly from those of the instruments included in the preceding table.

The Level 3 assets also include the following:

- The Bank's investments in tranches of securitisation structures amounting to €398.4 million (2021: nil), which are mainly rated AAA, and for which a fair value is determined using third party valuation models to estimate the net present value of a series of expected cash flows, taking into consideration instrument-specific contractual terms (discounted cash flow approach). Amongst other things, these models take into consideration the characteristics of the underlying portfolio of assets (including quality of underlying assets), historical portfolio performance, and the liability structure of the CLO transaction. These models also make use of independently sourced market parameters including, for example, interest rate yield curves.

- Dutch mortgages amounting to €1,546.7 million (2021: €1,606 million) and Belgium mortgages amounting to €132.0 million included in Loans and advances to customers. In order to derive their fair value as at 31 December 2022 and 2021, the Bank bootstraps the average of the top three interest rate quotes offered by Dutch government-backed mortgage loan lenders in the Netherlands and Belgian mortgage loan lenders in Belgium respectively for every mortgage fixed rate tenor to create a zero coupon discount curve and applies this curve to discount the projected future cashflows. In addition, to estimate the future cashflows, the Bank considers both instrument-specific contractual terms and estimated conditional prepayment rates.

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

As at 31 December 2022, all the Bank's exposures classified under loans and advances to financial institutions amounting to €313 million (2021: €82 million), and balances with central banks amounting to €107 million (2021: €187 million), reprice or mature in less than one year. Hence their fair value is not deemed to differ materially from their carrying amount at the reporting date.

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

The majority of the 'Amounts owed to financial institutions' of the Bank as at 31 December 2022 amounting to €265 million (2021: €9 million), and 'Amounts owed to customers' of the Bank amounting to €2.1 billion (2021: €2.1 billion), sourced from the Belgian market, re-price or mature in less than one year. Hence their fair value is not deemed to differ materially from their carrying amount at the reporting date. Fair values of these liabilities are estimated using discounted cash flows, applying current rates offered for deposits of similar remaining maturities. These are considered Level 3 fair value estimates. The fair value of a demand deposit is not less than the amount payable on demand, discounted from the first date on which the amount payable is required to be paid.

3. Accounting estimates and judgements

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

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

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

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

Information about assumptions, estimations and uncertainties that have a significant risk of resulting in a material adjustment in the year ending 31 December 2023 is set out below in relation to estimated cash flows for the purposes of applying the effective interest method and the impairment of financial instruments.

3.2 Expected credit losses on loans and advances to customers

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

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

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

The measurement of credit loss allowances in respect of defaulted exposures is performed through an internally developed model based upon management's best estimate of the present value of the cash flows that are expected to be received under multiple forward looking scenarios. As described in note 2.2.1 the Bank utilises a DCF approach. In estimating cash flows for defaulted exposures within the International Corporate Lending portfolio, management makes judgements about a debtor's financial situation and future repayment prospects, taking into consideration management plans for growth within the current environment. In this regard, judgement is applied in estimating the expected future cash flows from each borrower under the different scenarios, assigning probabilities to those scenarios, and determining appropriate discount rates reflecting borrower-specific characteristics. The determination of operating cash flows under multiple scenarios requires a significant level of judgement in order to adequately capture the current economic conditions.

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

During 2022 and 2021, the Bank extended loan forbearance measures to borrowers experiencing financial difficulties by agreeing to modify the contractual payment terms of loans in order to improve collection opportunities or to avoid default. Where forbearance

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activities are present, higher levels of judgement and estimation uncertainty are involved in determining their effects on credit loss allowances. In the aftermath of the outbreak of the COVID-19 pandemic, a number of borrowers classified within the International Corporate Lending portfolio experienced financial difficulties, leading to debt restructuring. In this respect, significant judgement was required in determining whether substantial modifications were made to contractual terms, thereby requiring derecognition of the extinguished financial instrument(s) and the recognition of the new financial instrument(s). In addition, whether such restructuring lead to the recognition of new financial instruments or the continuing recognition of the pre-restructured debt, the determination of the relative staging of the post-restructured debt and the measurement of the associated credit loss allowances are also deemed to be highly judgemental.

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

(i) modelling PiT PDs and LGDs;

(ii) forecasting macroeconomic scenarios for the purposes of estimating probability-weighted credit loss allowances;

(iii) the determination of expected maturities of facilities, particularly in the case of International Corporates classified as Stage 2; and

(iv) assessing if there has been a significant increase in credit risk, which comprise a combination of qualitative and quantitative criteria, as described in Note 1.5;

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

In this regard, the methodology together with the assumptions and parameterisation used in the calibration of the model are reviewed on a regular basis by management in order to ensure that the model output remains appropriate in view of the Bank's observed default and credit loss history. A significant level of judgement is required in order to assess the continuing appropriateness and reasonableness of the PiT PDs and LGDs being determined by the statistical models. In this respect, it is noteworthy to mention that the Bank's IFRS 9 model for determining PiT PDs is particularly sensitive to equity market data. As a result, given that equity prices are driven by factors unrelated to creditworthiness, a significant level of expert judgement is required to determine the reasonableness of ECL model outputs. As described in more detail in Note 2.2.7 of the financial statements, as at 31 December 2022 the Bank did not resort to the application of overlays.

Similarly, significant judgement was also required in the modelling and selection of macroeconomic forecasts as well as in calibration of the severities and respective probability weights of macroeconomic scenarios used in the determination of ECLs. Judgement in this respect has been amplified by the heightened level of uncertainty triggered by the unprecedented economic and socio-political conditions being currently experienced across countries and industries. In this respect, a number of modelling assumptions are required, based on expert judgement, in order to form a view on the expected time horizon for the global economy to return to pre-COVID-19 levels and the impact of the conflict between Russia and Ukraine on macroeconomic variables in specific countries and industries

Hence, as at 31 December 2022, the development of multiple forward-looking macroeconomic scenarios taking into consideration all these variables represents a key element of estimation uncertainty in the measurement of credit loss allowances. In addition, as described in Note 2.2.7 of the financial statements, the Bank ensures that the modelled macroeconomic forecasts provided by the external vendor that supplies the Bank with the applicable modelled scenarios for the purposes of ECL modelling are aligned with the ECB staff macroeconomic projections published in December 2022.

In view of the high subjectivity involved in forecasting scenarios and the sensitivity of the ECL to the key changes in the number, selection and probability weightings applicable to the different scenarios, the Bank has recalculated the ECL under the different scenarios both by applying a 100% weight to each scenario, as well as by re-calibrating the probability weights to scenario severities determined by the external vendor as in the preceding year, i.e. prior to any post-model adjustments. The effect of this uncertainty on the ECL outcome is disclosed in the sensitivity analysis of the measured credit loss allowances as at 31 December 2022 and 2021 presented in Note 2.2.7 of the financial statements.

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

The identification of SICR events, particularly in respect of the International Corporate Lending portfolio, requires significant judgement in order to assess the severity of the impact of the pandemic and the military conflict between Russia and Ukraine on the financial performance and financial condition of such borrowers. In this respect, during 2022 and 2021, increased reliance has continued to be made by the Bank on its qualitative staging criteria, particularly through the introduction of caps on implied ratings and notch downgrades to ensure that borrower specific risks as at the end of the financial reporting period are captured in as timely a manner as possible.

3.3 Valuation of derivatives and hedge accounting

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

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

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

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

4. Balances with central banks

	2022	2021
	€000	€000
At amortised cost:		
Balances with Central Banks	**107,483**	187,005

As at 31 December 2022, balances held with central banks include reserve deposits amounting to €19.9 million (2021: €19.6 million) relating to the Minimum Reserve Requirement in terms of Regulation (EC) No 1745/2003 of the ECB bearing interest at 0% per annum. Other balances with central banks held by the Bank with the National Bank of Belgium amounting to €104.3 million (2021: €187.0 million) are subject to a positive interest rate of 2% (2021: negative interest rate of 0.5%) per annum.

Balances with central banks in the preceding table are shown net of credit loss allowances amounting to €1 thousand as at 31 December 2022 and 2021.

5. Derivative financial instruments

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

The Bank uses over-the-counter foreign exchange swaps to hedge its exposure to changes in foreign exchange rates. All foreign exchange swaps mature within 2 months (2021: 2 months) from the reporting date.

The Bank also uses over-the-counter interest rate swaps to hedge its exposure to interest rate risk emanating from a portfolio of fixed-rate mortgages (see Note below – macro fair value hedging under the EU carve-out version of IAS 39). The net gains on the related hedging instruments during the year ended 31 December 2022 were €238.2 million (2021: net gains of €48.3 million). The net losses on the hedged items arising during the year attributable to the hedged risk were €235.5 million (2021: net losses of €47.7 million).

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

	2022 €000	2021 €000
Derivative financial assets - fair value	**355,337**	41,448
Derivative financial liabilities - fair value	**(5,306)**	(988)

The Bank applies fair value hedge accounting on macro level whereby a portfolio of items is hedged with multiple hedging instruments. For macro hedges of interest rate risk, the Bank applies the EU 'carve-out' version of IAS 39. The EU 'carve-out' rules for macro hedging enable a group of derivatives (or proportions) to be viewed in combination and jointly designated as the hedging instrument and remove some of the limitations in fair value hedge accounting relating to hedging net positions of loans and core deposits and under-hedging strategies. Thus, interest rate exposures on retail funding (savings and current accounts) and the retail mortgage lending portfolios are initially offset. The remaining exposure is hedged in a portfolio hedge, using the EU 'carve-out' version of IAS 39, in which a portion of the retail mortgage lending portfolio is designated as a hedged item for hedge accounting purposes. The Bank applies the following types of hedge accounting:

Fair value hedges

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

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

Hedge ineffectiveness can arise from:

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

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The fair values of the held for trading derivatives and derivatives designated as hedging instruments in fair value hedges together with the related notional amounts, are as follows:

	Notional 2022 €000	Fair value 2022 €000	Notional 2021 €000	Fair value 2021 €000
Derivatives held for trading – Assets				
Instrument type:				
- Foreign exchange swaps	37,196	757	101	1
- Interest rate swaps	-	80,061	-	5,051
		80,818		5,052
Derivatives held for trading – Liabilities				
Instrument type:				
- Foreign exchange swaps	47	-	84,687	(831)
- Interest rate swaps	-	-	200,000	(57)
		-		(888)
Net derivatives held for trading		80,818		4,164
Derivatives designated as hedging instruments in fair value hedges – Assets				
Instrument type:				
- Interest rate swaps maturing in				
More than one year and less than five years				
- Macro hedges	304,233	28,546	372,859	2,923
More than five years				
- Macro hedges	1,075,017	245,973	844,317	33,473
		274,519		36,396
Derivatives designated as hedging instruments in fair value hedges – Liabilities				
Instrument type:				
- Interest rate swaps maturing in				
More than one year and less than five years				
- Macro hedges	200,000	(5,306)	79,360	(63)
More than five years				
- Macro hedges	-	-	8,900	(37)
		(5,306)		(100)
Net derivatives designated as hedging instruments in fair value hedges		269,213		36,296

MeDirect has entered into back-to-back structured interest rate swaps that reinternalise interest rate risk of the securitised mortgage loan receivables. Such derivatives included above within the Bank's derivative assets held for trading amount to €80.6 million (2021: €5.1 million). As described in Note 2.2.9, the respective derivative financial liabilities are offset against loans and advances to financial institutions as a netting agreement is in place with the counterparty. The comparative financial information has been restated to reflect the back-to-back structured interest rate swaps and corresponding netting.

The carrying amounts and the accumulated basis adjustment for fixed-rate mortgages are included in the statement of financial position within Loans and advances to customers is disclosed in note 7.

The accumulated basis negative adjustment within loans and advances to customers amounting to €271.3 milllion (2021: €37.1 million) also includes the accumulated unamortised fair value hedge adjustments of €3.7 million (2021: nil) related to hedges that have been discontinued and are now amortised.

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6. Loans and advances to financial institutions

Loans and advances to financial institutions

	2022 €000	2021 €000
At amortised cost:		
Repayable on call and at short notice	**149,735**	33,031
Term loans and advances	**163,416**	49,324
	313,151	82,355

As at 31 December 2022 the Bank's loans and advances to financial institutions includes balances that were pledged as collateral, most of which were in relation to the funding of the purchase of Dutch mortgages amounting to €9.9 million (2021: €6.1 million) and in relation to the funding of the purchase of Belgium mortgages amounting to €36.5 million.

Besides the above, the Bank has amounts of €161.6 million (2021: €52.6 million) that are held for the purposes of margin requirements on hedging instruments and structured interest rate swaps disclosed in note 6 attributable to the Dutch Mortgage lending business, and are hence considered encumbered.

As at 31 December 2022, €72.9 million (2021: €0.8 million) were encumbered, most of which were pledged in favour of Eurex Clearing AG in relation to clearing of derivative financial instruments. In addition, €1.0 million (2021: €1.0 million) in the form of cash have also been contributed by the Bank to a derivatives clearing fund held by Eurex Clearing AG, of which the Group is a member. The clearing fund protects members against losses until they leave the clearing fund.

Loans and advances to financial institutions as at 31 December 2022 and 2021 were neither past due nor credit-impaired and no forbearance measures were applied by the Bank in this respect. In addition, loans and advances to financial institutions in the preceding table above are shown net of credit loss allowances amounting to nil as at 31 December 2022 and 2021.

7. Loans and advances to customers

	2022 €000	2021 €000
International Corporate Lending portfolio		
- Term loans and advances: corporate	**195,125**	217,499
Dutch Mortgage portfolio		
- Term loans and advances: retail	**1,818,186**	1,643,163
Belgian Mortgage portfolio		
- Term loans and advances: retail	**132,130**	-
IFRS basis adjustment - International mortgage portfolio	**(271,273)**	(37,149)
Gross loans and advances to customers	**1,874,168**	1,823,513
Less: Credit loss allowances	**(3,260)**	(2,697)
	1,870,908	1,820,816

	Allowance booked under							
	Stage 1		Stage 2		Stage 3		Total	
	2022 €000	2021 €000	**2022 €000**	2021 €000	**2022 €000**	2021 €000	**2022 €000**	2021 €000
Credit loss allowances:								
- International corporate lending	**(2,180)**	(901)	**(766)**	(1,417)	**-**	(230)	**(2,946)**	(2,548)
- Dutch mortgage portfolio	**(106)**	(71)	**(71)**	(62)	**(7)**	(16)	**(184)**	(149)
- Belgian mortgage portfolio	**(114)**	-	**(16)**	-	**-**	-	**(130)**	-
	(2,400)	(972)	**(853)**	(1,479)	**(7)**	(246)	**(3,260)**	(2,697)

The negative fair value/basis adjustment amounting to negative fair value/basis adjustment amounting to €271.3 million (2021: negative fair value/basis adjustment amounting to €37.1 million) is attributable to interest rate swaps entered into as part of the interest rate risk management in the ALM process to hedge the risk of change in fair value of the portfolio attributable to movements in market interest rates (refer to Note 5). The movement led to losses on hedged items attributable to the hedged risk amounting to €235.5 million (2021: losses of €47.7 million) as disclosed in note 21 to these financial statements.

As disclosed in further detail in Note 17, as at 31 December 2022 Dutch retail mortgages amounting to €1,219.7 million (2021: €734.6 million) have been securitised through three (2021: two) Residential Mortgage-Backed Security ("RMBS") transactions. As risks and rewards were deemed to have been retained by MeDirect Belgium, as at 31 December 2022 and 2021, these were recognised on the Bank's statement of financial position.

The Bank's Dutch Mortgage portfolio in the preceding table mainly consist of Dutch retail residential mortgages with the exception of buy-to-let mortgages amounting to €15.9 million as at 31 December 2022. This business was launched in October 2022.

8. Securities and Securitisation Investment portfolios

Securities Investment portfolio

	2022 €000	2021 €000
Investments measured at amortised cost		
- Debt and other fixed income securities	**389,537**	55,690
- Less: Credit loss allowances	**(58)**	(21)
Investments measured at fair value through other comprehensive income		
- Debt and other fixed income securities	**-**	436,524
Investments measured at fair value through profit and loss		
- Equity instruments	**819**	-
	390,298	492,193

Credit loss allowances:		
- On investments measured at amortised cost	**(58)**	(21)
- On debt and other fixed income securities measured at fair value through other comprehensive income	**-**	(14)
	(58)	(35)

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	Measured at amortised cost		Measured at fair value through other comprehensive income		Measured at fair value through profit and loss	
	2022 €000	2021 €000	**2022 €000**	2021 €000	**2022 €000**	2021 €000
Debt securities and other fixed income securities						
Issued by public bodies						
- foreign national and regional governments	**74,066**	25,193	**-**	66,084	**-**	-
- supranational	**30,128**	30,476	**-**	4,019	**-**	-
Issued by other bodies						
- foreign banks	**221,941**	-	**-**	296,083	**-**	-
- corporations	**63,344**	-	**-**	70,338	**-**	-
	389,479	55,669	**-**	436,524	**-**	-
Equity instruments						
Issued by public issuers						
- corporations					**819**	-
					819	-
Listing status						
- listed on foreign recognised exchanges	**389,479**	55,669	**-**	436,524	**-**	-
- not listed	**-**	-	**-**	-	**819**	-
	389,479	55,669	**-**	436,524	**819**	-

	Measured at amortised cost		Measured at fair value through other comprehensive income		Measured at fair value through profit and loss	
	2022 €000	2021 €000	**2022 €000**	2021 €000	**2022 €000**	2021 €000
Year ended 31 December						
At beginning of year	**55,669**	75,946	**436,524**	437,124	**-**	-
Additions	**147,219**	-	-	120,911		-
Redemptions	**(25,000)**	(20,000)	**(220,653)**	(114,263)	**-**	-
Amortisation of premium/discount	**932**	(154)	**(6,156)**	(5,264)	**-**	-
Changes in fair value	**-**	-	**895**	(2,091)	**819**	-
Movement in credit loss allowances	**49**	(123)	-	107	**-**	-
Reclassification to amortised cost category	**210,610**	-	**(210,610)**	-	**-**	-
At end of year	**389,479**	55,669	-	436,524	**819**	-

Investment securities with a nominal value of €277.3 million are pledged as collateral with Eurex against the provision of borrowing facilities (2021: €390.7 million). These include investment securities that are held on balance sheet with a carrying amount of €277.5 million (2021: €393.9 million).

The cash value of unutilised borrowing facilities (headroom) as at 31 December 2022 which are secured by the investment securities referred to above amounted to €254.1 million (2021: €390.4 million).

Investment securities with a nominal value of €110.5 million (2021: €95.6 million) and a carrying amount of €112.0 million (2021: €98.6 million) are also pledged as part of the cooperation with the Blauwtrust Groep to access their multi-investor platform to purchase newly originated Dutch mortgages.

As at 31 December 2022 and 2021, the Bank had no commitment to purchase further investment securities.

As referred to in note 2.8.3, throughout the financial year ended 31 December 2022, the Bank recognised equity investments of €0.8 million on previously held equity instruments, acquired as part of a restructure of a European corporationthat occurred in 2021, which were previously held at nil value.

Securitisation Investment portfolio

	2022 €000	2021 €000
Investments measured at amortised cost		
- Debt and other fixed income securities	**415,078**	-
- Less: Credit loss allowances	**(42)**	-
Investments measured at fair value through other comprehensive income		
- Debt and other fixed income securities	**-**	347,972
	415,036	347,972

	Measured at amortised cost		Measured at fair value through other comprehensive income	
	2022 €000	2021 €000	**2022 €000**	2021 €000
Year ended 31 December				
At beginning of year	**-**	-	**347,972**	125,952
Additions	**67,000**	-	**-**	292,296
Reclassification to amortised cost category	**-**	-	**-**	(70,000)
Amortisation of premium/discount	**7**	-	**3**	-
Changes in fair value	**-**	-	**96**	(276)
Movement in credit loss allowances	**(42)**	-	**-**	-
Reclassification to amortised cost category	**348,071**	-	**(348,071)**	-
At end of year	**415,036**	-	**-**	347,972

The Bank had pledged €81.9 million in total as at 31 December 2022 (2021: €45.1 million) of the Securitisation Investment portfolio in favour of third parties against the provision of borrowing facilities.

The Bank acquired portions in CLO transactions managed by third party entities corresponding to tranches with the highest credit rating in such CLO structures. These acquired portions in CLO transactions are listed on recognised exchanges but not centrally traded. The underlying assets for these CLO transactions are leveraged loans, predominantly senior secured leveraged loans, and high yield corporate bonds. These positions, amounting to €415.0 million in total as at 31 December 2022 (2021: €348.0 million), are held in a 'hold to collect' business model and measured at amortisec cost. As at 31 December 2021, these investments were held in a 'hold to collect and sell' business model and measured at fair value through other comprehensive income.

Reclassification of investments

In June 2022, the Bank changed the business model for managing those investments within the securities and securitisation investments portfolios that were originally deemed to be "Hold to collect and sell" and therefore were measured at fair value through other comprehensive income.

This change in business model was attributable to the fact that the first half of 2022 represented the end of a journey to shape MeDirect for tomorrow as the Bank, through the commencement of the Belgium mortgages business, completed its plan to achieve sound diversification through various assets classes.

The Bank's diversification strategy that kicked off in 2019 was mainly based on the reduction of the International Lending portfolio and the launch of the Dutch mortgage business line. The successful launch of the Dutch mortgage business also allowed the Bank to successfully issue two RMBS from the Dutch mortgage business during the height of the COVID-19 pandemic.

In December 2021 the Bank ceased the intraBank funding arrangements with MeDirect Malta through Grand Harbour I. This resulted in a significantly better management of the liquidity of the Bank.

The Bank has also increased and diversified the sources of funding as it increased the channels for repurchase agreements and is financing its International Mortgage portfolio through its Bastion mortgage securitisation programme. Thus through such sources of funding the Bank is able to satisfy its liquidity needs and will hold these investments till maturity.

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The above developments resulted in a change in the business model of the securities and securitisation investments portfolios. These investments are now categorised as hold to collect and as a result on 1 July 2022 these investments were reclassified out of the fair value through other comprehensive income measurement category and into the amortised cost measurement category.

	Carrying amount prior to reclassification €000	Carrying amount subsequent to reclassification €000
Assets		
Investments – Securities portfolio:		
- measured at amortised cost	201,686	547,480
- measured at fair value through other comprehensive income	336,724	-
Investments – Securitisation portfolio:		
- measured at amortised cost	-	415,029
- measured at fair value through other comprehensive income	397,751	-
Deferred tax assets	14,174	7,328
Total assets	3,197,535	3,230,730
Equity		
Other reserves	(19,495)	224
Retained earnings	(43,188)	(43,406)
Total equity	162,316	142,815

As at 31 December 2022, the Investments - Securities portfolio and the Investments - Securitisation portfolio included investments with a carrying amount of €213.1 million and €398.6 million respectively that were part of this reclassification that took place on 1 July 2022. The fair value of these investments as at 31 December 2022 was equivalent to €200.9 million for the investments in the Securities portfolio and €348.0 million for the investments in the Securitisation portfolio. If these investments had not been reclassified out of the fair value through other comprehensive income category so that they are measured at amortised cost, the fair value losses that would have been recognised in other comprehensive income during the period between 1 July 2022 and 31 December 2022 would have been equivalent to €4.3 million for the investments in the Securities portfolio and €0.75 million thousand for the investments in the Securitisation portfolio.

As part of its monthly risk management report, the Risk function provides an overview of all its investments portfolio (both Securities Investments portfolio and Securitisation Investments portfolio) where the credit quality of all investments is monitored and the deterioration of the asset base, if any, is reported.

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9. Property and equipment

	Improvements to premises	Computer equipment	Other equipment	Fixtures and fittings	Motor vehicles	Right-of-use assets	Total
	€000	€000	€000	€000	€000	€000	€000
As at 1 January 2021							
Cost	53	204	50	273	142	2,736	3,458
Accumulated depreciation	(10)	(102)	(18)	(112)	(142)	(629)	(1,013)
Net book amount	43	102	32	161	-	2,107	2,445
Year ended 31 December 2021							
At beginning of year	43	102	32	161	-	2,107	2,445
Additions	-	36	10	-	-	345	391
Depreciation for the year	(6)	(40)	(13)	(26)	-	(446)	(531)
At end of year	37	98	29	135	-	2,006	2,305
As at 31 December 2021							
Cost	53	240	60	273	142	3,081	3,849
Accumulated depreciation	(16)	(142)	(31)	(138)	(142)	(1,075)	(1,544)
Net book amount	37	98	29	135	-	2,006	2,305
Year ended 31 December 2022							
At beginning of year	**37**	**98**	**29**	**135**	**-**	**2,006**	**2,305**
Additions	**-**	**6**	**8**	**-**	**-**	**73**	**87**
Depreciation for the year	**(6)**	**(45)**	**(17)**	**(24)**	**-**	**(489)**	**(581)**
At end of year	**31**	**59**	**20**	**111**	**-**	**1,590**	**1,811**
As at 31 December 2022							
Cost	**53**	**246**	**68**	**273**	**142**	**3,154**	**3,936**
Accumulated depreciation	**(22)**	**(187)**	**(48)**	**(162)**	**(142)**	**(1,564)**	**(2,125)**
Net book amount	**31**	**59**	**20**	**111**	**-**	**1,590**	**1,811**

As at 31 December 2022 and 2021, the Bank operated from one immovable property which is held under a lease agreement. The right-of-use assets disclosed in the preceding table reflect the following assets relating to leases:

The right-of-use assets disclosed in the preceding table reflect the following assets relating to leases:

	2022	2021
	€000	€000
Premises	**877**	1,044
Computer equipment	**709**	957
Other equipment	**4**	5
	1,590	2,006

Notes to the financial statements

The movement in the carrying amount of right-of-use assets is analysed in the following table:

	Premises €000	Computer equipment €000	Other equipment €000	Total €000
As at 1 January 2021				
Cost	1,465	1,255	19	2,739
Accumulated depreciation	(254)	(365)	(13)	(632)
Net book amount	1,211	890	6	2,107
Year ended 31 December 2021				
At beginning of year	1,211	890	6	2,107
Additions	-	345	-	345
Depreciation for the year	(167)	(278)	(1)	(446)
At end of the year	1,044	957	5	2,006
As at 31 December 2021				
Cost	1,465	1,600	19	3,084
Accumulated depreciation	(421)	(643)	(14)	(1,078)
Net book amount	1,044	957	5	2,006
Year ended 31 December 2022				
At beginning of year	**1,044**	**957**	**5**	**2,006**
Additions	**-**	**73**	**-**	**73**
Depreciation for the year	**(167)**	**(321)**	**(1)**	**(489)**
At end of the year	**877**	**709**	**4**	**1,590**
As at 31 December 2022				
Cost	**1,465**	**1,673**	**19**	**3,157**
Accumulated depreciation	**(588)**	**(964)**	**(15)**	**(1,567)**
Net book amount	**877**	**709**	**4**	**1,590**

The relevant lease liabilities are disclosed and analysed in Note 20 to these financial statements.

There were no capitalised borrowing costs related to the acquisition of property and equipment during the year (2021: nil).

Notes to the financial statements

10. Intangible assets

	Computer software €000	Right-of-use assets €000	Total €000
As at 1 January 2021			
Cost	2,113	6,522	8,635
Accumulated amortisation	(483)	(2,376)	(2,859)
Net book amount	1,630	4,146	5,776
Year ended 31 December 2021			
At beginning of year	1,630	4,146	5,776
Additions	106	105	211
Amortisation and impairment charges for the year	(416)	(1,105)	(1,521)
At end of year	1,320	3,146	4,466
As at 31 December 2021			
Cost	2,219	6,627	8,846
Accumulated amortisation	(899)	(3,481)	(4,380)
Net book amount	1,320	3,146	4,466
Year ended 31 December 2022			
At beginning of year	**1,320**	**3,146**	**4,466**
Additions	**314**	**588**	**902**
Amortisation and impairment charges for the year	**(439)**	**(1,161)**	**(1,600)**
At end of year	**1,195**	**2,573**	**3,768**
As at 31 December 2022			
Cost	**2,533**	**7,215**	**9,748**
Accumulated amortisation	**(1,338)**	**(4,642)**	**(5,980)**
Net book amount	**1,195**	**2,573**	**3,768**

The right-of-use assets reflected in the preceding table related to leased computer software. The relevant lease liabilities are disclosed and analysed in Note 20 to these financial statements.

There were no capitalised borrowing costs related to the acquisition of software during the year (2021: nil).

11. Deferred tax assets and liabilities

	2022 €000	2021 €000
Deferred tax assets	**7,602**	7,876

Deferred tax assets and liabilities are attributable to the following:

	2022 €000	2021 €000
Investments measured at fair value through other comprehensive income	-	274
Unutilised tax losses	**5,119**	6,895
Credit loss allowances	**737**	707
Difference between IFRS and BEGAAP accounting standards:		
- Hedging	(1,717)	-
- Interest rate swaps	4,799	-
- Other	(1,336)	-
	7,602	7,876

Notes to the financial statements

As at 31 December 2022, deferred tax assets and liabilities amounting to €3.1 million (2021: nil) were offset as there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

Deferred taxes are calculated on all temporary differences under the liability method and are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled based on tax rates (and tax laws) that have been substantively enacted by the end of the reporting period. The principal tax rates used are 25% (2021: 25%) in respect of the Belgian fiscal authority.

Movements in deferred tax during the year:

	At beginning of year €000	Recognised in profit or loss €000	Recognised in other comprehensive income €000	At end of year €000
Year ended 31 December 2022				
Investments measured at fair value through other comprehensive income	274	-	(274)	-
Unutilised tax losses	6,895	(1,776)	-	5,119
Credit loss allowances	707	30	-	737
Differences between IFRS and BEGAAP:				
- Hedging	-	(1,717)	-	(1,717)
- Interest rate swaps	-	4,799	-	4,799
- Other	-	(1,336)	-	(1,336)
	7,876	-	(274)	7,602

	At beginning of year €000	Recognised in profit or loss €000	Recognised in other comprehensive income €000	At end of year €000
Year ended 31 December 2021				
Investments measured at fair value through other comprehensive income	(329)		603	274
Unutilised tax losses	5,317	1,578	-	6,895
Credit loss allowances	2,285	(1,578)	-	707
	7,273	-	603	7,876

As at 31 December 2022, deferred tax assets attributable to MeDirect Belgium are equivalent to €7.6 million (2021: €7.9 million). These are expected to be recovered over a period of seven years.

In applying judgement in recognising deferred tax assets, the Bank's management has assessed all available information, in particular future business growth and profit projections. In this respect, the most recent financial forecasts approved by management cover a five-year period and the forecasts have been extrapolated beyond five years by assuming that performance remains constant after the fifth year. The most important management judgements underlying the projected financial results in the most recent financial forecasts approved by management related to (i) the projected growth rate of the mortgages businesses and (ii) the evolution in net interest margin.

The Bank has recognised the deferred tax assets referred to above on the basis that management considers there to be convincing evidence that indicates that sufficient taxable profit will be available against which tax losses carried forward can be used. Management's assessment of the likely availability of future taxable profits against which to recover the deferred tax assets takes into consideration that the projections are consistent with the directors' assumptions about the Bank's future.

Accordigly, while the directors are cognisant that the level of taxable profits is more difficult to predict for those years that are further into the future, they have assessed and concluded that the amount of forecast taxable profits for the forthcoming seven years is more likely to occur than not.

Notes to the financial statements

In view of the judgement involved in assessing the probability and sufficiency of future taxable profits and the sensitivity of the carrying amount of the deferred tax assets recognised by the Bank in respect of the growth rate assumptions in respect of the mortgage lending as well as the evolution of the net interest margin, the Bank has estimated the impact that changes to such assumptions would have on the carrying amount of the deferred tax assets recognised as at 31 December 2022.

The following table shows the effect on the Bank's deferred tax assets of reasonably possible changes in the most important assumptions supporting the recognition of the deferred tax assets:

Sensitivity analysis of key assumptions	**Movement**	**Deferred tax asset impact 2022 €million**
- Growth in mortgage lending business volumes	5%	**0.5**
	-5%	**(0.5)**
- Interest rates evolution	+10bps	**1**
	-10bps	**(1.5)**

As at 31 December 2022 the Bank had unutilised tax losses in respect of which the Bank has taken the decision of not recognising deferred tax assets amounting to €15.9 million (2021: €9.1 million), Although the Bank has taken a prudent approach of not recognising certain deferred tax assets on unutilised tax losses, such unutilised tax losses have no expiry date and can be carried forward indefinitely even beyond the assessment period used in determining the deferred tax assets.

12. Prepayments and accrued income

	2022 €000	2021 €000
Prepayments	**134**	102
Accrued income	**9,747**	5,287
	9,881	5,389

As at 31 December 2022, accrued income is shown net of credit loss allowances amounting to €0.2 million (2021: €0.2 million).

13. Other assets

	2022 €000	2021 €000
Amounts receivable from:		
- immediate parent company	**30,765**	33,020
Deferred customer contract costs	**633**	827
Other receivables	**24,150**	11,164
	55,548	45,011

As at 31 December 2022, amounts receivable from immediate parent company include a revolving credit facility amounting to €22.7 million (2021: €20.0 million), as part of an RCF facility of €82.0 million (2021: €119.0 million), subject to interest per annum equal to the aggregate of the three month Euribor and the margin of 2.80 % (2021: 2.75%) and secured by a pool of international corporate loans held by MeDirect Malta with a nominal value of €164.3 million (2021: €268.0 million).

As at 31 December 2022, the Bank's 'other receivables' comprises balances amounting to €16.2 million (2021: €1.9 million) held with a third-party mortgage originator in the Netherlands until the relevant NHG eligibility criteria for specific loan applications relating to the Dutch Mortgage portfolio are fulfilled in the future.

Notes to the financial statements

As at 31 December 2022, the Bank's 'other receivables' comprises balances amounting to €6.9 million held with a third-party mortgage originator in Belgium until the relevant criteria for specific loan applications relating to the Belgian Mortgage portfolio are fulfilled in the future.

None of these assets are deemed credit-impaired at 31 December 2022 and 2021 and expected credit losses in relation to such balances were deemed to be insignificant.

14. Capital and reserves

	2022 No.	2021 No.
Authorised:		
Ordinary 'A' shares of €1 each	**225,000**	225,000
Issued and fully paid up:		
Ordinary 'A' shares of €1 each	**225,000**	225,000

Other reserves

Fair value reserve

The fair value reserve of the Bank is attributable to the cumulative net change in the fair value of investments measured at fair value through other comprehensive income, until the investment is derecognised, net of deferred taxation.

	2022 €000	2021 €000
Year ended 31 December		
At the beginning of year	**(672)**	1,201
Fair value adjustments	**(26,292)**	(2,476)
Reclassification of investments (see note below and note 8)	**27,238**	-
Deferred tax on above items	**(274)**	603
At the end of year	**-**	(672)

In June 2022, the Bank changed the business model for managing those investments within the securities and securitisation investments portfolios that were originally deemed to be "Hold to collect and sell" and therefore were measured at fair value through other comprehensive income. These investments are now categorised as "Hold to collect" and as a result on 1 July 2022 these investments were reclassified out of the fair value through other comprehensive income measurement category and into the amortised cost measurement category. Thus the cumulative net change in the fair value of these investments that was accounted for in this fair value reserve was derecognised. Refer to note 8 to these financial statements

Other reserve

As at 31 December 2022 and 2021, other reserve of the Bank consists of a legal reserve amounting to €0.2 million that is required to be maintained by MeDirect Belgium in line with Article 7:211 of the Belgian Companies Code which requires MeDirect Belgium to assign at least 5% of MeDirect Belgium's net profits to the legal reserve until such legal reserve amounts to 10% of MeDirect Belgium share capital.

All reserves at the reporting date, except for the Bank's retained earnings are non-distributable.

Dividends

The directors of the Bank do not propose any final dividends for distribution.

Notes to the financial statements

15. Amounts owed to financial institutions

	2022 €000	2021 €000
Term deposits	**265,410**	8,519

16. Amounts owed to customers

	2022 €000	2021 €000
Repayable on call and at short notice	**1,580,971**	1,589,608
Term deposits	**499,558**	556,633
	2,080,529	2,146,241

17. Debt securities in issue

	2022 €000	2021 €000
Year ended 31 December		
At beginning of year	**658,293**	553,849
Original face value of notes issued	**368,500**	493,100
Premium on notes issued	**-**	5,855
Issue costs incurred	**(2,063)**	(1,428)
Amortisation of premium recognised in profit or loss	**(1,303)**	(1,242)
Amortisation of issue costs recognised in profit or loss	**1,303**	1,241
Redemptions	**(55,161)**	(393,082)
At end of year	**969,569**	658,293
As at 31 December		
Original face value of notes issued	**969,454**	656,115
Unamortised note premium	**3,311**	4,613
Unamortised note issue costs	**(3,196)**	(2,435)
Net carrying amount	**969,569**	658,293
As at 31 December		
Bastion 2020-1 NHG B.V.	**295,053**	321,680
Bastion 2021-1 NHG B.V.	**307,416**	336,613
Bastion 2022-1 NHG B.V.	**367,100**	-
Net carrying amount	**969,569**	658,293

By virtue of a base prospectus dated May 2020, MeDirect Belgium successfully securitised part of its Dutch retail mortgage portfolio raising €350 million through a RMBS transaction, listed on Luxembourg Stock Exchange. As part of the transaction the mortgage portfolio was sold to Bastion 2020-1, a special purpose securitisation vehicle established in the Netherlands, which is controlled by MeDirect Belgium.

This RMBS is subject to interest of 0.60% per annum above 3-month Euribor (including floor at 0%) up to the first optional redemption date, and interest of 1.00% per annum above 3-month Euribor (including floor at 0%) from the first optional redemption date being April 2025, payable quarterly. All bonds are redeemable at par and shall become due for final redemption in April 2057, however, MeDirect Belgium reserves the right to redeem the bond in particular circumstances specified in the base prospectus.

An institutional investor acquired the Class A notes of the RMBS equivalent to €350 million, having a senior ranking vis-à-vis all the junior tranches retained by MeDirect Belgium. MeDirect retains substantially all risks and rewards of the underlying securitised Dutch government-backed mortgage portfolio and accordingly controls Bastion 2020-1. As a result, the mortgage portfolio, the senior

Notes to the financial statements

notes of Bastion 2020-1 held by the institutional investor and related income and expenditure are reflected in the Bank's financial statements.

On each of the Notes Payment Dates of Bastion 2020-1, falling on 24 January 2022, 25 April 2022, 25 July 2022 and 24 October 2022, amounts of €7.3 million, €6.1 million, €7.8 million and €5.8 million of Class A notes, pertaining to the senior tranche were redeemed, whereas on each of the Notes Payment Dates on 25 January 2021, 23 April 2021, 23 July 2021 and 25 October 2021, amounts of €5.7 million, €4.5 million., €5.7 million and €6.2 of the said Class A notes were redeemed.

In September 2020, MeDirect Belgium established a €350 million revolving credit warehouse funding facility provided by a major Dutch bank through Cavalier 2020 B.V., a special purpose vehicle established in the Netherlands, which was controlled by MeDirect Belgium. The warehouse facility provided bridge financing that enabled MeDirect Belgium to build up a Dutch Mortgage portfolio large enough to be securitised through a RMBS transaction. As at the end of 2020, Class A notes pertaining to the senior tranche of Cavalier 2020 B.V. of €211 million were held by the major Dutch bank, with the junior notes being retained by MeDirect Belgium. In substance, these instruments have been considered as notes on on debt securities in issue. The financing facility was used to build up a Dutch Mortgage portfolio of €154 million, which was subsequently securitised. MeDirect Belgium repaid Class A notes of €104 million in January 2021, issued €143.1 million of Class A notes in April 2021, followed by a repayment of €145.0 million in May 2021 and full and final repayment of €105.0 million in June 2021, when use of Cavalier was suspended and was no longer being utilised. Cavalier 2020 was eventually dissolved on 23 December 2021.

More specifically, in January 2021 MeDirect Belgium securitised a further part of its Dutch retail mortgages portfolio through a RMBS transaction whereby a principal amount of €414 million of the Dutch Mortgage portfolio was sold to a securitisation special purpose entity, Bastion 2021-1 NHG B.V., established in the Netherlands, which is controlled by MeDirect Belgium. On closing, the Dutch retail mortgages portfolio acquired by Bastion 2021-1 NHG B.V. included the €154 million portfolio of the Dutch Mortgages that was financed through the warehouse funding facility obtained through Cavalier 2020 B.V. This portfolio, that was originated by MeDirect Belgium and subsequently transferred to Cavalier 2020 B.V., was repurchased by MeDirect Belgium and together with a further portfolio of €260 million of Dutch Mortgages was transferred to Bastion 2021-1 NHG prior to closing.

An institutional investor acquired the Class A notes of the RMBS equivalent to €350 million, having a senior ranking vis-à-vis all the junior tranches retained by MeDirect Belgium. MeDirect retains substantially all risks and rewards of the underlying securitised Dutch government-backed mortgage portfolio and accordingly controls Bastion 2021-1. As a result, the mortgage portfolio, the senior notes of Bastion 2021-1 held by the institutional investor and related income and expenditure are reflected in the Bank's financial statements.

This RMBS is subject to interest of 0.70% per annum above 3-month Euribor (including floor at 0%) up to the first optional redemption date, and interest of 1.05% per annum above 3-month Euribor (including floor at 0%) from the first optional redemption date being August 2026, payable quarterly. All bonds are redeemable at par and shall become due for final redemption in August 2058, however, MeDirect Belgium reserves the right to redeem the bond in particular circumstances specified in the base prospectus.

On each of the Notes Payment Dates of Bastion 2021-1, falling on 24th January 2022, 25th April 2022, 25th July 2022 and 24th October 2022, amounts of €7.9 million, €9.2 million, €5.8 million and €7.3 million of Class A notes, pertaining to the senior tranche were redeemed whereas on each of the Notes Payment Dates on 20 May 2021, 20 August 2021 and 22 November 2021, amounts of €4.8 million, €5.7 million and €6.4 million of the said Class A notes were redeemed.

By virtue of a base prospectus dated 25 November 2022, MeDirect Belgium successfully securitised part of its Dutch retail mortgage portfolio raising €368.5 million through placement with external investors of A1 notes of the RMBS transaction, listed on Luxembourg Stock Exchange. As part of the transaction the mortgage portfolio was sold to Bastion 2022-1, a special purpose securitisation vehicle established in the Netherlands, which is controlled by MeDirect Belgium.

This RMBS is subject to interest of 0.60% per annum above 3-month Euribor (including floor at 0%) up to the first optional redemption date, and interest of 1.20% per annum above 3-month Euribor (including floor at 0%) from the first optional redemption date being March 2028, payable quarterly. All bonds are redeemable at par and shall become due for final redemption in May 2060, however, MeDirect Belgium reserves the right to redeem the bond in particular circumstances specified in the base prospectus.

An institutional investor acquired Class A notes of this RMBS equivalent to €369 million, having a senior ranking vis-à-vis all the junior tranches retained by MeDirect Belgium. MeDirect retains substantially all risks and rewards of the underlying securitised Dutch government-backed mortgage portfolio and accordingly controls Bastion 2022-1. As a result, the mortgage portfolio, the senior notes of Bastion 2022-1 held by the institutional investor and related income and expenditure are reflected in the Bank's financial statements.

Notes to the financial statements

18. Provisions for liabilities and other charges

	2022 €000	2021 €000
Credit loss allowances in respect of loan commitments	**152**	53

	2022 €000	2021 €000
Credit loss allowances in respect of loan commitments		
At beginning of year	**53**	137
Change in expected credit losses	**99**	(84)
At end of year	**152**	53

19. Accruals and deferred income

	2022 €000	2021 €000
Accrued interest expense	**9,206**	5,194
Other accrued expenses	**3,208**	3,124
Deferred income	**722**	1,322
	13,136	9,640

20. Other liabilities

	2022 €000	2021 €000
Amounts due to immediate parent company	**522**	3,996
Amounts due to other group companies	**-**	94
Indirect taxes payable	**650**	716
Lease liabilities	**2,372**	3,186
Other liabilities	**9,180**	16,282
	12,724	24,274

Amounts due to immediate parent company are unsecured, interest free and repayable on demand.

The lease liabilities associated with the recognised right-of-use assets are analysed below.

	2022 €000	2021 €000
Non-current		
Premises	**814**	1,025
Computer equipment	**231**	374
Other equipment	**1**	2
Computer software	**581**	936
	1,627	2,337
Current		
Premises	**190**	164
Computer equipment	**125**	220
Other equipment	**1**	2
Computer software	**429**	463
	745	849
	2,372	3,186

Notes to the financial statements

The extension options in leases relating to premises, with the last extension covering till March 2028, have been included in the lease liability as the lease term reflects the exercise of such options.
The Bank determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Bank has certain lease contracts that include extension and termination options. The Bank applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Bank reassesses the lease term if there is a significant event or change in circumstances that is within its control that affects its ability to exercise or not to exercise the option to renew or to terminate.

As at 31 December 2022 and 2021, the total amount of lease liabilities for computer equipment, other equipment and computer software were attributable to arrangements with Medifin Leasing Limited, a related party.

The movement in the carrying amount of these liabilities is analysed in the following table:

	2022 €000	2021 €000
Year ended 31 December		
At beginning of year	**3,186**	4,464
Additions	**731**	450
Payments	**(1,687)**	(1,891)
Interest charge	**142**	163
At end of year	**2,372**	3,186

The income statement reflects the following amounts relating to leases:

	2022 €000	2021 €000
Interest expense (Note 21)	**142**	163

21. Net Interest Income

	2022 €000	2021 €000
Interest income		
Loans and advances to financial institutions	**1,532**	-
Loans and advances to customers		
- interest on loans and advances to customers	**42,230**	34,396
- net losses representing ineffective portion of fair value hedges	**2,763**	673
Investment securities		
- interest on investment securities	**4,645**	3,688
- amortisation of net premiums on investment securities	**(5,214)**	(5,556)
Total interest income	**45,956**	33,201
Interest expense		
Loans and advances to financial institutions	**-**	557
Amounts owed to financial institutions	**5,701**	2,151
Amounts owed to customers	**8,214**	13,307
Lease liabilities	**142**	164
Total interest expense	**14,057**	16,179
Net interest income	**31,899**	17,022

Notes to the financial statements

The Bank's negative interest income attributable to loans and advances to financial institutions is presented within interest expense rather than netted off within interest income.

For the macro hedging relationships comprising interest rate swaps hedging interest rate risk on a portfolio of the Bank's fixed rate mortgages, fair value gains of €238.2 million (2021: gains of €48.3 million) arising on derivatives designated in fair value hedge relationships and losses of €235.5 million (2021: losses of €47.7 million) representing net decrease (2021: decrease) in the fair value of the hedged items attributable to the hedged risk are included within the Bank's net interest income. The losses are reflected within interest arising from loans and advances to customers, where interest on the hedged items is presented.

In the year ended 31 December 2022, within interest income, the Bank is netting-off amounts of €3 million (2021: €5.1 million) relating to interest expense on interest rate swaps used to hedge the International Mortgage portfolios.

	2022 €000	2021 €000
Macro hedging:		
Gains on hedging instruments	**238,224**	48,339
Losses on hedged items attributable to the hedged risk – basis adjustment to International Mortgage portfolio (see Note 7)	**(235,461)**	(47,666)
Net gains representing ineffective portion of fair value hedges	**2,763**	673

22. Net fee and commission income

	2022 €000	2021 €000
Fee and commission income		
Corporate secured lending fee income	**204**	221
Banking transactions fee income	**16**	17
Investment services fees	**4,197**	3,904
Total fee and commission income	**4,417**	4,142
Fee and commission expense		
Banking transactions fee expense	**266**	120
Investment services transaction and custody fees	**1,238**	995
Other fee expense	**65**	70
Total fee and commission expense	**1,569**	1,185
Net fee and commission income	**2,848**	2,957

23. Net trading income

	2022 €000	2021 €000
Net income from foreign exchange activities	**160**	303
Net expense from held for trading financial instruments	**(746)**	(33)
	(586)	270

24. Personnel expenses

Personnel expenses incurred are analysed as follows:

	2022 €000	2021 €000
Personnel expenses		
- remuneration and direct company benefits	**9,261**	8,046
- employers contribution for social security	**1,073**	878
- other staff charges	**330**	87
- retirement and survivors' pensions	**215**	229
	10,879	9,240

The weekly average number of persons employed during the year, including executive directors, was as follows:

	2022 No.	2021 No.
Executive and senior management	**11**	6
Other managerial, supervisory and clerical	**47**	47
	58	53

The number of persons employed by the Bank as at the reporting date, including executive directors, was 59 (2021: 59).

25. Other administrative expenses

Other administrative expenses are analysed as follows:

	2022 €000	2021 €000
IT support and telecommunication costs	**5,977**	4,702
Legal and professional expenses	**5,062**	5,151
Regulatory expenses	**4,990**	4,588
Indirect taxation	**3,082**	3,125
Other expenses	**9,227**	10,413
	28,338	27,979

Included in other administrative expenses are fees charged by the Bank's independent auditors for the year as follows:

	2022 €000	2021 €000
Audit services	**222**	230
Other assurance services	**-**	-
Tax related services	**29**	-
Other non-audit services	**18**	-

Other non-audit services are compatible with the independence rules of the auditors.

Notes to the financial statements

Share-based payments, equivalent to €0.1 million (2021: €0.1 million) included within Other expenses above, are granted to certain executive directors under a performance bonus plan. Under this plan, executive directors are entitled to share-linked instruments the value of which is based on changes in the fair value of the ordinary shares of MDB Group Limited but which are settled in cash and hence do not entitle the employees to shares or any interest in or right over such shares. Therefore, share-linked instruments comprise a number of notional ordinary shares of MDB Group Limited determined at award date by reference to the related bonus amounts taking cognisance of the fair value of the shares at that date.
The plan contemplates upfront share-linked awards and deferred share-linked awards that are subject to a deferral period of not less than twelve months but not greater than five years. Deferred share-linked awards attributable to performance bonuses vest immediately, but are also subject to a deferral period. Settlement amounts are determined on the basis of the fair value of the ordinary shares at settlement date, which is the end of the deferral period.

An assessment of performance over the relevant period is used to determine the amount of the deferred performance bonus award to be granted. The share-based payment is classified as cash-settled since the share-based payment transactions with the directors are settled through a cash payment.

26. Change in expected credit losses and other credit impairment charges

	2022 €000	2021 €000
Change in expected credit losses		
Loans and advances to customers, including credit-related commitments		
- International Corporate Lending portfolio (including accrued income)	**(455)**	6,200
- Dutch Mortgage portfolio	**(37)**	13
- Belgian Mortgage portfolio	**(164)**	-
Investments measured at amortised cost		
- Securities portfolio	**(49)**	123
Investments measured at fair value through other comprehensive income		
- Securitisation portfolio	**-**	(22)
Other credit impairment charges		
Amounts written off on loans and advances to customers		
- International Corporate Lending portfolio	**-**	(8,341)
	(705)	(2,027)

27. Tax expense

	2022 €000	2021 €000
Current tax expense		
- current year tax charge	**169**	138
Income tax charge	**169**	138

The tax recognised in profit or loss on the Bank's loss before tax differs from the theoretical amount that would arise using the applicable tax rate in Belgium, which is the Bank's country of incorporation, as follows:

	2022 €000	2021 €000
Loss before tax	**(5,446)**	(21,057)
Tax at the applicable rate of 25%	**(1,362)**	(5,264)
Tax effect of:		
Non-deductible expenses	**34**	26
Unrecognised deferred tax movements (Note 11)	**2,000**	6,582
Income not subject to tax	**(532)**	(1,235)
Other	**29**	29
Income tax charge	**169**	138

28. Cash and cash equivalents

Balances of cash and cash equivalents as shown in the statements of cash flows are analysed below:

	2022	2021
	€000	€000
Analysis of cash and cash equivalents:		
Call deposits	**42,052**	32,029
Target 2 overnight deposits	**87,555**	167,414
Amounts owed to financial institutions with original maturity of less than 3 months	**(265,410)**	(8,519)
Per Statement of cash flows	**(135,803)**	190,924
Adjustments to reflect:		
Other balances with central banks	**19,928**	19,591
Deposits with original maturity of over 3 months and encumbered deposits	**271,099**	50,326
Per Statement of financial position	**155,224**	260,841

		2022	2021
	Notes	**€000**	€000
Analysed as follows:			
Balances with central banks	4	**107,483**	187,005
Loans and advances to financial institutions	6	**313,151**	82,355
Amounts owed to financial institutions	15	**(265,410)**	(8,519)
		155,224	260,841

29. Commitments

Commitments to lend

Commitments to lend represent undrawn formal standby facilities, credit facilities and other similar commitments to lend. As at 31 December 2022, the Bank had undrawn commitments of €96 million (2021: €20.0 million) under international lending revolving credit facilities, and €59.3 (2021: €99 million) undrawn commitments under revolving credit facilities with the Bank's parent company. In addition, lending commitments in relation to the Bank's Dutch Mortgage portfolio amounted to €98.4 million (2021: €72.1 million) and Belgian Mortgage portfolio amounted to €63.8 million (2021: €nil).

Commitments to purchase

As at 31 December 2021, the Bank also had commitments to purchase facilities on term loans amounting to €10.0 million

30. Related parties

Immediate and ultimate parent company

The ultimate controlling party of the Bank is AnaCap Financial Partners II L.P.

The ultimate parent company of the Bank is Medifin Investments Limited, a non-cellular company incorporated and registered in Guernsey.

The immediate parent company of the Bank is MeDirect Bank (Malta) plc, a public limited liability company incorporated and registered in Malta.

Related parties of the Bank include the ultimate controlling party, the ultimate parent company, the intermediate parent company, the immediate parent company, subsidiary, all entities controlled by the ultimate parent company, Key Management Personnel, close family members of Key Management Personnel and entities which are controlled or jointly controlled by Key Management Personnel or their close family members.

Notes to the financial statements

Transactions with Key Management Personnel

Key Management Personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, being the directors of MeDirect Malta and MeDirect Belgium.

Key Management Personnel compensation consisting of directors' remuneration is disclosed in Note 24. The Bank also provides non-cash benefits to Key Management Personnel, including health and life insurance premiums and pensions.

Related party balances and transactions

During the course of its activities, the Bank conducted business on commercial terms with related parties.

The following table provides the total amount of the Bank transactions which have been entered into, and Group balances with, related parties of the Bank for the relevant financial year:

	Year ended 31 December 2022		As at 31 December 2022		
Related party	**Income from related parties €000**	**Expenses charged by related parties €000**	**Amounts owed by related parties €000**	**Amounts owed to related parties €000**	**Transaction/balance type**
Immediate parent company	744	-	-	-	Interest income
	349				Commitment fee income
	-	952	-	-	IT Support and Security Service level agreement
	-	284	-	-	Commitment fee expense
	-	-	30,765	-	Other assets
	-	-	-	522	Other liabilities
Other group companies	-	2,087	-	-	IT and other support
Key management personnel	-	-	-	6	Amounts owed to customers

	Year ended 31 December 2022		As at 31 December 2022		
Related party	**Income from related parties €000**	**Expenses charged by related parties €000**	**Amounts owed by related parties €000**	**Amounts owed to related parties €000**	**Transaction/balance type**
Ultimate controlling party	-	95	-	-	Monitoring fees
Immediate parent company	303	-	-	-	Interest income
	6,535	-			Interest income - GH1 senior note
	578	-	-	-	Commitment fee income
	-	942			IT Support and Security Service level agreement
	-	143	-	-	Commitment fee expense
	-	-	33,020	-	Other assets
	-	-	-	3,996	Other liabilities
Other group companies	-	2,173	-	-	IT and other support
	-	-	-	94	Other liabilities
Key management personnel	-	-	-	45	Amounts owed to customers

On 23 December 2021, MeDirect Belgium and MeDirect Malta agreed to instruct GH I and the Collateral Manager to dispose of all the collateral in the form of international corporate loans. MeDirect Belgium acquired collateral loans at a consideration of €142.5 million and £11.8 million and the proceeds from such sale of loans by GH I resulted in the full repayment of the Senior Loan of MeDirect Belgium that at that date was equivalent to €103.3 million and £44.1 million.

Notes to the financial statements

In 2022, there are also payments to other group companies relating to leases treated in accordance with IFRS 16 requirements amounting to €1.7 million (2021: €1.9 million). In line with IFRS 16, the Bank recognised lease liabilities in respect of lease arrangements with related parties (refer to Note 20).

Throughout the financial year MeDirect Malta recharged employee compensation and benefits to MeDirect Belgium amounting to €4.5 million (2021: €4.1 million).

31. Segmental information

The Bank conducts business of lending from Belgium and consists of Dutch mortgage and Belgian mortgage lending, international corporate lending together with the investment in high credit quality collateralised instruments such as covered bonds, guaranteed senior bank debt, sovereign related debt and investment in AAA tranches of securitisation special purpose entities. Revenues secured through the above-mentioned assets are complemented by the revenues generated by the Bank on its wealth management business. Information about the products and services and geographical areas is set out in Notes 2, 7, 8, 21 and 22 to the financial statements which provide information about the financial risks, credit concentrations by sector and location, together with revenues from the single reportable segment.

In accordance with Article 89 of CRD IV, the Bank must disclose information about turnover, number of employees, profit before tax, tax and public subsidies received by country, taking into account all jurisdictions in which it operates. The Bank operates within Belgium and such information is disclosed in the notes to the financial statements. The Bank has not received any public subsidies that relate to the Bank's activities as a credit institution.

32. Assets held on a nominee basis

As part of its Wealth Management proposition, the Bank acts as a nominee holder of financial instruments on behalf of customers. Assets held on a nominee basis are not assets of the Bank and are not recognised in the statements of financial position. Accordingly, the Bank is not exposed to any credit risk relating to such placements, as it does not guarantee these investments.

At 31 December 2022, the total assets held by the Bank on behalf of customers amounted to €814.8 million (2021: €864.2 million).

33. Events after the reporting date

Subsequent to the year ended 31 December 2022, the banking sector has faced some turmoil due to the failure of banks in the US (Silicon Valley Bank et al.) and Europe (Credit Suisse) which may be considered to increase liquidity risk and uncertainty in the sector. The Bank does not have any direct or indirect exposures to these banks.

The Bank performed an assessment of the effects that these events may have on its business. This considered impacts on the valuation of its investments that were deemed immaterial, as well as the effect on the Group's processes and on its borrowers' business environment and supply chains. The Bank concluded that there should not be material effects on the Bank or its businesses. The Bank will continue to follow closely the developing situation and any potential effects on its business, customers and operations.

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

34. Additional information

The Communication issued by the Banking, Finance and Insurance Committee to credit institutions governed by Belgian law, dated 19 August 2004, implies that a consolidation obligation triggers the requirement to prepare consolidated financial statements in accordance with IFRS as adopted by the EU. This reporting framework would determine the scope of consolidation and the rules with which the consolidation will be implemented, that is which entities should be included in those consolidated accounts and how they should be included.

Under the Royal Decree dated 5 December 2004, unlisted banks and other credit institutions in Belgium have been required to use IFRS in their consolidated financial statements under the EU Accounting Regulation.

Therefore, the requirements applicable under International Financial Reporting Standards as adopted by the EU ("adopted IFRS") is the reporting framework applied by MeDirect Belgium in these statutory IFRS financial statements.

This financial information has been prepared on the basis of the recognition and measurement requirements of IFRSs in issue that are endorsed by the EU and effective (or available for early adoption) at 31 December 2022.

The Company's IFRS financial statements are published in French, English and Dutch in the following webpage https://www.medirect.be/about-medirect/investor-relations/. The English and Dutch versions are a translation of the original French version and is published as a courtesy to stakeholders. In the event of any disparity between these versions, the French language version takes precedence. This Annual Report is available at the NBB's Central Balance Sheet Office.

35. Statutory information

MeDirect Bank SA/NV is a public limited liability company and is incorporated in Belgium.

The ultimate controlling party of the Bank is AnaCap Financial Partners II L.P., a limited partnership registered in Guernsey with its registered address at 2nd Floor, Windsor House, Lower Pollet, St Peter Port, Guernsey, GY1 1WF.

The ultimate parent company of the Bank is Medifin Investments Limited, a non-cellular company, which is incorporated and registered in Guernsey, with its registered address at 2nd Floor, Windsor House, Lower Pollet, St Peter Port, Guernsey, GY1 1WF.

The immediate parent company of the Bank is MeDirect Bank (Malta) plc, a public limited liability company, incorporated and registered in Malta, with its registered address at The Centre, Tigné Point, Sliema, TPO 0001, Malta. MeDirect Bank (Malta) plc prepares consolidated financial statements of the group of which the Bank forms part. These consolidated financial statements will be filed and available for public inspection at the Registrar of Companies in Malta.

MeDirect Bank (Malta) plc is a wholly owned subsidiary of MDB Group Limited. MDB Group Limited prepares consolidated financial statements of the group of which MeDirect Bank (Malta) plc and the Bank, form part. These consolidated financial statements will be filed and available for public inspection at the Registrar of Companies in Malta and on the Group's website https://www.medirect.com.mt/about-us/investor-relations. The registered office of MDB Group Limited is situated at The Centre, Tigné Point, Sliema, TPO 0001, Malta.

Independent Auditor’s Report

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Independent auditor's report to the general meeting of MeDirect Bank sa/nv for the year ended 31 December 2022

In the context of the statutory audit of the Consolidated Financial Statements) of MeDirect Bank sa/nv (the "Company") and its subsidiaries (together the "Group"), we report to you as statutory auditor. This report includes our opinion on the Statement of Financial Position as at 31 December 2022, the Statement of Comprehensive Income, the Statement of Changes in Equity, the Statement of Cash Flows for the year ended 31 December 2022 and the disclosures (all elements together the "Consolidated Financial Statements") as well as our report on other legal and regulatory requirements. These two reports are considered one report and are inseparable.

We have been appointed as statutory auditor by the shareholders' meeting of 30 May 2022, in accordance with the proposition by the Board of Directors following recommendation of the Audit Committee. Our mandate expires at the shareholders' meeting that will deliberate on the Consolidated Financial Statements for the year ending 31 December 2024. We performed the audit of the Consolidated Financial Statements of the Group for one year.

Report on the audit of the Consolidated Financial Statements

Unqualified opinion

We have audited the Consolidated Financial Statements of MeDirect Bank sa/nv, that comprise of Statement the Financial Position on 31 December 2022, the Statement of Comprehensive Income, the Statement of Changes in Equity, the Statement of Cash Flows of the year and the disclosures, which show a consolidated balance sheet total of € 3.530.823 thousand and of which the consolidated income statement shows a loss for the year of € 5.615 thousand.

In our opinion, the Consolidated Financial Statements give a true and fair view of the consolidated net equity and financial position as at 31 December 2022, and of its consolidated results for the year then ended, prepared in accordance with the International Financial Reporting Standards as adopted by the European Union ("IFRS") and with applicable legal and regulatory requirements in Belgium.

Basis for the unqualified opinion

We conducted our audit in accordance with International Standards on Auditing ("ISA's") applicable in Belgium. In addition, we have applied the ISA's approved by the International Auditing and Assurance Standards Board ("IAASB") that apply at the current year-end date and have not yet been approved at national level. Our responsibilities under those standards are further described in the "Our responsibilities for the audit of the Consolidated Financial Statements" section of our report.

We have complied with all ethical requirements that are relevant to our audit of the Consolidated Financial Statements in Belgium, including those with respect to independence.

We have obtained from the Board of Directors and the officials of the Company the explanations and information necessary for the performance of our audit and we believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other matter

The consolidated annual accounts of the Group for the income year closed on 31 December 2021 were audited by an auditor who issued an unqualified opinion in their report dated 23 May 2022 on these consolidated Annual Accounts.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the Consolidated Financial Statements of the current reporting period.

These matters were addressed in the context of our audit of the Consolidated Financial Statements as a whole and in forming our opinion thereon, and consequently we do not provide a separate opinion on these matters.

Credit risk with regard to the loan portfolio

Description of the key audit matter

As at 31 December 2022, the credit portfolio of the Bank amounts to € 1 874 168 thousand (gross, valued at amortized cost) and the related impairments amount to € 3 260 thousand (negative).

Impairments represent the Bank's best estimate of the expected credit losses at the balance sheet date. They are calculated based on the default risk over different time horizons, depending on whether the borrower's credit risk has increased significantly since the credit has been granted:

- The impairments of the exposures of which the credit risk has not increased significantly ('stage 1') are based on the expected credit losses over a period of 12 months;
- The impairments of the exposures of which the credit risk has increased significantly or which are credit-impaired ('stage 2' and 'stage 3') are based on the expected credit losses over the lifetime of the credit. Expected loss calculations are probability-weighted estimates of the present value of the cash deficits, using models, applying scenarios, and taking into account the impact of historical losses on the one hand and forward-looking information on the other. The inputs for these models are based, among other things, on historical loss rates, credit terms and cash flow projections, assessed subjectively to determine the assumptions used to calculate the impairment losses.

Important subjective evaluations in the process are:

- The criteria to determine exposures with a significant increase in credit risk (and the corresponding 'stage');
- the assumptions used in the expected credit loss model such as the borrower's financial condition (and its corresponding default risk), and the credit loss that would be incurred in the event of default (which depends on the expected recovery value of the collateral, if any);
- the inclusion of forward-looking information (probability-weighted macro-economic scenarios);
- manual adjustments applied where the model parameters or calculations were not deemed representative by management, based on the current risks and conditions of the portfolio. Considering that the loans and advances and related impairments are significant to the consolidated balance sheet and income statement, and given the degree of subjective judgment involved and the related uncertainty of impairment estimates, we consider this to be a key audit matter.

Summary of the procedures performed

- We have assessed the design and effectiveness of the controls related to the credit issuance, the credit risk management (including periodic credit review, monitoring of the borrower's credit quality using indicators such as days in arrears and forbearance, and the determination of the rating), the flow of information between the source systems and the expected credit loss calculation tool, and the model development and monitoring (specifically the independent validation process).
- We compared the inventory of credits for which expected credit losses were calculated with the amounts included in the Consolidated Financial Statements.

- In respect of the models for expected credit losses, we engaged our experts to assess the appropriateness of the model methodology (in accordance with IFRS requirements).

- For the specific impairments determined at individual file level, we have discussed the Corporate loans in stage 2 and stage 3 with management and we performed a detailed inspection of the credit file, whereby we have assessed that:

    - The credit risk policy has been applied;

    - The credit quality and the 'stage' have been determined correctly;

    - The collateral (if any) has been properly valued;

    - The recoverability of the credit and the impairment have been determined correctly.

- To assess the reasonableness of the forward-looking information incorporated in the expected credit loss models, we reviewed the outlook and the probability weights applied to the different scenarios, and compared them with supporting information (external economic information), if applicable. In particular, we considered whether this forward-looking information is in line with expectations for GDP and unemployment rates as published by regulators and takes into account the effect of the economic crisis and energy prices.

- To assess the appropriateness of the manual adjustments applied by management, we considered the possibility that impairment losses may have been impacted by events or trends not reflected in the Bank's models, or by limitations in data.

- Finally, we have evaluated that the notes to the Consolidated Financial Statements (note 7) are complete, accurate and in accordance with IFRS requirements.

Valuation of derivatives and hedge accounting

Description of the key audit matter

The Group has concluded interest rate swaps (IRS) to hedge its interest rate risk. These derivatives are carried at fair value, with changes in fair value through profit or loss. In order to limit the effect of these changes in fair value through the profit and loss accounts, the Group has allocated these derivatives to hedging relationships on the interest rate risk of portfolios of financial assets ("portfolio fair value hedging"), so that these portfolios of assets are also remeasured to the extent of the hedged risk.

At 31 December 2022 the derivatives used for hedging had positive and negative fair values of € 274.519 thousand and € 5.306 thousand, respectively. The revaluations of the financial portfolios of hedged assets amounted to € 271.273 thousand (negative). An ineffectiveness of € 2.763 thousand (profit) was recognized in the income statement.

The audit risk resides on the one hand in the valuation of the derivatives (via valuation techniques) and on the other hand in the correct accounting treatment of the hedging relationships (the documentation has to comply with IAS 39 requirements and the effectiveness tests are based on a number of assumptions regarding expected future early redemptions and renegotiations of certain types of loans), therefore we consider this a key audit matter.

Summary of the procedures performed

- We compared the fair values of the derivatives with the fair values as confirmed by the external counterparties, in the context of so-called "collateralization". We assessed the adequacy of the valuation models by involving our own valuation specialists, compared the parameters used (interest curves) to market data and recalculated the fair value for a sample of derivatives.

- We assessed the existing hedging documentation to determine whether it meets the criteria as described in the "carved-out" version of IAS 39 as adopted by the European Union, and we assessed the effectiveness tests performed by the Group to verify whether the hedging relationships were still effective and whether the ineffectiveness was calculated correctly. In particular, we compared the volume of hedging derivatives with the projected volume of hedged mortgage (and other) loans over future time buckets, taking into account the assumptions regarding expected early repayments and renegotiations, in order to identify any over-hedging situations, that could partially jeopardize the application of hedge accounting.

- We examined the model used by the Group to forecast future early repayments and renegotiations of mortgage loans, and assessed its correct functioning in recent financial years.

- We tested the spreadsheets used by the Group to monitor the hedging models, in order to verify the correctness of the hedge accounting entries, and whether the derivatives, of which the fair value was not zero at the start of the hedging relationship, have been accounted for correctly. We have verified the reconciliation of these spreadsheets with the underlying source systems on the one hand and with the Consolidated Financial Statements on the other hand.

- Finally, we have evaluated whether the notes to the Consolidated Financial Statements (notes 5 and 21) are complete, accurate and in accordance with IFRS requirements.

Responsibilities of the Board of Directors for the preparation of the Consolidated Financial Statements

The Board of Directors is responsible for the preparation of the Consolidated Financial Statements that give a true and fair view in accordance with IFRS and with applicable legal and regulatory requirements in Belgium and for such internal controls relevant to the preparation of the Consolidated Financial Statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of Consolidated Financial Statements, the Board of Directors is responsible for assessing the Company's ability to continue as a going concern, and provide, if applicable, information on matters impacting going concern, The Board of Directors should prepare the financial statements using the going concern basis of accounting, unless the Board of Directors either intends to liquidate the Company or to cease business operations, or has no realistic alternative but to do so.

Our responsibilities for the audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance whether the Consolidated Financial Statements are free from material misstatement, whether due to fraud or error, and to express an opinion on these Consolidated Financial Statements based on our audit. Reasonable assurance is a high level of assurance, but not a guarantee that an audit conducted in accordance with the ISA's will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Consolidated Financial Statements.

In performing our audit, we comply with the legal, regulatory and normative framework that applies to the audit of the Consolidated Financial Statements in Belgium. However, a statutory audit does not provide assurance about the future viability of the Company and the Group, nor about the efficiency or effectiveness with which the board of directors has taken or will undertake the Company's and the Group's business operations. Our responsibilities with regards to the going concern assumption used by the board of directors are described below.

As part of an audit in accordance with ISA's, we exercise professional judgment and we maintain professional skepticism throughout the audit. We also perform the following tasks:

- identification and assessment of the risks of material misstatement of the Consolidated Financial Statements, whether due to fraud or error, the planning and execution of audit procedures to respond to these risks and obtain audit evidence which is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting material misstatements resulting from fraud is higher than when such misstatements result from errors, since fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

- obtaining insight in the system of internal controls that are relevant for the audit and with the objective to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;

- evaluating the selected and applied accounting policies, and evaluating the reasonability of the accounting estimates and related disclosures made by the Board of Directors as well as the underlying information given by the Board of Directors;

- conclude on the appropriateness of the Board of Directors' use of the going-concern basis of accounting, and based on the audit evidence obtained, whether or not a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's or Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the Consolidated Financial Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on audit evidence obtained up to the date of the auditor's report. However, future events or conditions may cause the Company to cease to continue as a going-concern;

- evaluating the overall presentation, structure and content of the Consolidated Financial Statements, and evaluating whether the Consolidated Financial Statements reflect a true and fair view of the underlying transactions and events.

We communicate with the Audit Committee within the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Because we are ultimately responsible for the opinion, we are also responsible for directing, supervising and performing the audits of the subsidiaries. In this respect we have determined the nature and extent of the audit procedures to be carried out for group entities.

We provide the Audit Committee within the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee within the Board of Directors, we determine those matters that were of most significance in the audit of the Consolidated Financial Statements of the current period and are therefore the key audit matters. We describe these matters in our report, unless the law or regulations prohibit this.

Report on other legal and regulatory requirements

Responsibilities of the Board of Directors

The Board of Directors is responsible for the preparation and the content of the Board of Directors' report on the Consolidated Financial Statements.

Responsibilities of the auditor

In the context of our mandate and in accordance with the additional standard to the ISA's applicable in Belgium, it is our responsibility to verify, in all material respects, the Board of Directors' report on the Consolidated Financial Statements, as well as to report on these matters.

Aspects relating to Board of Directors' report

In our opinion, after carrying out specific procedures on the Board of Directors' report, the Board of Directors' report is consistent with the Consolidated Financial Statements and has been prepared in accordance with article 3:32 of the Code of companies and associations.

In the context of our audit of the Consolidated Financial Statements, we are also responsible to consider whether, based on the information that we became aware of during the performance of our audit, the Board of Directors' report contains any material inconsistencies or contains information that is inaccurate or otherwise misleading. In light of the work performed, there are no material inconsistencies to be reported.

Independence matters

Our audit firm and our network have not performed any services that are not compatible with the audit of the Consolidated Financial Statements and have remained independent of the Company during the course of our mandate.

The fees related to additional services which are compatible with the audit of the Consolidated Financial Statements as referred to in article 3:65 of the Code of companies and associations were duly itemized and valued in the notes to the Consolidated Financial Statements.

Other communications.

- This report is consistent with our supplementary declaration to the Audit Committee as specified in article 11 of the regulation (EU) nr. 537/2014.

Brussels, 25 May 2023

EY Réviseurs d'Entreprises SRL
Statutory auditor
Represented by

jean-francois hubin

Digitally signed by jean-francois hubin
DN: cn=jean-francois hubin, email =jean-francois.hubin@be.ey.com
Date: 2023.05.25 12:29:12 +02'00'

Jean-françois Hubin *
Partner
*Acting on behalf of an SRL

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