# Pillar III Report 2021

## Regulatory Capital Disclosures

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# 1. Introduction

The objective of Pillar 3 disclosure is to inform existing and potential stakeholders in Credit Europe Bank N.V on how the organization manages risk and capital adequacy. Credit Europe Bank N.V's Pillar III Disclosures contains information that enables an assessment of the risk profile and capital adequacy of Credit Europe Bank N.V. This publication fulfils the requirements of the Basel III framework, as stipulated in the Capital Requirements Regulation and Directive IV (CRR/CRDIV). This document contains the Pillar III disclosures of Credit Europe Bank N.V (hereafter referred to as CEB or the "Bank") and should be read in conjunction with the Annual Report of the Bank. Pillar 3 disclosures are part of Basel framework, which is based on three-pillar concept.

Pillar I defines the rules for calculation of minimum capital requirements for credit, market and operational risks.
Pillar II addresses the internal processes for assessing overall capital adequacy (ICAAP) in relation to material risks not covered by Pillar I. Pillar II also introduces the Supervisory Review and Evaluation Process (SREP), which assesses internal capital adequacy processes of credit institution. DNB also analyses internal liquidity adequacy (ILAAP) since 2011.

Pillar III aims to complement the minimum capital requirements set in Pillar I and the supervisory review process of Pillar II. Pillar III introduces the minimum disclosure requirements, related to the key solvency and risk profile of the credit institutions.

# 2. Basel III Framework

## 2.1. Pillar I

CEB is regulated by DNB, which consequently acts as the home regulator for Basel committee and the European Banking Authority (EBA). Banks are expected to meet the capital-requirements constraints imposed by Capital Requirements Regulation and Directive IV (CRR/CRDIV). The minimum capital ratio is set at 8% as per article 92 CRR. CRR provides several approaches for calculating regulatory capital requirements. CEB adopted Standardized Approach for credit risk, market risks and operational risk.

## 2.2. Pillar II

Pillar II requirement is the minimum level of required capital in accordance with EBA standards /guidance documents, covering other risk categories, such as IRRBB, concentration risks.

Apart from the risks covered by Pillar I, CEB conducts regular assessment and monitoring of other risks within the internal capital adequacy assessment process (ICAAP). In addition CEB regularly conducts internal liquidity adequacy assessment process (ILAAP) and monitor liquidity. Material risks are assessed and continuously monitored. CEB complies itself to review ILAAP and ICAAP at least annually and adjust these approaches towards material risks and regulations if needed. The stress test is an important tool for analyzing the impact of negative events on the Bank's capital and liquidity adequacy. Stress tests analyses are used to assess the Bank in a series of negative macroeconomic events under gradual (3 years) and fast (up to 1 year) stress scenarios.

According to its capital management strategy CEB aims to ensure that it has sufficient capital base to cover both Pillar I and Pillar II risks.

### 2.3. Pillar III

The Pillar III disclosure aims to provide a higher transparency of banks' businesses and their risk structures which are communicated to the market participants. The disclosed information shall improve market participants' ability to assess banks' capital structures, risk exposures, risk management processes, and, hence, their overall capital adequacy. EBA published "follow–up review of Banks' transparency in their pillar 3 reports" and addressed the following improvements.

· Detailed information on the composition of own funds.
· Quantitative back-testing information regarding credit risk.
· Clearer information on credit risk mitigation techniques supplemented by adequate quantitative information on their impact.
· Valuation methodology used and detailed quantitative information on credit derivative instruments.

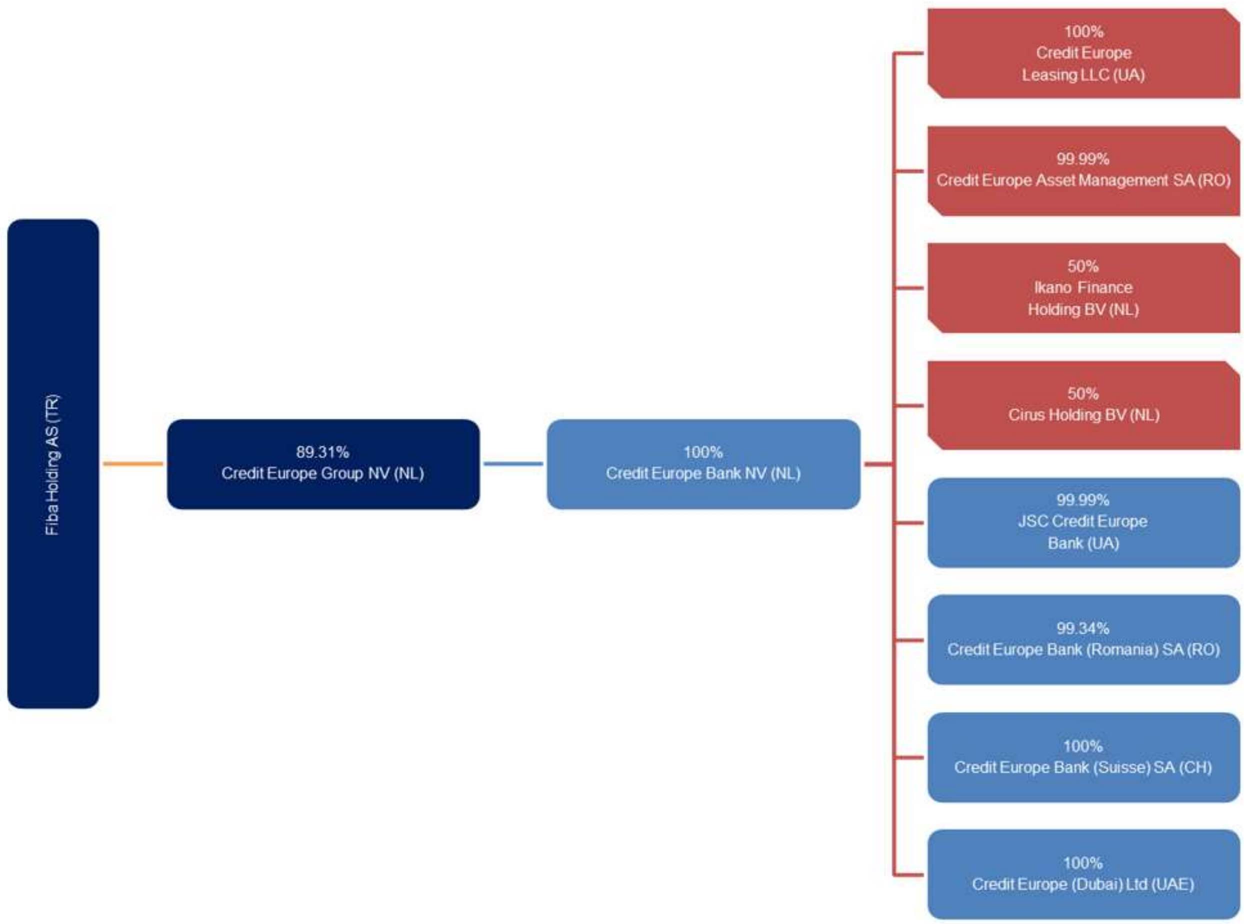
The Pillar III disclosures are prepared for CEB on consolidated basis. All amounts are in *Thousands of Euros*. The report is prepared annually and is published on the CEB's website https://www.crediteuropebank.com/about-us/financials/

## 3. Legal Structure

The legal entity CEBNV ("CEB" or "the Bank") was incorporated on 24 February 1994, originally as Finansbank (Holland) N.V., under the laws of the Netherlands and rebranded into the name of Credit Europe Bank N.V. ("CEBNV") in 2007. Credit Europe Group N.V. ("CEG"), established on 14 October 1998, holds 100% of the shares in the legal entity CEBNV and is under the full supervision of DNB. The shares of Credit Europe Group N.V. are owned inter alia, through the investment company FIBA Holding A.S. in Turkey, by the Özyeğin Family.

The Bank is head quartered in Amsterdam and has around 1,100 employees in 7 countries. It operates 27 branches, 57 ATMs and around 8,200 point of sale terminals. More than 900,000 retail and corporate customers around the world entrust their financial affairs to Credit Europe Bank.

CEB's Legal Structure




## 4. Risk Management

### 4.1. Objective

The Bank, through a sound risk management, aims to ensure that risks taken and faced through day to day activities are consistent with Bank's strategies, risk appetite and shareholders expectations. Risk management provides the structural means to identify, assess, monitor, manage and report the risks inherent in its business activities. The core elements of the bank's risk management and control framework are:

· Adhering to the risk appetite and strategy set
· Periodically assessing the risk governance structure
· Maintaining capital management in line with the capital strategy
· Managing financial and operational risk in line with the risk appetite and strategy

### 4.2. Risk Governance

CEB has a well-established risk governance structure with clear defined roles and responsibilities for managing risks and addressing the appropriate risk mitigation solutions. The risk management at CEB is governed by policy level standards in accordance with CRD IV and regulations relating to implementation of CRD IV published by the Dutch Central Bank (De Nederlandsche Bank – DNB). The CEB risk management philosophy requires direct reporting lines and a clear division of tasks and responsibilities. At the same time, it ensures that bank-wide criteria for acceptance, monitoring, control and management of risks are deeply rooted. We clearly separate risk ownership from business activities.

CEB exercises full control over its subsidiaries' business performance and steers their risk appetite. In addition, we employ the following risk management governance structure:

· Effective Audit & Risk Committees at subsidiary as well as consolidated level;
· Direct reporting of general managers of the banks' subsidiaries to the CEO of CEB;
· Presence of a global CRO function on the Managing Board;
· A uniform credit committee structure at both local and the consolidated level.

Credit Europe Bank's risk management and internal control framework enables the Managing Board to control the financial and non-financial risks of business activities. This framework is governed by a system of policies, procedures, committees, as well as support and control functions. Limits and controls have been put in place to mitigate financial and non-financial risks to an acceptable level in line with Credit Europe Bank's risk appetite. The risk appetite has been approved by the Supervisory Board and is designed to i) set the maximum level of risk the Bank is willing to accept in order to achieve its business objectives and ii) protect the Bank's activities, not only in terms of profitability, sound capital adequacy and liquidity ratios, but also in terms of reputation and integrity risks. To maintain the quality of financial reports and to increase the effectiveness of reporting, the Bank has implemented internal financial reporting controls.

The risk consolidation is conducted by the Group Risk Management Department (GRMD) which is responsible for measurement and monitoring of risks at consolidated level. Each banking subsidiary has local risk management which reports both to local management and head office management. CEB has also a global Operational Risk Management (ORM) Department whose goal is to consolidate the already-existing ORM activities and coordinate implementation of the framework at locations where there was no prior ORM activity. The framework uses the Risk Control Self-Assessment and Operational Loss database to identify risks and establish risk mitigating action points. Related departments have been given awareness trainings to ensure that operational-risk management is embedded in day-to-day operations. The GRMD and ORM operate under the supervision of the Chief Risk Officer (CRO). The CRO has overall responsibility for developing and maintaining effective controls on financial and non-financial risks, liquidity and capital management principles of CEB.

CEB monitors aggregated risks via specific committees as well as through reporting to Managing Board and Supervisory Board. More specifically, CEB's risks, capital and liquidity are monitored by The Supervisory Board Sub-committees (e.g. Audit & Risk Committee, Compliance Oversight Committee) and the Managing Board Sub-committees (e.g. Asset-Liability Committee (ALCO), Compliance Management Committee, Non-Financial Risk Committee, Financial Risk Committee, IT Steering Committee, Corporate Credit Committee, FI Credit Committee).

CEB’s Managing Board has the overall responsibility for all processes related to strategy definition, risk appetite setting, capital planning, business planning and budgeting, while the Supervisory Board conducts oversight on overall risk management and respective processes, in light of applicable local and international legal and regulatory requirements, to respond to the various financial and non-financial risks the Bank is exposed to. The Managing Board is also responsible for implementing and maintaining the risk policies within the organization, and monitoring the risk exposure to ensure that Credit Europe Bank’s activities and portfolios are not exposed to unacceptable potential losses or reputational damage. Risk is assessed, managed and reported according to common principles that are approved by the CEO. The management annually reviews the effectiveness of the risk management and internal control framework and oversees that CEB has an adequate internal control framework.

Audit & Risk Committee (ARC) and Compliance Oversight Committee (COC) assist Managing Board in fulfilling its oversight responsibilities concerning the management and control of risk, risk frameworks and controls and processes associated with CEB’s operations. These committees at the consolidated level play a pivotal role in CEB’s risk governance framework. These committees meet 4 times a year and receive regular reports and updates on the Bank’s actual risk appetite with respect to the approved risk appetite statement. Audit and Risk Committee reviews and monitors the limits for individual types of risks and takes decisions whether principal risks have been properly identified and are being appropriately managed. The Audit & Risk Committee monitors the risk management and internal control framework and findings of the internal audit function. It makes assessments on the existing risk management capacity / know-how of the Bank and raises action items / investment plans –where necessary- to reach the desired level. In addition, regular reports are presented to the Audit & Risk Committee by the management, internal audit, risk management and financial control. Regular risk reports are distributed covering credit risk, market risk, liquidity risk, operational risk, etc. Compliance reports including integrity risks (money laundering, improper conduct, conflicts of interest etc.) are reported to the Compliance Oversight Committee. The risk management and internal control processes provide reasonable assurance that the financial reporting does not contain errors of material importance. This includes its going concern basis and that the risk management and internal control framework regarding financial reporting risks worked properly in the year under review.

In addition, the Managing Board has established the Management Team which includes representation from the business, risk, financial control and treasury divisions in order to facilitate the implementation of robust processes.

Bank implements a “three lines of defense” governance framework to manage risks and exercise adequate oversight and accountability. The first and second lines of defense refer to risk ownership and control mechanisms to manage and oversee risks. The third line of defense provides independent assurance while assessing and managing its risks.

The first line of defense refers to Management and business lines which are risk owners and responsible for directly assessing, controlling and mitigating risks to maintain risk levels within the Bank’s risk appetite. Business divisions are responsible for managing the risks and the compliance of their daily operations. The second line of defense relates to risk, compliance and other control functions. They are responsible for identifying and analyzing risk, implementing effective risk management and assuring that risks are within approved limits and tolerance levels. They also create and maintain the policies and procedures which provide the boundaries for the local and consolidated business activities. The Managing Board ensures that risk management, compliance and other control issues are addressed and discussed with sufficient authority. The structure of the risk organization covers all relevant risks for CEB. The roles and responsibilities of the main control functions within the second line of defense are summarized below.

**Corporate Credit Department**

The credit risk assessment of bank's customers is under Corporate Credit department responsibility. Credit department must assure credit proposals, credit risk assessments and risk classifications are in compliance with established policies and credit risk appetite. Main activities of corporate credit risk department include: approving credit lines for customers, approving internal ratings and risk classifications of customers, ensuring that credit risk is within the risk appetite set by the Managing Board, ensuring compliance with credit risk policies, monitoring workout activities and conducting assessments of provision adequacy.

**Risk Management Department**

Risk Management Department independently oversees the implementation of the Bank's risk management framework. It is responsible for identifying, assessing, monitoring and reporting of financial risks such as credit, market, liquidity and interest rate (banking book), and non-financial risks such as operational risk and strategy risk. Risk Management Function provides relevant independent information, analyses and expert judgement on risk exposures, and advices on proposals and risk decisions made by the Managing Board and business or support units as to whether they are consistent with the institution's risk appetite. Risk function recommends improvements to the risk management framework and options to remedy breaches of risk policies, procedures and limits.

**Compliance Department**

The role of Compliance department is to make sure the Bank conducts its business activities in full compliance with laws, regulations and internal requirements. Compliance department supports the Bank in the identification, assessment, and reporting of all compliance risks related to the organization, to its transactions and conduct of all employees. In addition Compliance is managing non-financial risks like integrity risk, strategy risk, reputational risk, etc.

**Financial Control**

Financial Control is responsible for integrity and accuracy of the Bank's financial records. It monitors compliance with, and implementation of, international accounting standards. By overseeing both regulatory and management reporting it provides financial information to senior management as well as to regulatory bodies. Financial Control also supports businesses with financial insights through quantitative analysis, forecasting and measuring performance against targets.

**Information Security Management Department (ISM)**

The responsibilities of ISM is to ensure and monitor the implementation of security controls related to confidentiality, integrity and availability of information assets and the continuity of the critical business processes.

In that respect they establish and promote information security policies, standards and procedures, coordinate and support the business units with the implementation of security controls and oversee the effectiveness of the security controls implemented.

The third line of defense is the internal audit function, which assesses the functioning and effectiveness of business units, financial risk management and non-financial risk management activities. In order to guarantee effectiveness of the CEB's risk governance structure, internal and external audit functions provide independent and objective assurance of CEB's corporate governance, internal controls, and compliance and risk management systems as the third line of defense. They assure the effectiveness, completeness and efficiency of the internal controls in the first and second lines of defense. Internal Audit Department regularly reviews the implementation and effectiveness of the risk management framework and ensures the integrity of the risk management process. The internal audit function is organized in three units: internal audit, compliance audit and IT audit. Each unit has specific knowledge in their area and works closely together.

### 4.3 Risk appetite framework

CEB has developed a Risk Appetite Framework (RAF) where the Bank articulates risk tolerance levels and corresponding limits, targets, thresholds and acceptable boundaries for main significant risks categories. The risk appetite of CEB's defined on a consolidated level and applies to all subsidiaries and branches. It is based on the Bank's business plan (i.e. business strategy and company objectives), in addition to the guiding principles set by the Managing Board, and is endorsed by the Supervisory Board. CEB has defined the following roles and responsibilities with regard to its risk appetite.

**Supervisory Board**

The Supervisory Board approves the risk appetite framework and performs supervision and assessment at a strategic level whether the Bank's activities are in line and are appropriate in the context of the approved Risk Appetite Policy.

**Managing Board**

The Managing Board is the ultimate owner of the Policy. It establishes the risk appetite framework and submit to the approval of Supervisory Board. Along the lines of risk appetite framework, Managing Board sets the KRIs and limit framework. The limit framework is subject to change at the discretion of Managing Board with the acknowledgement of Supervisory Board. The Managing Board timely provides the Supervisory Board with the information relevant for assessing whether the Bank operations are in line with the risk appetite of the Bank and promptly takes the necessary actions in case the business operations are no longer within the approved risk appetite.

**Supervisory Board Sub-committees**

Supervisory Board sub-committees ensure that the Risk Appetite Policy is up-to-date and it reflects the risk appetite levels in an adequate and accurate manner. Such committees advise the Supervisory Board on the risk appetite of the Bank and CEB's actual risk profile.

**Managing Board Sub-committees**

Managing Board sub-committees bear the overall responsibility for CEB's risk management strategy and have to ensure that the Bank's exposures are in line with the risk appetite as documented in this Policy.

### 2nd line of Defense

2nd line of defense (Group Risk Management Division, Corporate Credit Risk Division and FI Credit &Risk Analytics Division) establishes the KRIs and limits in line with Bank's strategy and budget. The limit framework is subject to the approval of Managing Board. Individual country limits are subject to the approval of Financial Institution (FI) Committees during periodic reviews. Group Risk Management is also responsible from monitoring the portfolio based risk appetite limit compliance and reporting to Managing Board, Supervisory Board and Supervisory Board Sub-committees. Alignment with individual risk limits are subject to periodic monitoring by Risk Management and FI Departments.

### Division/Department Managers

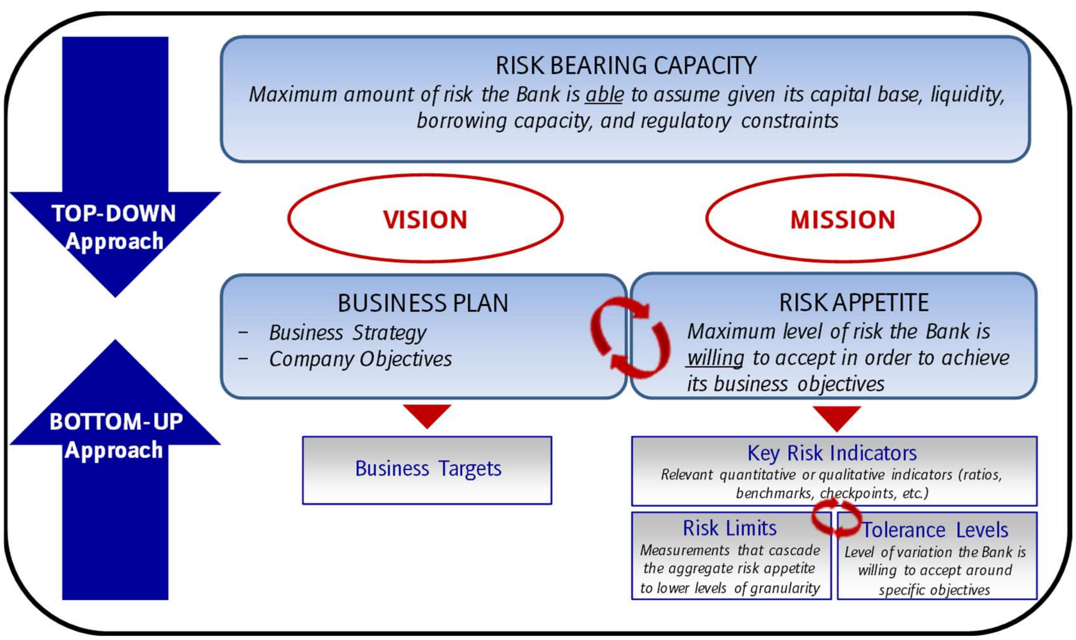
Division and department managers are responsible for managing their areas in line with the risk appetite levels and limits described in the Risk Appetite Policy and the relevant policies and procedures.

### Internal Audit

Internal Audit function audits Risk Appetite framework annually and provides assurance that the Risk Appetite Policy is duly complied with.

The risk appetite framework of the Bank is supported by internal documentation (e.g. policies and procedures), processes, controls and systems through which the risk appetite is established, communicated and monitored.

## Risk Appetite Framework




The risk appetite of the Bank is established in conjunction with the Bank's business plan and is aligned with the Bank's vision and mission statements. The business strategy and company objectives are further detailed in individual business targets. KRIs, risk limits, and expected future direction are used to cascade the aggregate risk appetite to more granular levels for day-to-day risk management.

The Bank employs a combination of a top-down and bottom-up approach in establishing its risk appetite framework:

- The top-down approach implies that the Bank's risk appetite framework is established through the business strategy and company objectives, risk appetite and tolerance levels, risk limit and threshold levels, and KRIs allocated to business units as a result of a variety of methods (e.g. regulatory requirements, analysis of financial performance, analysis of historical risk-data, stress testing and scenario analysis);
- The bottom-up approach means that the business units provide their estimates regarding risk and capital needs (e.g. as a result of risk and control self-assessments, analysis of an individual unit's strategies and needs).

To ensure that CEB's activities are consistent with its risk appetite, the risk appetite is subject to regular monitoring. The KRIs, risk limits and thresholds, and tolerance levels are reported on a periodical basis to the Managing Board and the Supervisory Board and reviewed at the relevant sub-committee meetings. The consolidated credit risk related reports are conducted on a monthly basis and contains detailed analysis of the portfolio structure, asset impairments and concentration risks. The consolidated market risk and liquidity gap reports are prepared on a monthly basis, except for VaR and liquidity positions which are reported daily to the Managing Board. In case of breach related business unit is expected to provide explanation and the reasoning of the limit breach and in certain cases the time required to eliminate the limit breach. Certain type of limit breaches are instantly directed to ALCO level, such as the exceedance of "nominal "limits (i.e. bonds or FX). For other type of limit breaches CRO has the authority to grant a grace period to correct the limit breach. In case the issue is not resolved within the grace period, the limit breach is directly escalated to ALCO.

CEB's end to end risk appetite process cycle is also aligned with other strategical processes including the Internal Capital Adequacy Process (ICAAP), Internal Liquidity Adequacy Assessment Process (ILAAP), Capital Management, Recovery and Resolution Plan.

CEB's risk appetite is based on both (i) quantitative and (ii) qualitative assessment criteria which guide the Bank in determining the amount and types of risk it can prudently undertake.

- Quantitative criteria can include: % of total assets, required/available capital or total earnings and profit. The direction of change in the quantitative level is also defined for each risk type.
- Qualitative criteria can include the results of risk-assessments on severity and likelihood where the division/department manager assesses the risks and controls within their area of responsibility at least annually.

Below table presents a summary of the allocation of CEB's risk appetite to the relevant risk and sub-risk categories.

| Risk Category | | Risk Appetite[1] | Assessment Criteria Type[2] |
|---|---|---|---|
| **CREDIT RISK** | | | |
| **Portfolio Breakdown** | | | |
| Corporate wholesale | | High | Quantitative |
| | Oil & Derivatives Sector | Fair | |
| | Iron & Steel Sector | Limited | |
| | Real Estate Sector | Limited | |
| | Shipping & Shipyard Sector | Limited | |
| Financial Institution | | Fair | |
| Residential Mortgage | | Limited | |
| Other Retail & SME Loans | | Low | |
| **Country Concentration Risks** | | | |
| | Turkey | Fair | Quantitative |
| | Romania | Fair | |
| **Climate Related and Environmental Risk** | | | |
| | Coal Trade | Low | Quantitative |
| **Asset Quality** | | | |
| | Non Performing Exposure | Low | Quantitative |
| | Under Performing Exposures | Limited | |
| **MARKET RISK** | | | |
| | Trading Book | Limited | Quantitative |
| | AFS Portfolio | Fair | |
| **BANKING BOOK – INTEREST RATE RISK** | | Limited | Quantitative |
| **LIQUIDITY RISK** | | Low | Quantitative |
| **OPERATIONAL RISK** | | Limited | Quantitative/Qualitative |
| **Internal Fraud** | | Low | |

[1] Maximum level of risk the Bank is willing to accept in order to achieve its business objectives

[2] CEB's risk appetite is based on both (i) quantitative and (ii) qualitative assessment criterias which guide the Bank in determining the amount and types of risk it can prudently undertake.

| | | | |
|---|---|---|---|
| | Unauthorized Activity | Low | |
| | Internal Theft and Fraud | Low | |
| **External Fraud** | | Limited | |
| | External Theft and Fraud | Fair | |
| | System Security | Low | |
| **Employment Practices and workplace safety** | | Limited | |
| | Employee Relations | Fair | |
| | Safe Environment | Low | |
| | Diversity & Discrimination | Low | |
| **Clients, Products & Business Practices** | | Limited | |
| | Suitability, Disclosure & Fiduciary | Low | |
| | Improper Business or Market Practices | Limited | |
| | Product Flaws | Limited | Quantitative/Qualitative |
| | Selection, Sponsorship& Exposure | Limited | |
| **Damage to Physical Assets** | | Fair | |
| | Disasters and other events | Fair | |
| **Business Disruption and System Failures** | | Fair | |
| | System | Fair | |
| **Execution, Delivery & Process Management** | | Limited | |
| | Transaction Capture, Execution & Maintenance | Fair | |
| | Monitoring and Reporting | Low | |
| | Customer Intake and Documentation | Low | |
| | Customer/Client Account Management | Low | |
| | Trade Counterparties | Low | |
| | Vendors & Suppliers | Fair | |
| **Business Risk** | | Limited | Quantitative/Qualitative |
| **Integrity Risk** | | Limited | Quantitative/Qualitative |
| **Strategic Risk** | | Low | Quantitative/Qualitative |

## Financial Risks

| Risk Category | Definition | Sub-Risk Category | Definition |
|---|---|---|---|
| **Credit Risk** | The risk that a counterparty fails to meet contractual or other agreed obligations (such as those in respect of credits or loan granted, exposures incurred or guarantees received), including where such is due to restrictions on foreign payments. | **Default Risk** | The risk of loss incurred due to non-performance or default of parties to which credit facilities have been made available (or in whose debt instruments investments have been made). |
| | | **Concentration Risk** | The risk of a development or event having a significant to high impact on the value of the credit portfolio due to inadequate diversification within the portfolio. |
| | | **Country Risk** | The risk of exposure to losses caused by events in a particular country. These items may result in inability of a business to receive funds from or send funds to counterparties outside this country. |
| | | **Climate Related and Environmental Risk** | The risk of default by businesses and households, and collateral depreciation caused by climate-related and environment physical and transition risks. |
| **Market Risk** | The risk of exposure to changes in the market prices of marketable financial instruments within a trading or other portfolio. | **FX Risk** | The risk of changes in the value of a portfolio or of marketable instruments within a portfolio arising from changes of foreign exchange rates. |
| | | **Equity Risk** | The risk of changes in the value of a portfolio or of marketable instruments within a portfolio arising from changes of equity prices. |
| | | **Commodity Risk** | The risk of changes in the value of a portfolio or of marketable instruments within a portfolio arising from changes of commodity prices. |
| | | **Concentration Risk** | The risk of a development or event having an above-average impact on the value of a portfolio due to inadequate diversification within the portfolio. |
| | | **AFS Portfolio** | The risk of changes in the value of a portfolio of marketable securities arising from changes of interest rates or credit spreads. |
| | | **Climate-related and** | **The risk of repricing of equities, fixed income and commodities arising from climate-related** |

| | | | |
|---|---|---|---|
| | | **Environmental Risk** | **and environmental physical and transition risks.** |
| **Liquidity Risk** | The risk that current assets cannot be converted at sufficient speed or at acceptable prices into cash. | -- | -- |
| **Interest Rate Risk** | The risk that interest rate fluctuations lead to undesirable effects on balance sheet and earnings performance as a result of a mismatch between interest rate sensitive assets and liabilities (including off-balance sheet items) in terms of interest rate periods and interest rate levels. | -- | -- |

## Non-Financial Risks

| Risk Category | Definition | Sub-Risk Category[1] | Definition |
|---|---|---|---|
| **Operational Risk** | The risk of loss resulting from inadequate or failed internal processes, people, and systems or from external events. | **INTERNAL FRAUD** | Risk of fraud committed internally in CEB against its interests. |
| | | **EXTERNAL FRAUD** | Risk of activities committed by third parties. |
| | | **EMPLOYMENT PRACTICES AND** | Risk of Non-compliance to employment or health-and-safety laws and regulations and grave operational hazards in CEB. |

[1] The sub-categories mentioned for operational risks define Level1 risks. Level 2 and 3 Operational Risk categories are detailed in Operational Risk Management Policy.

| Risk Category | Definition | Sub-Risk Category[1] | Definition |
|---|---|---|---|
| | | **WORKPLACE SAFETY** | |
| | | **CLIENTS, PRODUCTS & BUSINESS PRACTICES** | Risk of failing to meet promises made to our clients. |
| | | **DAMAGE TO PHYSICAL ASSETS** | Risk of losses incurred by damages caused to physical assets. |
| | | **BUSINESS DISRUPTION AND SYSTEM FAILURES** | Risk of supply-chain disruptions and business continuity. |
| | | **EXECUTION, DELIVERY & PROCESS MANAGEMENT** | Risk of failure in delivery, transaction or process management. |
| **Business Risk** | The risk arises due to potential changes in general business conditions, such as market environment, client behavior and technological progress. | **--** | -- |
| **Integrity Risk** | The risk of the integrity of the institution or the financial system being affected by the improper, unethical conduct of the organization, its management, staff or customers in contravention of legislation and | **Conflicts of Interest Risk** | The risk of the institution's reputation (and possibly also its financial position) and/or other loss being affected by the harming of interests of third parties caused by the institution or its staff, due to involvement in multiple interests. |
| | | **Insider Trading Risk** | The risk of the institution's reputation, regulatory status and possibly also its financial position being adversely affected by the possession of inside information and the use of such |

| Risk Category | Definition | Sub-Risk Category[1] | Definition |
|---|---|---|---|
| | regulation and the standards set by society or by the institution itself. | | information by acquiring or disposing of, or by trying to acquire or dispose of, for the institution's own account or for the account of a third party, either directly or indirectly, financial instruments to which such information relates. |
| | | **Money Laundering/ Terrorism Financing Risk** | The risk of the institution's reputation, regulatory status and possibly also its financial position being adversely affected by the (unwitting) involvement in money laundering and/or terrorism financing |
| | | **Tax Evasion/ Avoidance Risk** | The risk of the institution's reputation, regulatory status and possibly also its financial position being adversely affected by the involvement in tax evasion or avoidance. |
| | | **Violation of Sanction Legislation Risk** | The risk of the institution's reputation, regulatory status and possibly also its financial position being adversely affected by the institution's dealings with natural persons and/or legal entities that are subject to applicable sanctions legislation/regulation. |
| | | **Improper Conduct Risk** | The risk of the institution's reputation, regulatory status and possibly also its financial position being adversely affected by the institution's intentional or unintentional facilitation of or involvement with other (criminal) offences. |
| | | **Environmental, Social and Governance (ESG) Risk** | The risk of the institution's reputation, regulatory status and possibly also its financial position being adversely affected by the institution's insufficient actions related to climate change impacts (mitigation and adaptation), environmental management practices and duty of care, working and safety condition, respect for human rights, anti-bribery and anti-corruption practices, and compliance to relevant laws and regulations. |

| Risk Category | Definition | Sub-Risk Category[1] | Definition |
|---|---|---|---|
| **Strategic Risk**[2] | The risk that affects or is inherent in a bank's business strategy, strategic objectives, and strategy execution. | **--** | -- |

## Risk Limits

| Risk | Metric |
|---|---|
| Credit risk | Large Exposure Limit |
| | Single Client Limit Framework |
| | Industry Limits |
| | Geography Limits |
| | Top 20 Borrower Group Limit |
| | Healthy Balance Sheet Ratio Limit[4] |
| | Fossil Fuels Financing Limit |
| | Asset Quality (NPL Ratio, Texas Ratio, Stage 2 Ratio) Limits |
| | Non-performing Exposure Reduction Targets |
| | Repossessed Asset Divestment Plan/Targets |
| | Inflow Criteria |
| | Portfolio Level Average Rating Limit |
| | Stressed RWA and Profit/Loss Analysis |
| Liquidity And Funding | Internal Limit (6 Months Liquidity Buffer) |
| | Immediate Liquidity |
| | Liquidity Coverage Ratio |
| | Net Stable Funding Ratio |
| | Survival period |
| | Large issuer limit |
| | Funding Mismatch in Major Currencies |
| | Loan to Deposit Ratio Limit |
| | Encumbered Asset Limit |
| | Equity and Subordinated Funding Limit |
| Operational Risk | Annual Operational Risk Loss Limit |
| Solvency | Total capital Ratio Thresholds |

[2] The subcategories are subject to change annually. A detailed discussion of Strategical Risks exist in ICAAP document.

[4] It measures exposures in countries outside of the European Economic Area ("EEA") with respect to its total assets and the deposits under the Dutch Deposit Guarantee Scheme ("DGS")).

| | |
|---|---|
| | Tier1 Cap Ratio Thresholds |
| | CET1 Cap Ratio Thresholds |
| | ICAAP Profile Thresholds |
| Market Risk (Trading Book) | Nominal Limits |
| | PV01 Limit |
| | FX Limits |
| | Equity Trading Limits |
| | Value at Risk Limits |
| | CDS Trading Limits |
| | Holding period Limit |
| Market Risk (Banking Book) | Nominal Limits |
| | PV01 Limit |
| | Modified Duration Limits (BB) |
| | FX Limits |
| Interest Rate Risk on Banking Book | Repricing Mismatch Monitoring |
| | Scenario Analysis |
| | Change in Net Interest Margin |
| | Change in Economic Value of Equity |
| Counterparty Risk | Limit Setting with Internal Model |
| Non-financial Risks | Qualitative assessment |

## 4.4. Capital Management

### 4.4.1. Fundamentals of Capital Management Framework

A capital level commensurate with the bank's risk profile is the key to financial resilience. CEB operates with an optimum level and mix of capital resources. CEB has defined seven fundamental items for its capital management framework that it deems necessary in order to allow for the framework to soundly and adequately work. These items cover (i) an appropriate risk management that allows for an accurate risk assessment and risk control; solid methodologies for (ii) loss estimation as well as for (iii) capital resource estimation, which in turn will allow for (iv) a sound assessment of CEB's capital adequacy. In addition, CEB's fundamental items cover (v) a comprehensive capital policy and capital planning practices that allow CEB to determine adequate capital targets, -levels and -compositions. The above mentioned items are backed-up by (vi) an effective governance approach and (vii) robust internal controls. The fundamentals are summarised on the figure below accordingly.

## Capital Management

| Fundament 1: Sound foundational risk management |
|---|
| CEB has a sound risk measurement and risk management infrastructure in place that supports the identification, measurement, assessment, and control of all material risks arising from its exposures and business activities. |
| **Fundament 2: Effective loss estimation methodologies** |
| CEB has effective processes in place that allow for translating its risk measures into estimates of potential, expected losses including stress testing scenarios and the aggregation of those estimated losses across CEB. |
| **Fundament 3: Solid resource estimation methodologies** |
| CEB has a clear view on available capital resources and an effective process for estimating available capital resources (including the projection of retained earnings and under the consideration of stress testing scenarios). |
| **Fundament 4: Coherent capital adequacy impact assessment** |
| CEB has processes in place for bringing together estimates of losses and capital resources to assess the combined impact on its capital adequacy in relation to CEB's pre-defined targets for the level and composition of its capital. |
| **Fundament 5: Comprehensive capital policy and capital planning** |
| CEB has a comprehensive capital policy and robust capital planning practices for establishing capital targets, determining appropriate capital levels and composition of capital, making decisions about capital actions, and maintaining capital contingency plans. |
| **Fundament 6: Effective governance** |
| CEB has effective management board and senior management oversight of its capital management, including (i) the periodic review of CEB's risk infrastructure and loss-/resource-estimation methodologies; (ii) the evaluation and re-assessment of capital targets; (iii) the assessment of the appropriateness of the stress testing scenarios considered; (iv) the regular review of any limitations and uncertainties in all aspects of CEB's capital management; and (v) the approval of CEB's decisions related to capital management. |
| **Fundament 7: Robust internal controls** |
| CEB has robust internal controls in place governing the capital adequacy process components, including policies and procedures, change control, model validation and independent review, comprehensive documentation and regular review by CEB's internal audit division. |

CEB's philosophy and objectives of capital management are shareholder as well as stakeholder oriented. Therefore, CEB's approach to capital management is dedicated to optimizing the shareholder's value by optimizing the return on capital while at the same time keeping CEB in a position, that allows it to maintain ready access to funding, meet its obligations to creditors and other counterparties, as well continue to serve as a credit intermediary before, during and after stress conditions. This status shall be held at all times and at all relevant levels of CEB, i.e. at a consolidated, a sub-consolidated and a solo level across all subsidiaries accordingly. In order to meet the above mentioned status, CEB is asked to be in financial resilience which in turn it defines as an adequate capital level that is commensurate with its overall risk profile. Consequentially, CEB will operate with an optimum level and mix of capital resources, adequately balancing its shareholder and stakeholder orientation.

A centralized capital management framework plays a major role in this approach and consists of four key guiding principles outlined in the following in greater detail accordingly.

Firstly, the framework, though being centrally run out of the Netherlands, features all relevant levels of CEB. I.e. risks and capital are efficiently managed at the consolidated group level of CEG, the sub-consolidated level of CEB NV as well as at the solo level of CEB NV.

Secondly, the framework is designated to ensure CEB has sufficient capital resources available in order to meet the capital requirements of its regulators; i.e. those of DNB as well as those of the local regulators in the subsidiaries' operating countries. Moreover, the framework will also take into account the expectations on CEB's capital base from additional stakeholders like investors, creditors and rating agencies. Further, the framework shall ensure that CEB has sufficient capital resources available in order to meet its own risk appetite and defined internal principles and guidelines.

Thirdly, CEB allocates its capital under the consideration of the risk/return thresholds defined in the risk appetite statement. CEB's business units are required to fully understand the inherent risk/reward profile of their businesses and to generate a defined level of return on the capital deployed.

Fourthly, the framework excels due to its clear definition of roles and responsibilities across CEB's organizational structure. While the capital management framework is centrally held and operated by the risk, financial control and treasury divisions of CEB NV, the Managing Board and business units in the subsidiaries are required to contribute and are held responsible for the functioning of the framework accordingly.

Conclusively, CEB may summarize the above stated functioning of its capital management framework under four clearly defined guiding principles as outlined in the following figure.

## Guiding principles for capital management

| | |
|---|---|
| Guiding principle 1:<br>'group- and subsidiary-level oriented' | ▪ CEB efficiently manages its capital and risks at group- as well as at subsidiary-level;<br>▪ Accordingly, CEB's (i) risk appetite, (ii) adequate capital ratios and (iii) capital allocation are determined by the managing board and are managed at group- as well as at subsidiary-level in line with CEB's high level strategy guidance, single business strategies and targets accordingly. |
| Guiding principle 2:<br>'multiple views oriented' | ▪ CEB manages capital and risk, taking into account multiple views for capital adequacy;<br>▪ Holding adequate capital against risk is mandatory and needed to protect the bank against legal insolvency, regulatory actions and to maintain its external ratings at an adequate level;<br>▪ Incorporating stress-testing views complements the economic perspective of risk capital. |
| Guiding principle 3:<br>'value oriented' | ▪ CEB allocates capital efficiently to support growth and opportunities of its business units while optimising the shareholders' value accordingly; therefore, the cost of capital is optimised via (i) an increased predictability of earnings and capital usage, (ii) the leveraging of the shareholder's equity across CEB's subsidiaries depending on the existing business opportunities and their respective risk/return profile as well as via (iii) a disciplined management of capital requirements; the above is ensured by a prospective, clear and transparent view on CEB's risks and capital position. |
| Guiding principle 4:<br>'responsibility oriented' | ▪ An effective capital organisation requires clearly defined roles and responsibilities across CEB's organisational structure including corresponding accountability. |

Applying these four guiding principles in turn will allow CEB to meet its capital management objectives that are to (i) optimize the shareholder's value, (ii) maintain sufficient capital resources in order to meet DNB's minimum regulatory capital requirements; (iii) ensure that locally regulated subsidiaries can meet their minimum capital requirements accordingly ; (iv) achieve adequate capital levels to support CEB's risk appetite and internal capital requirements; (v) maintain a strong capital base to meet and re-assure the respective expectations set not only by regulators, but also investors, creditors and market participants, and finally (vi) to sustain CEB's future business development accordingly.

### 4.4.2 CEB's capital management process

With its capital management process CEB's covers current, future and potential capital needs. While these three dimensions of capital need to be feed from CEB's strategy outline and its risk appetite statement, they in turn feed into the application of CEB's capital policy, capital planning and capital targets accordingly. These items finally allow CEB to define its capital management strategy that is covering a distinct period of time and is subject to continuous update. The figure below is graphically outlining the above statements accordingly.

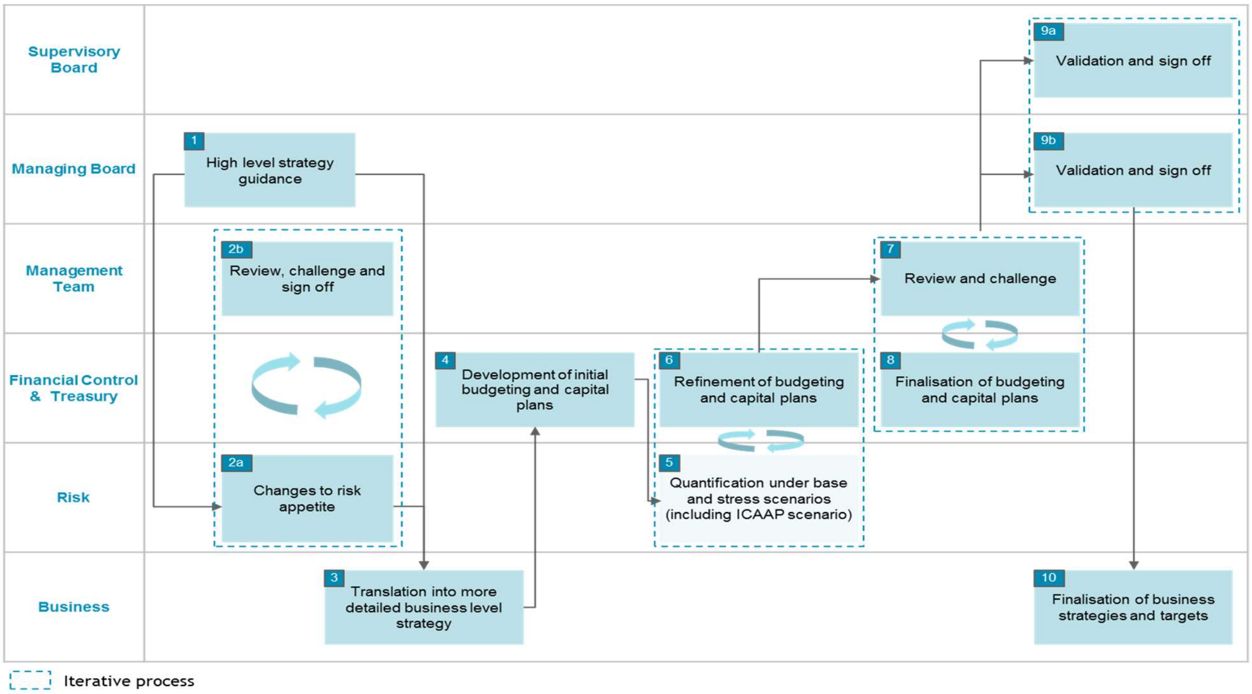
In terms of adequately managing these three dimensions of capital needs, CEB has defined five core activities that in summary build up to its capital management process: CEB will (i) measure, monitor and challenge its defined capital metrics and risk/return thresholds; (ii) estimate its capital (needs) into the future on the basis of its planning and budgeting efforts; (iii) allocate its capital on the basis of overall defined rules and policies; (iv) optimize its capital structure and (v) adequately communicate to external stakeholders. The activities are closely linked to CEB's risk appetite statement as well as to the planning and budgeting process. For a high-level overview of the activities refer to the figure below accordingly.

Per definition, CEB holds capital in order to cover unexpected losses on the basis of its given risk profile. Amount and quality of this capital is subject to policies and guidelines as well as to the expectations of CEB's different stakeholders (i.e. regulators, investors, creditors, rating agencies and market participants) and the CEBNV Managing Board (on the basis of and according to its risk appetite statement).

CEB measures, monitors and challenges its available and required capital (and hence its capital adequacy) on an ongoing basis. Measuring, monitoring and challenging the respective capital metrics, here, is set against CEB's actual risk appetite statement, which defines the respective capital targets per above view accordingly.

The estimation of capital is the process of projecting expected use and generation of capital that is derived from CEB's business planning and budgeting process. Under the consideration of CEB's high level strategy guidance, the capital projection will cover a multi-year period into the future. Further, the process covers analyzing the evolution of CEB's capital ratios against CEB's long-term strategic objectives and goals. The process ultimately feeds back into advising on CEB's ICAAP, CEBNV's risk appetite statement and, in case necessary, into CEB's capital actions and capital contingency planning under its overall recovery plan. The graph below outlines the overall processes flow from initial high level strategy guidance over risk appetite setting, capital planning and budgeting to final business strategy and target setting accordingly.

## Capital Planning Process




### 4.5 Key developments in 2021

**In 2021, the following events required specific attention of the Managing Board:**

ESG risks continued to be a major focus for CEB in 2021 as the bank understands that its business actions can have an impact on the environment and communities. In line with the EBA guidelines and our ambition in this area, we have initiated a project to integrate ESG factors in our credit risk-management policies and procedures. CEB has developed and implemented a scorecard to assess ESG-related risks in the financial conditions of borrowers during the loan origination and monitoring processes. The scorecard also sets the governance framework. Furthermore, in 2021, the company established a sustainability department and hired a sustainability officer. CEB aims to prepare a climate risk policy in 2022 to define the governance of climate-related risk-management processes and strategic targets. CEB has also enhanced its risk appetite framework considering environmental risks. The bank is aware of its role in addressing climate change and wants to contribute to the transition to sustainable development. Accordingly, a forward-looking phase-out plan for coal-related business has been integrated into the risk appetite framework.

CEB continually strives to improve its risk-management processes. In 2021, the bank initiated a project to enrich its risk appetite framework by integrating into its existing structure a loss given default (LGD)-based concentration risk and limit framework. To ensure that the new framework was based on a solid foundation, CEB reviewed alternative options and decided to collaborate with Standard and Poor’s to utilize their proven methodology to estimate an obligor-level worst-case LGD metric for bank, sovereign, and corporate portfolios. The LGD models for the rest of the portfolios are developed in-house. The new risk appetite framework is expected to be implemented during 2022.

In 2021, CEB completed the process for the selection of a software suite that allows for an integrated approach between compliance processes related to the first and second lines of defense, such as KYC and pre- and post-transaction monitoring. The implementation of this suite was completed at year-end, but further work has been undertaken to improve the operational risk-management processes. CEB performed a comprehensive risk control self-assessment and internal control evaluation in 2021, covering every major process in the organization. The bank conducts regulatory self-assessments and takes necessary corrective measures by revising its internal policies and processes and updating its IT systems. Furthermore, to monitor each operational risk type effectively, a new comprehensive key risk indicator framework has been implemented, and early warning limits are defined for risk metrics within the scope of operational risk management.

In relation to the interbank offered rate (IBOR) benchmark transition, CEB has been closely monitoring market developments and announcements from industry bodies and regulators, and the bank is preparing itself for the upcoming changes. Since the initiation of the IBOR Transition IT Project in 2020, CEB has made significant progress, and many of the new requirements have already been developed and tested, starting with treasury products. The first phase of IBOR transition related changes have been operational since early 2021. The created know-how has been leveraged in the second phase of the IT project, which is still ongoing to tackle loan and securities modules. The loan module changes have been completed and are now in production, while the securities module should be complete in Q1 2022. On the corporate banking side, the next steps include updating standard loan documentation with robust fallbacks and language that accommodates the new risk-free rates (RFRs). Alongside this exercise, the bank has engaged Norton Rose Fulbright LLP (NRF) as its legal counsel to advise on the legal aspects of the London interbank offered rate (LIBOR) transition. The bank is currently finalizing client communication documents together with relevant guidance notes setting out the background of the benchmark transition, new interest calculation methodologies, and FAQs, as well as the draft amendment templates.

In relation to the data improvement program, CEB began a project to improve data centralization throughout its subsidiaries in 2020. The integration of the core banking system in CEB Switzerland is still ongoing. In addition, several data centralization, improvement, and reporting projects have been executed to enhance the content, quality, and automation of the data inflow and reporting processes at the consolidated level.

CEB has continued to strengthen its cybersecurity and resilience to protect itself against the emerging and sophisticated cyber threats in the financial sector. Furthermore, enhancements have been made in the areas of information security, data protection, and business continuity. These developments are further explained in the IT and Information and Operational Risk sections of the chapter on non-financial reporting.

Since protection from financial and economic crime risks requires unwavering attention, management of such risks has remained a priority throughout the year. CEB recognizes that its AML/CTF framework serves as a solid foundation but that it needs to be continuously maintained. Therefore, all staff must periodically complete mandatory regulatory compliance training focused on the bank's AML/CTF controls. Through all these efforts, CEB promotes a strong AML culture, in which all staff are aware of the constant risks related to financial and economic crime.

### 4.6 Areas of improvement for 2022

The bank continues to make necessary preparation to comply with changing regulatory requirements, including new EBA technical standards and guidelines such as fundamental review of the trading book; revised standard approaches in the Basel 3 framework; the role, tasks, and responsibilities of AML/CTF compliance officers; and IBOR transition. Data centralization, internal process automations, and risk-management framework enhancements will remain the focus areas in 2022. CEB will continue to strengthen its operational risk framework, with a special focus on evaluating control effectiveness by control testing and the development of new operational risk stress scenarios. Finally, CEB will continue to improve its sustainability framework via more in-depth materiality assessments, deeper integration of sustainability risks into its business strategy, and the formation of a sustainability risk policy that documents the governance of climate-related risk-management processes and strategic targets.

### 4.7. Risk Types

#### 4.7.1. Pillar I Risks

In pillar I, which forms the base for the regulatory capital requirement, three risk types are covered: credit risk, market risk and operational risk.

**Credit Risk**

Credit risk is defined as the current or prospective threat to CEB's earnings and capital as a result of counterparty's failure to comply with financial or other contractual obligations. Credit risk constitutes the most significant risk of CEB and arises mainly from its trade finance, lending, treasury, mortgage and leasing businesses. Credit risk both stem from idiosyncratic risk factors and systematic factors like country risk and industry risk. Idiosyncratic risk factors are managed through counterparty risk assessment and monitoring while portfolio diversification is adopted as the main portfolio strategy to control country, industry and single name concentration risks.

**Market Risk**

Market risk is the risk that CEB's earnings or capital, or its ability to meet business objectives, will be adversely affected by changes in the level or volatility of market rates or prices such as interest rates, credit spreads, commodity prices, equity prices and foreign exchange rates.

**Operational Risk**

CEB defines Operational Risk as the risk of loss resulting from inadequate or failed internal processes, people, and systems or from external events. It includes legal risk and outsourcing risk (within Execution, Delivery, & Process Management) but excludes strategic risk, business risk, liquidity risk, reputational risk.

#### 4.7.2. Pillar II Risks

**Concentration risks**

This includes single-name, sector and country concentration risks. Calculation of capital requirements for the credit risk under Pillar I do not consider a buffer for credit risk concentrations, therefore an assessment of additional required capital due to concentration risk is conducted under Pillar II. GRMD prepares regular concentration reports to monitor its concentration risks on different levels. Concentration risk is managed with the limit structure and credit risk mitigation techniques.

**Interest rate risk in the banking book**

One of the Bank's major risks under Pillar II is the interest-rate risk on the banking book. The Bank defines interest-rate risk as the current or prospective risk to earnings and capital arising from adverse movements in interest rates. The trading book is also subject to interest-rate risk, but this type of risk is dealt with under the Market Risk Value-at-Risk section. Subsidiaries are not allowed to carry interest-rate positions and are expected to transfer their positions to the parent Bank, where centralized ALM and funding principles are in place. The Bank has a 'limited' risk tolerance towards interest-rate risk in its banking book.

**Liquidity risk**

Liquidity risk rises when an institution is unable to meet its due liabilities, since it is unable to borrow on an unsecured basis, or does not have sufficient good quality assets to borrow against or liquid assets to sell to raise immediate cash without severely damaging its net asset value. CEB manages its liquidity position on the consolidated level in order to be able to ride out a crisis without damaging the on-going viability of the business. This is complemented by its funding risk management which aims to achieve the optimal liability structure to finance its businesses cost-efficiently and reliably.

**Strategic Risks**

CEB conducted a strategic risk self-assessment to identify whether there is any material risk that might prevent CEB from reaching its targets. This assessment covers existing or planned mitigating actions, including but not limited to holding additional capital. Since the strategic risk factors like, business risk under an extreme but plausible stress scenario and operational risks resulting from Russia Ukraine war and GDPR have not been "fully" covered within CEB's budgeting process, CEB allocates capital for these types of risk factors within Internal Capital Adequacy Assessment (ICAAP) process under Pillar II.

### 4.7.3. Recovery Plan

Recovery Plan has been prepared addressing the Bank's liquidity and capital situation under unforeseen events/crises. The Bank developed a robust Recovery Plan that has been set-up to comply with the requirements set by both the Dutch Central Bank and the Financial Stability Board. CEB's Recovery Plan outlines the array of measures the Bank proposes to adopt in the event of a material deterioration of its financial situation triggered by idiosyncratic problems, market-wide stresses or a combination of both. CEB's Recovery Plan is embedded within the Bank's risk management and internal control framework and can be readily implemented in the event of a situation of severe stress.

CEB acknowledges the criticality of implementing sufficient measures to survive a severe crisis and restore the long-term viability of the Bank. As a minimum, CEB has set the following objectives for its Recovery Plan:

(i) to ensure an adequate and timely response to a near-default stress scenario on its own strength;

(ii) to reduce the impact of a crisis on the Bank thereby minimizing the probability of default; and

(iii) to effect the integration of appropriate supportive measures into CEB's existing risk management and internal control framework.

CEB's Recovery Plan is not restricted to any one specific stress scenario but rather assesses whether the array of recovery measures proposed are sufficiently robust and varied in their nature to withstand a wide range of shocks.

The Recovery Plan is built upon CEB's business-as-usual ("BAU") operations which facilitate the proactive identification, monitoring, management and mitigation of the risk of near-default stress scenarios. These BAU activities are embedded within the Bank's risk management and internal control framework which aims to protect and strengthen CEB's foundation of capital and liquidity through escalating periods of stress.

## 5. Internal Audit

Internal Audit function provides assurance that the Risk Appetite Policy is duly complied with.

The risk appetite is translated into policies and procedures which establish the rules and guidelines that ensure limits and thresholds are adhered to during the day-to-day activities of the Bank. The Supervisory Board sub-committees (e.g. Audit & Risk Committee, Compliance Oversight Committee) and the Managing Board sub-committees (e.g. Asset-Liability Committee (ALCO), Compliance Management Committee, Non-Financial Risk Committee, Financial Risk Committee, IT Steering Committee, Corporate Credit Committee, FI Credit Committee), in collaboration with the relevant functions, set the risk tolerance levels and corresponding risk limits and threshold levels, and Key Risk Indicators (KRIs) for monitoring adherence to the approved risk appetite. The KRIs serve as early warning signals of increasing risk exposure and are an integral part of CEB's operating processes and existing risk management and internal control framework; they provide an indication that a risk limits or threshold level could be breached, prompting appropriate action such that the Bank's risk tolerance levels are maintained.

The main objectives of determining the risk appetite are to:

- Increase the transparency and accountability of the Bank's current and future risk profile;
- Improve decision-making on risk mitigation (i.e. accepting, reducing, avoiding or transferring risk) and performance management (i.e. risk versus return);
- Strengthen risk awareness and promote an adequate risk culture.

## 6. Compliance

CEB strives to foster a culture in which bribery and any other form of corruption is never acceptable. Therefore, the attitude of CEB in every jurisdiction in which it operates is not only to comply with all applicable laws and regulations but also to act in an ethical and socially responsible manner in accordance with its own core and base values, principles, and standards in all its relationships and business activities. A risk of corruption is associated with the involvement of politically exposed persons (PEPs) and the legal entities they own or control, whether openly or secretively. These are persons who are involved in awarding government contracts, businesses dependent on government contracts and permits, and senior and mid-level administrators of state-owned companies. To minimize the risk of being associated with any form of corruption, CEB performs risk-based due diligence on customers posing a higher corruption risk, such as PEPs and customers located in jurisdictions deemed to have a higher potential for corrupt activity. In addition, CEB's code of conduct, which applies to every member of staff, provides strict rules to mitigate the risks related to any form of corruption. During 2021, CEB encouraged all staff to immediately report any activity, even if apparently insignificant, that could resemble corruption or was an actual act of corruption. They could report this to management directly, via the compliance function, or through the bank's internal alert (whistle-blowing) system.There are established processes to ensure compliance with current laws and regulations, industry standards and internal guidelines.

**Compliance Oversight Committee**

The Compliance Oversight Committee assists the Supervisory Board in overseeing the bank's overall compliance framework, which is designed to respond to the various compliance and regulatory risks the bank is exposed to according to applicable local and international legal and regulatory requirements. The committee keeps the Supervisory Board updated on developments and best practices in compliance and reviews these for applicability to CEB. It further gives guidance to the Managing Board on how to further improve CEB's overall compliance framework.

This committee met four times in 2021 and was joined during these meetings by members of the Managing Board, including the CRO, who is also responsible for the compliance of CEB and any CEB group entity with or pursuant to the Wwft. During these meetings, which were also attended by the Division Director – Compliance, the key focus was on the status of compliance topics at group level, in particular, the areas of AML and sanctions compliance, presented through the compliance dashboard and regulatory issues affecting the bank.

## 7. Differences between accounting and regulatory scopes of consolidation and mapping of financial statements categories with regulatory risk categories

The scope of application of the Pillar III requirements is done on the Credit Europe bank consolidated level. The information disclosed in this document is not subject to an external audit, but is verified and approved internally within CEB.

In Prior years, CEB had differences between accounting and regulatory scopes due to insurance entities consolidated under CEB RU. Till September 2018, the bank has completed the disposal of 90% of shares of its wholly own subsidiaries CEB RU. The transaction has been executed between the bank and its shareholders in the form of spin-off. . The differences in scope of consolidation is no longer applicable to the bank since then.

### Template 1 - EU LI1: Differences between accounting and regulatory Scopes of consolidation and the mapping of financial statement categories with regulatory risk categories

| | Carrying values as reported in published financial statements | Carrying values under scope of regulatory consolidation | Carrying values of items | | | | |
|---|---|---|---|---|---|---|---|
| | | | Subject to credit risk framework | Subject to counterparty credit risk framework | Subject to the securitisation framework | Subject to the market risk framework | Not subject to capital requirements or subject to deduction from capital |
| **Assets** | | | | | | | |
| Cash and balances at central banks | 934,648 | 934,648 | 934,648 | | | | |
| Financial assets measured at FVTPL | | | | | | | |
| - Trading assets | 68,511 | 68,511 | | | | 68,511 | |
| - Non-trading assets mandatorily at FVTPL | 19,195 | 19,195 | 19,195 | | | | |
| Financial investments | 693,291 | 693,291 | 693,291 | | | | |
| Loans and advances to banks | 283,387 | 283,387 | 283,387 | | | | |
| Derivative financial instruments | 69,593 | 69,593 | | 69,593 | | | |
| Loans and advances to customers | 2,753,014 | 2,753,014 | 2,752,740 | 274 | | | |
| Current tax assets | 1,249 | 1,249 | 1,249 | | | | |
| Deferred tax assets | 79,324 | 79,324 | 25,269 | | | | 54,055 |
| Other assets | 91,869 | 91,868 | 91,868 | | | | |
| Investment in associates and joint ventures | 2,280 | 2,856 | 2,856 | | | | |
| Property and equipment | 99,133 | 99,133 | 99,133 | | | | |
| Investment property | 2,856 | 2,280 | 2,280 | | | | |
| Intangible assets | 7,120 | 7,120 | - | | | | 7,120 |
| **Total Assets** | **5,105,470** | **5,105,470** | **4,905,917** | **69,867** | **-** | **68,511** | **61,175** |
| | | | | | | | |
| **Liabilities** | | | | | | | |
| Due to banks | 799,098 | 799,098 | | | | | 799,098 |
| Derivative financial instruments | 87,878 | 87,878 | | 87,878 | | | - |
| Due to customers | 3,326,040 | 3,326,040 | | | | | 3,326,040 |
| Current tax liabilities | 948 | 948 | | | | | 948 |
| Other liabilities | 33,977 | 33,976.87 | | | | | 33,977 |
| Provisions | 9,963 | 9,963 | | | | | 9,963 |
| Deferred tax liabilities | 18,183 | 18,183 | | | | | 18,183 |
| Subordinated liabilities | 176,891 | 176,891 | | | | | 176,891 |
| **Total Liabilities** | **4,452,978** | **4,452,978** | **-** | **87,878** | | **-** | **4,365,100** |

**Template 2 - EU LI2: Main sources of differences between regulatory exposure amounts and carrying values in financial statements**

| | Total | Items subject to | | | |
|---|---|---|---|---|---|
| | | Credit risk framework | Securitisation framework | Counterparty credit risk framework | Market risk framework |
| Assets carrying value amount under the scope of prudential consolidation (as per template LI1) | 5,105,470 | 4,905,917 | - | 69,867 | 68,511 |
| Liabilities carrying value amount under the scope of prudential consolidation (as per template LI1) | 87,878 | | | 87,878 | |
| **Total net amount under the scope of prudential consolidation** | **5,017,592** | **4,905,917** | **-** | **-** | **68,511** |
| Off-balance-sheet amounts | 1,479,172 | 1,479,172 | | | |
| *Differences in valuations* | 63,224 | | | 63,224 | |
| *Differences due to different netting rules, other than those already included in row 2* | | | | | |
| *Differences due to consideration of provisions* | 16,453 | | | | |
| *Differences due to the use of credit risk mitigation techniques (CRMs)* | (282,750) | (134,753) | | (147,997) | |
| *Differences due to credit conversion factors* | (981,297) | (981,297) | | | |
| *Differences due to Securitisation with risk transfer* | | | | | |
| *Other differences* | | | | | |
| **Exposure amounts considered for regulatory purposes** | **5,312,394** | **6,385,090** | **-** | **-** | **68,511** |

** Off-balance sheet amounts in the first column are original exposures, prior to the use of credit conversion factors. Exposures reported in second column onwards are after application of the credit conversion factors (CCFs)*

## 8. Capital structure

The bank's total own funds consist of Core Tier I capital (also named as Common Equity Tier I, CET 1), Additional Tier I capital (AT 1) and Tier II capital. CEB ensures that it holds enough capital to cover its material risks. The nature and quality of the capital which can be included into total own funds for the purposes of capital requirement calculation is subject to regulatory restrictions set out by CRD and the Dutch Central Bank. The table below presents information on the components of regulatory capital.

| | Dec-21 | Dec-20 |
|---|---|---|
| **Total Equity(FINREP)** | **652,492** | **612,574** |
| Current year profit | | (4,678) |
| Dividend paid | (36,987) | |
| Non-eligible minority interest | (1,310) | (1,304) |
| **Prudential filters** | | |
| Cash flow hedge reserve | - | - |
| Prudent valuation | (832) | (998) |
| Intangible asset | (7,120) | (5,265) |
| Deferred tax assets rely on future profitability and do not arise from temporary differences | (54,055) | (22,294) |
| CIU investment deductions | (1,712) | |
| Transitional adjustments to IFRs 9 provisions (2) | 17,179 | 25,499 |
| Fair value gains and losses arising from the institution's own credit risk related to derivative liabilities | - | - |
| **Core Tier I** | **567,655** | **603,534** |
| **Additional Tier I** | 44,202 | 40,855 |
| **Tier I** | **611,857** | **644,389** |
| Subordinated Liabilities | 131,721 | 121,228 |
| **Tier II** | **131,721** | **121,228** |
| **Total Regulatory Capital** | **743,578** | **765,617** |

Core Tier I (CET1) capital of CEB includes total equity subtracts regulatory adjustments.

(1) Current year profit is excluded from total own funds based on article 26, point 2 of CRR IV.

(2) IFRs 9 transitional arrangement permits to add 50% additional IFRs9 provisions back to total own funds as of 2021

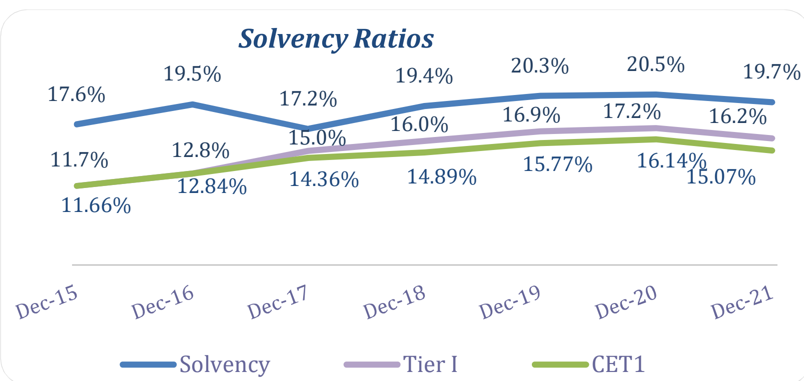
Tier II capital of CEB comprises of subordinated liabilities which is assessed by DNB and approved as CRR compliant. For more details of subordinated liabilities, please see note 20, Subordinated liabilities in CEB's Financial Statements as of 31 December 2021.

## 9. Regulatory Capital and Leverage Ratios

The table below summarizes our regulatory capital ratios. Total of Tier 1 and Tier 2 capital should correspond to at least 8% of the Bank's risk weighted assets, of which Tier 1 capital must constitute at least 6%. The Credit Europe Bank follows the Standardized approach for credit risk calculation as defined by the CRR Title II.

| Capital Ratio | Dec-21 | Dec-20 |
|---|---|---|
| Core Tier 1 (CT1) Ratio | 15.07% | 16.14% |
| Tier 1 ratio | 16.24% | 17.24% |
| Total Capital Ratio | 19.73% | 20.48% |
| | | |
| Leverage Ratio | 11.60% | 13.28% |

The historical evolution of the capital ratios is graphed below:




## 10. Risk-Weighted Assets

For calculating its minimum capital requirements, CEB applies the following methodology as laid down in CRD IV.

| | |
|---|---|
| **Credit Risk** | Standardized Approach |
| **Market Risk** | Standardized Approach |
| **Operational Risk** | Standardized Approach |
| **Counterparty Credit Risk** | SA-CCR |
| **CVA** | Standardized Approach |

The table below presents a summary of the components of RWAs calculated in accordance with the CRR.

**Template 3 - EU OV1: Overview of RWAs**

| | RWA | | Regulatory Capital (8%) |
|---|---|---|---|
| | Dec-21 | Dec-20 | Dec-21 |
| **Credit risk (excluding counterparty credit risk)** | **3,350,099** | **3,288,962** | **268,008** |
| of which standardised approach(SA) | 3,350,099 | 3,288,962 | 268,008 |
| of which Internal rating-based (IRB) approach | | - | - |
| **Counterparty credit risk** | **21,559** | **13,127** | **1,725** |
| of which the standardised approach | 21,559 | 13,127 | 1,725 |
| of which Internal model method (IMM) | | - | - |
| Of which exposures to a CCP | | | |
| CVA (Standardised Method) | 11,097 | 18,896 | 888 |
| **Equity positions in banking book under market-based approach** | | | |
| **Equity investments in funds - look-through approach** | | | |
| **Equity investment in funds - mandate-based approach** | | | |
| **Equity investment in funds - fall-back approach** | | | |
| **Settlement risk** | | - | - |
| **Securitisation positions in banking book** | | - | - |
| Of which SEC-IRBA approach | | - | - |
| Of which SEC-ERBA (including IAA) | | - | - |
| Of which SEC-SA approach | | - | - |
| Of which 1250% / deduction | | | |
| **Market risk** | **79,936** | **95,580** | **6,395** |
| of which standardised approach(SA)[1] | 79,936 | 95,580 | 6,395 |
| of which Internal model method (IMM) | | - | - |
| **Operational risk** | **299,564** | **306,371** | **23,965** |
| of which Basic Indicator Approach | | - | - |
| of which Standardised Approach[2] | 299,564 | 306,371 | 23,965 |
| of which Advanced Measurement Approach | | - | - |
| **Amounts below the thresholds for deduction (subject to 250% risk-w** | **5,701** | **15,797** | **456** |
| **Floor adjustment** | | - | - |
| **Total** | **3,767,956** | **3,738,733** | **301,437** |

# 11. Credit Risk

## 11.1 General information

Credit risk arises from the possibility of losses stemming from the failure of customers or counterparties to meet their financial obligations with Credit Europe Bank. The Bank undertakes credit risk by offering loans, guarantees and other credit products. Credit risk is the primary risk factor in the Bank's operations and taking on credit risk is a core activity of the Bank. The Bank has policies and procedures for accepting, measuring and managing credit risk. The objective of credit risk management is to achieve an appropriate balance between risk and return and to minimise potential adverse effects of credit risk on the Bank's financial performance.

The points below define the general approach towards credit risk at Credit Europe Bank:

- Group level policies and procedures to identify, measure, monitor, control and report material risks in all countries.
- Establishment of effective and efficient internal control mechanisms to ensure the integrity of credit processes.

• Group level Credit Risk Management function covers: Sovereign/Counterparty/Treasury/Corporate-Commercial/Retail and SMEs.
• Control and setting of local Credit Limit powers in all subsidiaries.
• Establish a comprehensive risk appetite framework and ensure credit risks are only accepted and managed within that risk appetite.
• Application of consistent Internal Credit Risk Rating Models in all subsidiaries.
• Establishment and maintenance of a sound internal rating system supported with an adequate number of rating models and processes to ensure its robustness across all lending types.
• Establishment and maintenance of a sound IFRS9 Impairment Calculation Framework supported with an adequate governance and processes to ensure accuracy and robustness of impairment calculations.
• Building a regular cycle of IFRS9 model validation that includes validation of the general framework and periodic monitoring of model performance and stability; and model improvement where necessary.
• Stress testing of loan portfolios under alternative scenarios.
• Standardization of all product and facility definitions at Group level.
• Regulatory and Internal Concentration Limits are set at the Group level: Country / Single Name / Sector.
• CRR, standards and guidelines published by European Banking Authority (EBA) and DNB regulations.

**Loans and receivables - customers**

The Credit Exposure Classification and Treatment Policies for corporate as well as retail clients define the minimum standards for, and establish a single view, on identification and treatment of non-performing corporate credit exposures in Credit Europe Bank N.V. and all of its subsidiaries.

The policies also set minimum standards and explain the processes to be followed for the identification and treatment of obligors whose creditworthiness and repayment capacity of their performing exposures may potentially deteriorate or have already deteriorated, even though their credit exposures are still performing.
CEB differentiates between the following categories of assets in the loan portfolio:

• Fully performing: Fully performing exposures are defined as credit exposures that are not past-due or exposures past-due up to 30 days, provided that there is no significant increase in credit risk since origination. An exposure is past-due when any amount of principal, interest or fee has not been paid at the date it was due.

• Underperforming: Underperforming exposures belong to a sub-category of the performing asset class, where the Bank observes a significant increase in credit risk since origination. Underperformance might become evident if an exposure is past-due more than 30 days, subject to forbearance measures, or the assigned PD has increased significantly since the origination of the exposure (applicable for corporate exposures, measured by CEB's internal PD Master Scale).
• Non-performing: Non-performing exposures (NPE) are defined as exposures that satisfy either or both of the following criteria:

1. material exposures which are more than 90 days past-due;
2. the obligor is assessed as unlikely to pay its credit obligations in full without realization of collateral, regardless of the existence of any past-due amount or of the number of days past-due.

An exposure is past-due only if there is a legal obligation to make a payment and this payment is compulsory. The counting of days past-due starts as soon as any amount of principal, interest or fee has not been paid to CEB at the date this obligation was due.

To be able to monitor delinquent corporate loans in a more structured way the Bank developed NPL & forbearance screens on solo level and strive to spread the system across subsidiaries.

## 11.2 General credit risk

### Template 4 - EU CRB-B: Total and average net amount of exposure

| Dec-21 | Net value of exposures at the end of the period [1] (Dec-21) | Average Net Exposure over the period [2] | Net value of exposures at the end of the period [1] (Dec-20) |
|---|---|---|---|
| Central governments and central banks | 1,494,908 | 1,486,862 | 1,157,931 |
| Regional governments or local authorities | 128,689 | 60,582 | 37,062 |
| Public sector entities | - | - | - |
| Multiateral development banks | - | - | - |
| International organisations | 8,989 | 7,762 | 8,856 |
| Institutions | 617,080 | 579,659 | 490,417 |
| Corporates | 3,130,115 | 2,841,895 | 2,604,532 |
| *of which: SMEs* | - | - | - |
| Retail | 308,924 | 318,756 | 334,862 |
| *of which: SMEs* | 15,909 | 14,624 | - |
| Secured by mortgages on immovable property | 140,196 | 138,281 | 132,625 |
| *of which: SMEs* | - | - | - |
| Exposures in default | 190,412 | 216,910 | 248,984 |
| Items associated with particularly high risk | - | - | - |
| Covered bonds | - | 1,567 | 4,518 |
| Claims on institutions and corporates with a short-term credit assessment | - | - | - |
| Collective investments undertakings | - | - | - |
| Equity exposures | 51,273 | 51,360 | 48,559 |
| Other exposures | 216,839 | 258,122 | 282,626 |
| **Total standardised approach** | **6,287,423** | **5,961,755** | **5,350,971** |

[1] *The net value is corresponding to the accounting value reported in financials according to the scope of regulatory consolidations*
[2] *The average of the net exposure values observed at the end of each quarter of the observation period*

**Key changes and drivers:**

**Central governments and central banks:**

The increase in 2021 is mainly due to rise of placement to central bank in CEB NV and CEB's subsidiaries ( Dutch central bank placement increased around 203 million, and placement to central bank for subsidiaries increased around 70 million ) and purchased government bonds increased around 50 million.

**Corporates:**

The increase of Corporate exposure is mainly due to increase of import LCs exposures related to trade finance (increase around 378 million) and loans to corporate customer portfolio (around 186 million)

## Template 5 - EU CRB-C: Geographical breakdown of exposures

| Dec-21 | Russia | Turkey | Romania | Ukraine | Other Emerging Markets | Developed markets | Total exposure |
|---|---|---|---|---|---|---|---|
| Central governments and central banks | - | - | 382,466 | 28,248 | 63,611 | 1,020,582 | 1,494,908 |
| Regional governments or local authorities | - | 860 | - | - | - | 127,830 | 128,689 |
| Multiateral development banks | - | - | - | - | - | - | - |
| International organisations | - | - | - | - | 8,989 | - | 8,989 |
| Institutions | 5,522 | 109,734 | 383 | 0 | 168,156 | 333,284 | 617,080 |
| Corporates | 33,501 | 410,357 | 274,392 | 26,747 | 841,820 | 1,543,297 | 3,130,115 |
| Retail | - | 104 | 304,715 | 48 | 3 | 3,709 | 308,579 |
| Secured by mortgages on immovable property | - | 71 | 140,059 | - | - | 410 | 140,540 |
| Exposures in default | 15,155 | 102,366 | 65,732 | 234 | 3,137 | 3,787 | 190,412 |
| Covered bonds | - | - | - | - | - | - | - |
| Equity exposures | 12,284 | - | 2,278 | - | - | 36,711 | 51,273 |
| Other exposures | - | 55,652 | 61,438 | 984 | 60 | 98,705 | 216,839 |
| **Total standardised approach** | **66,463** | **679,145** | **1,231,462** | **56,262** | **1,085,777** | **3,168,315** | **6,287,423** |

| Dec-20 | Russia | Turkey | Romania | Ukraine | Other Emerging Markets | Developed markets | Total exposure |
|---|---|---|---|---|---|---|---|
| Central governments and central banks | - | 0 | 369,938 | 14,112 | 13,390 | 760,491 | 1,157,931 |
| Regional governments or local authorities | - | 3,182 | - | - | - | 33,880 | 37,062 |
| Multiateral development banks | - | - | - | - | - | - | - |
| International organisations | - | - | - | - | 8,856 | - | 8,856 |
| Institutions | 3,843 | 84,539 | 1,196 | 0 | 257,244 | 143,595 | 490,417 |
| Corporates | 46,004 | 495,503 | 264,785 | 48,685 | 682,582 | 1,066,973 | 2,604,532 |
| Retail | - | 1,866 | 325,930 | 65 | 6 | 6,748 | 334,616 |
| Secured by mortgages on immovable property | - | 73 | 132,539 | - | 45 | 213 | 132,871 |
| Exposures in default | 14,616 | 120,754 | 80,798 | 11,261 | 8,734 | 12,822 | 248,984 |
| Covered bonds | - | - | - | - | - | 4,518 | 4,518 |
| Equity exposures | 16,376 | - | 1,674 | - | 491 | 30,019 | 48,559 |
| Other exposures | - | 64,120 | 76,114 | 1,364 | 614 | 140,415 | 282,626 |
| **Total standardised approach** | **80,839** | **770,037** | **1,252,974** | **75,487** | **971,960** | **2,199,674** | **5,350,971** |

**Turkey:** In line with our objective to avoid an unduly concentration in any geography, CEG has been consistently decreasing its Turkish exposure since late 2015. During the last five years, the total gross Turkish exposure gradually came down from EUR 1.243 (2017) billion to EUR 679 million. It is also worthwhile to mention that, the reduction in CEG's credit exposure to Turkey occurred predominantly in long-term corporate FX-lending. The downward trend is a direct reflection of the reduced risk appetite in Turkey, particularly in corporate segment. It is ensured that CEG's gross Turkish exposure stayed below the risk appetite limits throughout 2021. The weight of short-term trade related commercial exposures is increasing within the composition of Turkish portfolio.

**Romania:** Our appetite for Romanian risk has been very stable for the past several years.

**Other Emergency Market:** Out of which, 50% of the exposures are contributed by China, Greece and United Arab Emirates. And the increase in 2021 is mainly caused by increase of Import LCs in Azerbaijan, Greece and Monaco.

### Template 6 - EU CRB- D: Concentration of exposures by industry or counterparty types

| Corporates | Dec-21 | Dec-19 |
|---|---|---|
| Oil & derivatives | 1,107,670 | 755,668 |
| Iron & steel | 365,018 | 221,351 |
| Shipping & shipyards | 297,820 | 183,104 |
| Real estate | 289,952 | 354,281 |
| Leisure & tourism | 263,422 | 297,627 |
| Soft commodities & agricultural products | 147,377 | 122,045 |
| Financial services & investments | 139,380 | 280,975 |
| Energy & Coal | 131,206 | 126,034 |
| Technology, IT & Electronic Equipment | 113,048 | 25,004 |
| Fertilizers | 95,185 | 56,069 |
| Transportation, logistics & warehousing | 75,926 | 82,501 |
| Petrochemical, plasticizers & derivatives | 73,239 | 46,495 |
| Retail | 25,791 | 25,900 |
| Media & publishing | 22,597 | 24,862 |
| Automotive & Derivatives | 20,345 | 44,029 |
| Construction & Installation | 20,135 | 62,201 |
| Building materials | 19,341 | 9,400 |
| Holding | 16,273 | 25,004 |
| Food, beverage & tobacco | 13,738 | 15,304 |
| Education & Cultural Services | 5,022 | - |
| Machinery-Office & Optical Equipment | 4,309 | 5,708 |
| Luxury Goods | 3,201 | 1,756 |
| Paper and Pulp & Forestry | 3,024 | 1,370 |
| Private Person | 2,378 | - |
| Services | 1,055 | 706 |
| Textile, clothing and leather | 626 | 1,252 |
| Telecommunications | 26 | 19,616 |
| Mining | 0 | - |
| Other | 18,107 | 17,286 |
| **Total** | 3,275,210 | 2,805,547 |

The sector concentrations was all in line with the concentration risk limits as of 31.12.2021. The most significant increases are observed in the sectors like Oil & Derivatives and Iron & Steel, which are related to Trade Finance business in line with the increasing risk appetite in the business line. TF related exposures are short-term with low default risk (PD) and high recovery expectations. Shipping sector exposure is also increased with the increased risk appetite in Marine Finance business. Meanwhile, the exposures of real estate and Leisure & Tourism sectors have decreased in 2021.

### Template 7 - EU CRB-E: Residual Maturity of exposures

| Dec-21 | On demand | <= 1 year | > 1 year <= 5 years | > 5 years | No stated maturity | Total |
|---|---|---|---|---|---|---|
| Central governments and central banks | 918,786 | 314,836 | 86,469 | 94,242 | 80,574 | 1,494,908 |
| Regional governments or local authorities | - | 86,539 | 860 | 41,291 | - | 128,689 |
| Multiateral development banks | - | - | - | - | - | - |
| International organisations | - | - | - | 8,989 | - | 8,989 |
| Institutions | 82,348 | 468,736 | 7,883 | 19,691 | 31,121 | 609,780 |
| Corporates | - | 2,061,949 | 694,997 | 309,709 | 63,190 | 3,129,845 |
| Retail | - | 94,261 | 184,667 | 29,190 | (1,260) | 306,858 |
| Secured by mortgages on immovable property | - | 126 | 1,700 | 138,715 | - | 140,540 |
| Exposures in default | - | 12,354 | 75,737 | 72,111 | 30,209 | 190,412 |
| Covered bonds | - | - | - | - | - | - |
| Equity exposures | - | - | - | - | 51,273 | 51,273 |
| Other exposures | - | - | - | - | 216,839 | 216,839 |
| **Total standardised approach** | **1,001,133** | **3,038,801** | **1,052,313** | **713,938** | **471,946** | **6,278,133** |

| Dec-20 | On demand | <= 1 year | > 1 year <= 5 years | > 5 years | No stated maturity | Total |
|---|---|---|---|---|---|---|
| Central governments and central banks | 649,056 | 199,224 | 134,956 | 117,458 | 57,237 | 1,157,931 |
| Regional governments or local authorities | - | - | 3,182 | 33,880 | - | 37,062 |
| Multiateral development banks | - | - | - | - | - | - |
| International organisations | - | - | - | 8,856 | - | 8,856 |
| Institutions | 39,924 | 380,568 | 66,287 | 2,446 | 1,192 | 490,417 |
| Corporates | - | 1,560,677 | 583,652 | 410,061 | 50,141 | 2,604,532 |
| Retail | - | 95,867 | 190,927 | 49,194 | (1,373) | 334,616 |
| Secured by mortgages on immovable property | - | 47 | 1,667 | 131,157 | - | 132,871 |
| Exposures in default | - | 26,076 | 87,617 | 71,597 | 63,694 | 248,984 |
| Covered bonds | - | - | 4,518 | - | - | 4,518 |
| Equity exposures | - | - | - | - | 48,559 | 48,559 |
| Other exposures | - | - | - | - | 282,626 | 282,626 |
| **Total standardised approach** | **688,980** | **2,262,459** | **1,072,806** | **824,649** | **502,077** | **5,350,971** |

## 11.3 Credit quality of assets

### Template 8 - EU CR1-A: Credit quality of exposures by exposure class and instrument

| | Gross carrying values of | | | | Dec-21 | Dec-20 |
|---|---|---|---|---|---|---|
| | Defaulted exposures | Non-defaulted exposures | Specific credit risk adjustment | General credit risk adjustment | Net values | Net values |
| Central governments and central banks | | 1,494,908 | | | 1,494,908 | 1,157,931 |
| Regional governments or local authorities | | 128,689 | | | 128,689 | 37,062 |
| Public sector entities | | | | | - | - |
| Multiateral development banks | | - | | | - | - |
| International organisations | | 8,989 | | | 8,989 | 8,856 |
| Institutions | - | 495,277 | - | (195.83) | 495,081 | 490,417 |
| Corporates | 155,545 | 2,646,804 | (10,450.28) | (22,134.92) | 2,769,764 | 2,805,547 |
| *of which: SMEs* | - | - | | | - | - |
| Retail | 22,376 | 339,355 | (15,551.22) | (9,125.78) | 337,053 | 348,058 |
| *of which: SMEs* | 3,182 | 12,668 | (111.09) | (28.84) | 15,710 | - |
| Secured by mortgages on immovable prop | 39,281 | 132,632 | (788.74) | (468.14) | 170,656 | 167,397 |
| *of which: SMEs* | | - | | | - | - |
| Exposures in default | | | | | | - |
| Items associated with particularly high risk | | | | | - | - |
| Covered bonds | | - | | | - | 4,518 |
| Claims on institutions and corporates with a short-term credit assessment | | | | | - | - |
| Collective investments undertakings | | | | | - | - |
| Equity exposures | | 48,559 | | | 48,559 | 48,559 |
| Other exposures | | 282,626 | | | 282,626 | 282,626 |
| **Total** | **217,202** | **5,577,838** | **(26,790)** | **(31,925)** | **5,736,325** | **5,350,971** |
| Of which: Loans | | 2,767,393 | | | 2,767,393 | 2,767,393 |
| Of which: Debt securities | | 785,626 | | | 785,626 | 785,626 |
| Of which: Off-balance-sheet exposures | 22,357 | 757,519 | - | | 779,876 | 779,876 |

## Template 9 - EU CR1-B: Credit quality of exposures by industry or counterparty types

| | Gross carrying values of | | | | Dec-21 | Dec-20 |
|---|---|---|---|---|---|---|
| | Defaulted exposures | Non-Defaulted exposures | Specific credit risk adjustment | General credit risk adjustment | Net values | Net values |
| Oil & derivatives | 3,229 | 1,105,058 | (173) | (444) | 1,107,670 | 755,668 |
| Iron & steel | 2,672 | 363,262 | (438) | (479) | 365,018 | 221,351 |
| Shipping & shipyards | 9,783 | 291,135 | (713) | (2,385) | 297,820 | 183,104 |
| Real estate | 81,940 | 219,250 | (214) | (11,024) | 289,952 | 354,281 |
| Leisure & tourism | 42,548 | 231,634 | (6,012) | (4,748) | 263,422 | 297,627 |
| Soft commodities & agricultural products | - | 147,598 | - | (221) | 147,377 | 122,045 |
| Financial services & investments | 3 | 140,472 | (3) | (1,092) | 139,380 | 280,975 |
| Energy & Coal | - | 131,296 | - | (90) | 131,206 | 126,034 |
| Technology, IT & Electronic Equipment | - | 113,114 | - | (66) | 113,048 | 25,004 |
| Fertilizers | - | 95,207 | - | (21) | 95,185 | 56,069 |
| Transportation, logistics & warehousing | 1,000 | 75,889 | (552) | (411) | 75,926 | 82,501 |
| Petrochemical, plasticizers & derivatives | 129 | 73,359 | (127) | (121) | 73,239 | 46,495 |
| Retail | 630 | 25,375 | (160) | (54) | 25,791 | 25,900 |
| Media & publishing | - | 22,607 | - | (10) | 22,597 | 24,862 |
| Automotive & Derivatives | - | 20,411 | - | (66) | 20,345 | 44,029 |
| Construction & Installation | 8,952 | 13,038 | (1,620) | (235) | 20,135 | 62,201 |
| Building materials | - | 19,739 | - | (398) | 19,341 | 9,400 |
| Holding | - | 16,273 | - | - | 16,273 | 25,004 |
| Food, beverage & tobacco | 3,481 | 10,681 | (331) | (93) | 13,738 | 15,304 |
| Education & Cultural Services | - | 5,027 | - | (5) | 5,022 | - |
| Machinery-Office & Optical Equipment | 208 | 4,105 | - | (5) | 4,309 | 5,708 |
| Luxury Goods | - | 3,232 | - | (31) | 3,201 | 1,756 |
| Paper and Pulp & Forestry | 72 | 3,025 | (72) | (1) | 3,024 | 1,370 |
| Private Person | - | 2,378 | - | (1) | 2,378 | - |
| Services | 542 | 518 | (1) | (5) | 1,055 | 706 |
| Textile, clothing and leather | 294 | 338 | - | (7) | 626 | 1,252 |
| Telecommunications | 62 | - | (36) | - | 26 | 19,616 |
| Mining | - | 0 | - | - | 0 | - |
| Other | - | 18,227 | - | (121) | 18,107 | 17,286 |
| **Total** | **155,545** | **3,152,250** | **(10,450)** | **(22,135)** | **3,275,210** | **2,805,547** |

### Template 10 - EU CR1-C: Credit quality of exposures by geography

| Dec-21 | Gross carrying values of | | | | |
|---|---|---|---|---|---|
| | Defaulted exposures | Non-defaulted exposures | Specific credit risk adjustment | General credit risk adjustment | Net values |
| Russia | 21,166 | 51,984 | (6,011) | (677) | 66,463 |
| Turkey | 104,537 | 589,011 | (2,171) | (12,232) | 679,145 |
| Romania | 83,310 | 1,177,441 | (17,578) | (11,711) | 1,231,462 |
| Ukraine | 271 | 56,547 | (36) | (519) | 56,262 |
| Other Emerging Markets | 3,850 | 1,086,665 | (713) | (4,026) | 1,085,777 |
| Developed markets | 4,068 | 3,167,288 | (281) | (2,760) | 3,168,315 |
| **Total** | 217,202 | 6,128,936 | (26,790) | (31,925) | 6,287,423 |

| Dec-20 | Gross carrying values of | | | | |
|---|---|---|---|---|---|
| | Defaulted exposures | Non-defaulted exposures | Specific credit risk adjustment | General credit risk adjustment | Net values |
| Russia | 20,607 | 67,189 | (5,991) | (966) | 80,839 |
| Turkey | 128,097 | 674,529 | (7,343) | (25,245) | 770,037 |
| Romania | 89,531 | 1,180,304 | (8,733) | (8,128) | 1,252,974 |
| Ukraine | 12,287 | 64,889 | (1,026) | (663) | 75,487 |
| Other Emerging Markets | 18,079 | 969,264 | (9,345) | (6,037) | 971,960 |
| Developed markets | 14,497 | 2,192,926 | (1,675) | (6,074) | 2,199,674 |
| **Total** | 283,098 | 5,149,101 | (34,114) | (47,114) | 5,350,971 |

## 11.4 Impairment allowances

IFRS 9 introduced forward-looking expected loss model for impairment allowances. Expected credit loss (ECL) amount is calculated on a probability-weighted basis as the difference between the cash flows that are due to the Group in accordance with the contractual terms of a financial instrument and the cash flows that the Group expects to receive. The Group classifies its financial assets in 'three-stage' model ('general model') for impairment based on changes in credit quality since initial recognition.

Stage 1 includes financial instruments that have not had a significant increase in credit risk since initial recognition. For these assets, 12-month expected credit losses ('ECL') are recognized and interest revenue is calculated on the gross carrying amount of the asset (that is, without deduction for credit allowance). 12-month ECL is the expected credit losses that result from default events that are possible within 12 months after the reporting date. It is not the expected cash shortfalls over the 12-month period but the entire credit loss on an asset weighted by the probability that the loss will occur in the next 12 months.

Stage 2 includes financial instruments that have had a significant increase in credit risk since initial recognition (unless they have low credit risk at the reporting date) but that do not have objective evidence of impairment. For these assets, lifetime ECL are recognized, but interest revenue is still calculated on the gross carrying amount of the asset. Lifetime ECL are the expected credit losses that result from all possible default events over the expected life of the financial instrument. Expected credit losses are the weighted average credit losses with the probability of default ('PD') as the weight.

Stage 3 includes financial assets that have objective evidence of impairment at the reporting date. In line with the Capital Requirement Regulations (CRR) the Bank defines defaulted exposures as exposures that satisfy either or both of the following criteria:

• material exposures which are more than 90 days past-due

• the obligor is assessed as unlikely to pay its credit obligations in full without realization of collateral, regardless of the existence of any past-due amount or of the number of days past-due.

The Bank aligns the definition of credit impaired under IFRS 9 (Stage 3) with default definition of CRR. For these assets, lifetime ECL is recognized and interest revenue is calculated on the net carrying amount (that is, net of credit allowance).

**Collective impairment**

The calculation of expected credit losses requires management to apply judgment and make estimates and assumptions. These judgments, estimates and assumptions are an inherent part of the calculation, which includes probability of default (PD), loss given default (LGD) and exposure at default (EAD) models, the determination of a significant increase in credit risk, the selection of appropriate scenarios and macroeconomic factors and the expected credit loss measurement period. These inputs are based on the best available information and are subject to frequent reassessment. The Bank considers a number of quantitative and qualitative factors like forbearance status, warning signals, 30 days past-due back stop to identify and assess significant increase in credit risk.

**Individual impairment**

The individual component of the total allowance for impairment applies to financial assets evaluated individually for impairment and is based on management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgments about a debtor's financial position and the net realizable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are approved by the Corporate Credit Committee independently.

The tables below present the Bank's portfolio of loans and advances to customers, broken down by delinquency bucket:

### Template 11 - EU CR1-D: Ageing of default exposures

**Dec-21**

| | Unlikely to pay that are not pastdue | ≤ 30 days | > 30 days ≤ 60 days | > 60 days ≤ 90 days | > 90 days ≤ 180 days | > 180 days ≤ 1 year | > 1 year | Total |
|---|---|---|---|---|---|---|---|---|
| Loans | 4,315 | | | 143,664 | 5,194 | 3,437 | 60,591 | 217,202 |
| Debt securities | | | | | | | | |
| **Total exposures** | 4,315 | - | - | 143,664 | 5,194 | 3,437 | 60,591 | 217,202 |

**Dec-20**

| | Unlikely to pay that are not pastdue | ≤ 30 days | > 30 days ≤ 60 days | > 60 days ≤ 90 days | > 90 days ≤ 180 days | > 180 days ≤ 1 year | > 1 year | Total |
|---|---|---|---|---|---|---|---|---|
| Loans | 15,807 | - | - | 153,717 | 14,723 | 18,692 | 80,159 | 283,098 |
| Debt securities | | | | | | | | |
| **Total exposures** | 15,807 | - | - | 153,717 | 14,723 | 18,692 | 80,159 | 283,098 |

### Template 12 - EU CR1-E: Non-performing and forborne exposures

| Dec-21 | Gross carrying amount of performing and non-performing exposures | | | | | | | Accumulated impairment and provisions and negative fair value adjustments due to credit risk | | | | Collaterals and financial guarantees received | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Of which performing but past due > 30 days and <= 90 days | Of which performing forborne | Of which non-performing | | | | On performing exposures | | On non-performing exposures | | On non-performing exposures | Of which forborne exposures |
| | | | | | Of which defaulted | Of which impaired | Of which forborne | | Of which forborne | | Of which forborne | | |
| Debt securities | | | | | | | | | | | | | |
| Loans and advances | 476,725 | 337,348 | 7,222 | 139,378 | 139,378 | 139,378 | 19,203 | (27,944) | (16,311) | (11,634) | (11,634) | 362,614 | 125,940 |
| Off-balance-sheet exposures | | | | | | | | | | | | | |
| **Total** | **476,725** | **337,348** | **7,222** | **139,378** | **139,378** | **139,378** | **19,203** | **(27,944)** | **(16,311)** | **(11,634)** | **(11,634)** | **362,614** | **125,940** |

| Dec-20 | Gross carrying amount of performing and non-performing exposures | | | | | | | Accumulated impairment and provisions and negative fair value adjustments due to credit risk | | | | Collaterals and financial guarantees received | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Of which performing but past due > 30 days and <= 90 days | Of which performing forborne | Of which non-performing | | | | On performing exposures | | On non-performing exposures | | On non-performing exposures | Of which forborne exposures |
| | | | | | Of which defaulted | Of which impaired | Of which forborne | | Of which forborne | | Of which forborne | | |
| Debt securities | | | | | | | | | | | | | |
| Loans and advances | 561,142 | 417,561 | 7,393 | 143,581 | 143,581 | 143,581 | 29,939 | (42,496) | (25,019) | (17,477) | (17,477) | 484,593 | 124,881 |
| Off-balance-sheet exposures | | | | | | | | | | | | | |
| **Total** | **561,142** | **417,561** | **7,393** | **143,581** | **143,581** | **143,581** | **29,939** | **(42,496)** | **(25,019)** | **(17,477)** | **(17,477)** | **484,593** | **124,881** |

### Template 13 - EU CR1-F: Stage breakdown

| Dec-21 | Stage 1 | | Stage 2 | | Stage 3 | | Total Gross Exposure | Total ECL |
|---|---|---|---|---|---|---|---|---|
| | Gross Exposure | ECL | Gross Exposure | ECL | Gross Exposure | ECL | | |
| Institutions | 617,275 | (196) | - | - | - | - | 617,275 | (196) |
| Corporates | 2,977,954 | (9,460) | 174,296 | (12,675) | 155,545 | (10,450) | 3,307,795 | (32,585) |
| Retail | 276,390 | (632) | 41,315 | (8,494) | 22,376 | (15,551) | 340,080 | (24,677) |
| Secured by mortgages on immovable property | 67,809 | (51) | 73,200 | (417) | 39,281 | (789) | 180,290 | (1,257) |
| **Total** | 3,939,427 | (10,339) | 288,811 | (21,586) | 217,202 | (26,790) | 4,445,440 | (58,715) |

| Dec-20 | Stage 1 | | Stage 2 | | Stage 3 | | Total Gross Exposure | Total ECL |
|---|---|---|---|---|---|---|---|---|
| | Gross Exposure | ECL | Gross Exposure | ECL | Gross Exposure | ECL | | |
| Institutions | 490,759 | (341) | - | - | - | - | 490,759 | (341) |
| Corporates | 2,226,567 | (13,564) | 420,237 | (28,709) | 227,288 | (26,273) | 2,874,092 | (68,545) |
| Retail | 266,331 | (836) | 72,777 | (3,657) | 20,772 | (7,576) | 359,881 | (12,069) |
| Secured by mortgages on immovable property | 70,091 | (2) | 62,786 | (5) | 35,038 | (265) | 167,916 | (272) |
| **Total** | 3,053,748 | (14,743) | 555,801 | (32,371) | 283,098 | (34,114) | 3,892,647 | (81,228) |

## 11.5 Credit risk mitigation

It is CEB's policy to ensure that the loan extension process is conducted under strong evidence of a customer's ability to repay the loan. Nevertheless, collaterals are actively used for the purposes of credit-risk mitigation. The Transactions and Collateral Management Department is organized as a separate department for collateral management of all types of lending. Transactional lending especially relies heavily upon collaterals and documentation.

Valuation reports, survey report updates and insurance policies are followed up systematically. Mainly related to trade finance, Collateral Management Agreements and Collateral Monitoring Agreements are also outsourced to expert collateral management agents who have management and reporting capabilities at the site of the collateral. As a principal, the value of the collateral should not have a material positive correlation with the credit quality of the provider for the risk mitigation effect to be considered.

Due to the application of Standardized Approach, not all available collaterals can be considered for solvency testing. Currently CEB applies Financial Collateral Comprehensive Approach to assess the value of collateral for risk mitigation purposes.

For **funded credit protections**, following collaterals are recognized as eligible:

- cash on deposit with, or cash-assimilated instruments held by, a lending credit institution;
- debt securities issued by central governments or central banks which securities have a credit assessment that is associated with credit quality step 4 or above;
- debt securities issued by institutions or other entities which securities have a credit assessment that is associated with credit quality step 3 or above;
- debt securities with a short-term credit assessment that is associated with credit quality step 3 or above;
- equities or convertible bonds that are included in a main index or listed on a recognized stock exchange;
- gold;

To reflect the possible fluctuations in the collateral value CEB applies supervisory haircuts set by the Dutch Central Bank, CEB strictly ensures that there is a proper documentation in place which legally enforces the pledge of the collateral to the exposure. Otherwise the collateral is not accepted for risk mitigation purposes. The main documents ensuring that CEB has the right to liquidate collateral in case the customer does not fulfill its credit obligations are Deed of Pledge and Framework Credit Agreements. The next tables show the carrying amount of collateralized exposure broken down by type of collateral obtained.

### Template 13 - EU CR3: CRM techniques – Overview

| Dec-21 | Exposures unsecured: carrying amount | Exposures secured by collateral | Exposures secured by collateral, of which: secured amount | Exposures secured by financial guarantees | Exposures secured by financial guarantees, of which: secured amount | Exposures secured by credit derivatives | Exposures secured by credit derivatives, of which: secured amount |
|---|---|---|---|---|---|---|---|
| Loans | 1,616,084 | 1,420,317 | 264,156 | 78,109 | 78,109 | | |
| Debt securities | 693,291 | | | | | | |
| **Total Exposures** | **2,309,375** | **1,420,317** | **264,156** | **78,109** | **78,109** | **-** | **-** |

| Dec-20 | Exposures unsecured: carrying amount | Exposures secured by collateral | Exposures secured by collateral, of which: secured amount | Exposures secured by financial guarantees | Exposures secured by financial guarantees, of which: secured amount | Exposures secured by credit derivatives | Exposures secured by credit derivatives, of which: secured amount |
|---|---|---|---|---|---|---|---|
| Loans | 1,348,181 | 1,420,317 | 264,156 | 78,109 | 78,109 | - | - |
| Debt securities | 785,626 | - | - | - | - | - | - |
| **Total Exposures** | **2,133,807** | **1,420,317** | **264,156** | **78,109** | **78,109** | **-** | **-** |

Shown below is a general overview of the total RWAs that comprise the denominator of the capital requirements by risk.

### Template 14 - EU CR4: Standardised approach – Credit risk exposure and CRM effects

| Dec-21 | Exposures before CCF and CRM | | Exposures post-CCF and CRM | | RWA and RWA density | |
|---|---|---|---|---|---|---|
| | On-balance sheet amount | Off-balance sheet amount | On-balance sheet amount | Off-balance sheet amount | RWAs | RWA density |
| Central governments or central banks | 1,494,908 | - | 1,518,962 | - | 142,032 | 10% |
| Regional government or local authorities | 128,689 | | 128,689 | | 860 | 1% |
| Public sector entities | | | | | | |
| Multiateral development banks | | | | | | |
| International organisations | 8,989 | | 8,989 | | - | 0% |
| Institutions | 309,537 | 307,586 | 325,154 | 63,016 | 150,961 | 49% |
| Corporates | 2,312,348 | 827,005 | 2,218,276 | 157,918 | 2,387,223 | 103% |
| Retail | 136,018 | 178,781 | 136,018 | 35,764 | 126,517 | 93% |
| Secured by mortgages on immovable property | 140,195.75 | - | 140,196 | - | 49,069 | 35% |
| Exposures in default | 187,392 | 4,315 | 187,392 | 1,454 | 249,185 | 133% |
| Higer-risk categories | | | | | | |
| Covered bonds | | | | | | |
| Institutions and corporates with a short-term credit assessment | | | | | | |
| Collective investment undertakings | | | | | | |
| Equity | 48,630 | 2,643 | 48,630 | 529 | 56,946 | 117% |
| Other assets | 216,839 | - | 216,839 | - | 192,952 | 89% |
| **Total** | **4,983,545** | **1,320,331** | **4,929,145** | **258,681** | **3,355,745** | |

| Dec-20 | Exposures before CCF and CRM | | Exposures post-CCF and CRM | | RWA and RWA density | |
|---|---|---|---|---|---|---|
| | On-balance sheet amount | Off-balance sheet amount | On-balance sheet amount | Off-balance sheet amount | RWAs | RWA density |
| Central governments or central banks | 1,157,931 | - | 1,204,636 | - | 103,201 | 9% |
| Regional government or local authorities | 37,062 | - | 37,062 | - | 3,182 | 9% |
| Public sector entities | - | - | - | - | - | |
| Multiateral development banks | - | - | - | - | - | |
| International organisations | 8,856 | - | 8,856 | - | - | 0% |
| Institutions | 278,218 | 216,803 | 248,887 | 48,568 | 178,507 | 64% |
| Corporates | 2,266,414 | 358,383 | 2,195,620 | 66,622 | 2,227,566 | 98% |
| Retail | 156,189 | 182,333 | 156,189 | 37,467 | 142,985 | 92% |
| Secured by mortgages on immovable property | 132,627 | - | 132,627 | - | 46,420 | 35% |
| Exposures in default | 228,482 | 22,357 | 228,482 | 6,454 | 311,977 | 137% |
| Higer-risk categories | - | - | - | - | - | |
| Covered bonds | - | - | - | - | - | |
| Institutions and corporates with a short-term credit assessment | - | - | - | - | - | |
| Collective investment undertakings | - | - | - | - | - | |
| Equity | 48,559 | - | 48,559 | - | 58,037 | 120% |
| Other assets | 282,626 | - | 282,626 | - | 246,011 | 87% |
| **Total** | **4,596,963** | **779,876** | **4,543,543** | **159,111** | **3,317,886** | |

### Template 15 - EU CR5-Standardised approach– exposures by asset classes and risk weights

| Dec-21 | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Risk Weight | 0% | 2% | 10% | 20% | 25% | 35% | 50% | 75% | 100% | 150% | 250% | 1250% |
| Central governments or central banks | 1,322,352 | | | | | | 120,852 | | 71,859 | | 3,899 | |
| Regional government or local authorities | 127,830 | | | | | | | | 860 | | | |
| Public sector entities | | | | | | | | | | | | |
| Multilateral development banks | | | | | | | | | | | | |
| International organisations | 8,989 | | | | | | | | | | | |
| Institutions | - | 5,836 | - | 269,734 | | | 100,503 | | 53,751 | 143 | | |
| Corporates | - | | | 38,142 | | | 13,666 | | 2,241,892 | 96,753 | | |
| Retail | - | | | | | | | 171,782 | | | | |
| Secured by mortgages on immovable property | | | | | | 140,196 | | | | | | |
| Exposures in default | | | | | | | | | 68,169 | 120,677 | | |
| Higher-risk categories | | | | | | | | | | | | |
| Covered bonds | | | | | | | | | | | | |
| Institutions and corporates with a short-termcredit assessment | | | | | | | | | | | | |
| Equity | 1,712 | | | | | | | | 44,637 | | 2,280 | 529 |
| Other assets | 23,887 | | | | | | | | 192,952 | | | |
| **Total** | **1,484,770** | **5,836** | **-** | **307,876** | **-** | **140,196** | **235,022** | **171,782** | **2,674,120** | **217,574** | **6,179** | **529** |

**Dec-20**

| Risk Weight | 0% | 2% | 10% | 20% | 25% | 35% | 50% | 75% | 100% | 150% | 250% | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Central governments or central banks | 1,060,498 | - | - | - | - | - | 103,446 | - | 33,502 | - | 7,191 | 1,204,636 |
| Regional government or local authorities | 33,880 | - | - | - | - | - | - | - | 3,182 | - | - | 37,062 |
| Public sector entities | - | - | - | - | - | - | - | - | - | - | - | - |
| Multiateral development banks | - | - | - | - | - | - | - | - | - | - | - | - |
| International organisations | 8,856 | - | - | - | - | - | - | - | - | - | - | 8,856 |
| Institutions | - | 10,006 | 4,518 | 161,332 | - | - | 79,031 | - | 62,485 | 29,059 | - | 346,431 |
| Corporates | - | - | - | 63,718 | - | - | 57,961 | - | 2,059,805 | 84,025 | - | 2,265,509 |
| Retail | - | - | - | - | - | - | - | 193,656 | - | - | - | 193,656 |
| Secured by mortgages on immovable property | - | - | - | - | - | 132,627 | - | - | - | - | - | 132,627 |
| Exposures in default | - | - | - | - | - | - | - | - | 80,852 | 154,083 | - | 234,936 |
| Higher-risk categories | - | - | - | - | - | - | - | - | - | - | - | - |
| Covered bonds | - | - | - | - | - | - | - | - | - | - | - | - |
| Institutions and corporates with a short-termcredit asses | - | - | - | - | - | - | - | - | - | - | - | - |
| Equity | - | - | - | - | - | - | - | - | 42,240 | - | 6,319 | 48,559 |
| Other assets | 36,615 | - | - | - | - | - | - | - | 246,011 | - | - | 282,626 |
| **Total** | **1,139,848** | **10,006** | **4,518** | **225,050** | **-** | **132,627** | **240,437** | **193,656** | **2,528,078** | **267,167** | **13,509** | **4,754,897** |

## 11.6 Counterparty credit risk

Counterparty credit risk (CCR) is the risk that the counterparty to a transaction could default before the final settlement of the transaction's cash flows. An economic loss would occur if the transaction or portfolio of transactions with the counterparty has a positive economic value at the time of default. Counterparty risk is part of the credit risk framework, which deals with the determination of the exposure value for a position arising from a financial derivative or a securities financing transaction.

For the purpose of regulatory capital calculation and reporting, CEB has adapted the standardized approach for counterparty credit risk (SA-CCR) method specified in the Regulation (EU) No 2019/876 amending Regulation (EU) No 575/2013 starting from June 2021, prior to that, CEB applied Mark to market approach. Under the new Method, the exposure value is calculated as 1.4 multiplies the sum of the current replacement cost (MTM) and the potential future exposure (PFE).

### Template 16 - EU CCR1: Analysis of CCR exposure by approach

| Dec-21 | Replacement cost | Potential future exposure | EEPE | Alpha used for computing regulatory EAD | EAD post-CRM | RWA |
|---|---|---|---|---|---|---|
| Current Exposure Method | | | | | | |
| SA-CCR (for derivatives) | 11,962 | 17,521 | | | 41,276 | 18,607 |
| Internal Model Method ( for derivatives and SFTs) | | | | | | |
| Simple Approach for credit risk mitigation ( for SFTs) | | | | | | |
| Comprehensive Approach for credit risk mitigation (for SFTs) | | | | | 14,760 | 2,952 |
| VaR for SFTs | | | | | | |
| **Total** | **11,962** | **17,521** | **-** | | **56,036** | **21,559** |

*EAD post-CRM equals to 1.4 multiplies the sum of replacement cost and potential future exposures

| Dec-20 | Replacement cost | Potential future exposure | EEPE | Alpha used for computing regulatory EAD | EAD post-CRM | RWA |
|---|---|---|---|---|---|---|
| Current Exposure Method | 49,289 | 36,763 | | | 45,729 | 11,824 |
| SA-CCR (for derivatives) | | | | | | |
| Internal Model Method ( for derivatives and SFTs) | | | | | | |
| Simple Approach for credit risk mitigation ( for SFTs) | | | | | | |
| Comprehensive Approach for credit risk mitigation (for SFTs) | | | | | 6,185 | 1,237 |
| VaR for SFTs | | | | | | |
| **Total** | **49,289** | **36,763** | **-** | | **51,914** | **13,061** |

To assign credit limits for counterparty credit exposures for its internal limit management, CEB has adopted an internal modelling method. The aim is to better capture the risk characteristics of the underlying instruments of the OTC derivatives and be able to effectively monitor the positive fair value of the contracts, netted current credit exposure and the collateral held.

CCR exposure or exposure at default (EAD) is measured at the level of the netted exposures. The internal model for measuring counterparty credit exposure takes into account the distributions for changes in the market value attributable to changes in market variables, such as interest rates, foreign exchange rates, etc. The model then computes the firm's CCR exposure for the netting set at each future date given the changes in the market variables. The tail risk is calculated by Monte Carlo simulation for all currency pairs in both directions, therefore the calculated PFE percentages take into account the general wrong way risk due to changes in market variables.

For calculation of the PFE, if ISDA contract with the counterparty exists, multiple transactions netting is performed; i.e. netting and unwinding of the product notional with the same currency and maturity. Cross-product netting is not allowed while calculating PFE. If ISDA does not exist, no netting and unwinding is allowed. PFE is always positive by definition. If the Counterparty has CSA; PFE will be calculated over a horizon of 2 weeks if the maturity exceeds 2 weeks. For the calculation of MTM, if ISDA contract with the counterparty does not exist, netting or unwinding is not allowed. That is, only the positive MTM's will be taken into account; i.e. where the counterparty is in loss. If there is an available ISDA agreement, the system will assume full close-out netting and net all MTM's across all OTC derivatives for the same counterparty. CEB does not enter into netting agreements that require additional collateral due to an own rating downgrade.

### 11.7 CVA capital charge

The valuation of financial OTC trades carried out by Credit Europe bank as part of its trading activities includes credit value adjustments (CVAs). CVA is an adjustment of the trading portfolio valuation to take into account the counterparty credit risk. CVA is the fair value of any expected loss arising from counterparty exposure based on the potential positive value of the portfolio, the counterparty default probability and the estimated recovery rate at default.

The following table shows the value adjustment for counterparty credit risk (Credit Value Adjustment or CVA):

**Template 17 - EU CCR2: CVA capital charge**

| Dec-21 | EAD post-CRM | RWA |
|---|---|---|
| Total portfolios subject to the Advanced CVA capital charge | | |
| (i) VaR component (including the 3 * multiplier) | | |
| (ii) stressed VaR component (including the 3 * multiplier) | | |
| All portfolios subject to the Standardised CVA capital charge | 28,141 | 11,097 |
| **Total subject to the CVA capital charge** | **28,141** | **11,097** |

| Dec-20 | EAD post-CRM | RWA |
|---|---|---|
| Total portfolios subject to the Advanced CVA capital charge | | |
| (i) VaR component (including the 3 * multiplier) | | |
| (ii) stressed VaR component (including the 3 * multiplier) | | |
| All portfolios subject to the Standardised CVA capital charge | 45,843 | 18,896 |
| **Total subject to the CVA capital charge** | **45,843** | **18,896** |

## 12. Market Risk

Market risk is defined as the current or prospective threat to the Bank's earnings and capital because of adverse market movements in market prices (security and derivative prices, as well as interest rates and foreign exchange rates) or in parameters such as volatility and correlations.

CEB draws the regulatory boundary between the 'Trading Book' and the 'Banking Book (i.e. the non-trading book) in line with the Trading Book definition provided in Regulation (EU) No 575/2013 on prudential requirements for credit institutions and investment firms (CRR), Article 4 (85) and (86). In this respect, CEB classifies all positions in financial instruments held with trading intent, or in order to hedge those trading positions in its 'Trading book'. CEB has established portfolio-level limit structure per the trading book and the banking book. For the trading book, nominal, PV01, holding period, equity, FX, Value at Risk and capital limits are in place; and for the banking book, nominal, PV01, equity, Structural FX, capital and total capital usage limits are in place. Any breach of the mentioned limits is clearly marked and demonstrated in Risk Management's 'Market Risk Report'. The circulation of this report triggers the escalation process, since the CRO and the division directors of Treasury and Risk Management are among the recipient list. Treasury is expected to provide explanation and the reasoning of the limit breach and in certain cases the time required to eliminate the limit breach.

Certain type of limit breaches are instantly directed to ALCO level, such as the exceedance of nominal limits (i.e. bonds or FX). For other type of limit breaches, particularly "sensitivity-based" metrics such as PV01 or VaR limits, CRO has the authority to grant a grace period (max 1 week) to Treasury to correct the limit breach. In case the issue is not resolved within the grace period, the limit breach is directly escalated to ALCO.

CEB's market risk policy is subject to the approval of CEB's Managing Board and reviewed annually by Risk Management Division. CEB's Audit & Risk Committee is informed about the level of limits and utilization at least on a quarterly basis. The ALCO determines the main pillars of CEB's trading book and banking book management and monitors compliance with the market risk policy, it bears the responsibility to monitor and control the composition, characteristics and diversification of the Bank's regulatory books in line with the overall strategic objectives, and it monitors the current limit utilization and compliance with the limits. The Risk Management Division establishes and maintains systems and controls to manage the risks associated with the regulatory books, it ensures that all entry requirements for either of the regulatory books are satisfied, it monitors all the limits defined in the market risk policy are complied with, and it builds and maintains efficient and accurate risk measurement systems for daily risk monitoring and ICAAP purposes. Treasury Department follows the principles laid down in the market risk policy during the assignment of financial instruments to regulatory books and in coordination with Risk Management, it ensures that all trading and banking book positions are within the limits.

### 12.1 Market Risk Capital Component

From a regulatory perspective, market risk stems from all the positions included in banks' trading book as well as from commodity and foreign exchange risk positions in the whole balance sheet. The standardized approach is used to calculate capital requirements for market risk as shown below.

**Template 18 - EU MR1 – Market risk under the standardized approach**

| Dec-21 | RWAs | Capital requirements |
|---|---|---|
| Outright products | | |
| Interest rate risk (general and specific) | 52,843,290 | 4,227,463 |
| Equity risk (general and specific) | 4,331,139 | 346,491 |
| Foreign exchange risk | 22,761,941 | 1,820,955 |
| Commodity risk | | |
| Options | | |
| Simplified approach | | |
| Delta-plus method | - | - |
| Scenario approach | | |
| Securitisation (specific risk) | | |
| **Total** | **79,936,370** | **6,394,910** |

| Dec-20 | RWAs | Capital requirements |
|---|---|---|
| Outright products | | |
| Interest rate risk (general and specific) | 73,482,816 | 5,878,625 |
| Equity risk (general and specific) | - | - |
| Foreign exchange risk | 22,096,969 | 1,767,758 |
| Commodity risk | | |
| Options | | |
| Simplified approach | | |
| Delta-plus method | | |
| Scenario approach | | |
| Securitisation (specific risk) | | |
| **Total** | **95,579,785** | **7,646,383** |

Key changes and drivers: Turkey and Russia risks were decreased with a view to decreasing country concentration.

### 12.2 Market Risk – Internal Models (VaR)

The Bank measures the market risk of its trading book and the foreign-exchange risk of its banking book by using an internal historical simulation method, based on VaR methodology. VaR defines the maximum loss not exceeded with a given probability over a given period under normal market conditions.

The internal historical simulation method of VaR model is used for risk-monitoring purposes and whereas regulatory capital for market risk is calculated and reported quarterly according to the Standard Approach, as specified in the DNB's market-risk regulations.

The internal historical simulation method is used starting from January 2013. The last 250 historical daily returns of market risk factors are used to stress the current trading positions to estimate possible fluctuations caused by market movements while keeping the portfolio fixed.

The internal limit for the 10-day VaR of trading FX positions and treasury products, measured at 99% confidence interval, is EUR 2 million. This implies that diversified VaR from foreign-exchange risk and interest-rate risk in the trading book should not exceed this level.

The Bank started to measure the market risk of its loan trading portfolio in the trading book via the internal historical simulation method, based also on VaR methodology, starting from March 2021. As of 31st of December 2021, VaR has been calculated as EUR 0.3 million for the loan trading portfolio in the trading book.

The internal limit for the 10-day VaR of the loan trading portfolio, measured at 95% confidence interval, is EUR 3.75 million.

Other market risks such as liquidity, re-pricing and interest-rate risk on the banking book are measured and monitored through sensitivity and gap analyses, detailed in subsequent sections.

| Value-at-risk figures - Trading Book (2021) | Total | Diversification effect | Interest-rate risk | Foreign-exchange risk |
|---|---|---|---|---|
| **Average** | 384 | 100% | 9 | 384 |
| Maximum | 741 | 100% | 9 | 741 |
| Minimum | 128 | 100% | 9 | 128 |
| Period-end | 180 | 100% | - | 180 |

| Value-at-risk figures - Trading Book (2020) | Total | Diversification effect | Interest-rate risk | Foreign-exchange risk |
|---|---|---|---|---|
| **Average** | 107 | 98% | 8 | 107 |
| Maximum | 355 | 100% | 8 | 355 |
| Minimum | 1 | 67% | 8 | 1 |
| Period-end | 355 | 100% | - | 355 |

(*) Values in thousand Euros

### 12.3 Interest-rate risk in the banking book

One of the Bank's major risks under Pillar II is the interest-rate risk on the banking book. The Bank defines interest-rate risk as the current or prospective risk to earnings and capital arising from adverse movements in interest rates. The trading book is also subject to interest-rate risk, but this type of risk is dealt with under the Market Risk: Value-at-Risk section. The Bank has a 'limited' risk appetite towards interest-rate risk in its banking book.

The Bank's interest-rate risk is monitored for the banking book by means of static re-pricing gap and interest rate sensitivity analyses once a month at all levels and for each major currency in use. Interest-rate sensitivity in the banking book is calculated according to the economic-value approach. All future cash flows, arising solely from on- and off-balance sheet assets and liabilities are discounted back to their present values with zero-coupon yield curves to see the impact of interest-rate changes on the economic value of the Bank. The impact of the curve with the maximum net gain or loss compared to a benchmark curve is then analysed.

According to the revised EBA guidelines applicable since December 31, 2019, CEB applies six additional interest rate shock scenarios on the top of +/-200 bps parallel shock to capture parallel and non-parallel gap risks for Economic Value of Equity (EVE). The capital requirement is based on the maximum EVE impact under all these scenarios. As of December 31, 2021, EVE drops by EUR 16.7 million in case of a short rates shock down scenario (2020: EUR 16 million in case of a steepener shock ).

The interest rate repricing gap table below is prepared to determine the Bank's exposure to interest rate risk because of maturity mismatches in its balance sheet. Repricing is based on remaining days to maturity for fixed rate instruments and next repricing date for floating rate instruments.

Additionally, the Bank calculates the projected net interest income for +/-200 bps parallel shift of the yield curve. As of 31 December 2021, NII drops by EUR 12 million in case of -200 bps shock over 12 months from the reporting date.

## 13. Operational Risk

The Bank has an Operational Risk Management (ORM) function, the goal of which is to enhance the operational risk culture of the Bank by promoting awareness of the Bank's operational risk management framework and providing oversight of its execution in line with the three lines of defence model.

ORM act as the second line of defence, providing the business line and other functions across the Bank, with support related to the implementation of the identification, assessment, measurement, mitigation, monitoring and reporting of operational risks, which together form a framework for managing the Bank's exposure to operational risk losses.

Operational risk events and significant control incidents are reported and analysed through the Operational Risk Incident Management framework. The effectiveness of the Bank's controls are assessed through the annual Internal Control Framework evaluations and the execution of Risk Control Self-Assessments in 2021. The risks identified as being above risk appetite, were reported to Managing Board for further risk mitigation, acceptance for a limited period, transfer or avoidance. Furthermore, in order to：

• Strength the front line responsibility for operational risk management and
• check whether key controls are working as intended

The Bank initiated control-testing activities in 2021. The governance mechanism of control testing is built and the roles and responsibilities of different functions are clarified. The results of control testing activities is planned to be shared with Non-Financial Risk Committee and Managing Board to monitor the effectiveness of internal control environment.

The Bank also has an established operational risk appetite, broken down by both business- and subsidiary-specific thresholds, which is monitored in the quarterly Non-Financial Risk Committee meetings. On the other hand, early warning limits are defined for the operational risk metrics in order to trigger intensified risk monitoring In addition to promote the monitoring capability of operational risks, key risk indicator (KRI) framework is improved in 2021. A new, comprehensive KRI set is in place and periodically reported to Non-Financial Risk Committee and Audit Risk Committee for better risk monitoring.

New products, or changes to existing products, are subject to the Product Approval and Review Process. Key Risk Indicators are established and regularly monitored. In addition, regular training and awareness sessions are provided to employees to ensure that operational risk management continues to be embedded in the Bank's day-to-day operations.

## 14. Funding and Liquidity Risk

The Bank defines liquidity risk as the current or prospective risk to earnings and capital arising from an institution's inability to meet its liabilities when they come due. CEB's liquidity risk appetite is 'LOW' and the Bank applies a strict definition of "available vs. required liquidity". While maintaining the low risk appetite level, the Bank is deliberately reducing its excess liquidity. CEB's low risk appetite towards liquidity risk is firmly rooted in the Bank's key liquidity management principles.

### 14.1 Stress-Test Scenarios

The Bank uses stress testing to verify that its liquidity buffer is adequate to withstand severe but plausible funding conditions. The outcome of the stress testing shows the Bank the level of required liquidity across different time horizons. In this respect, the design and frequency of the stress test scenarios reveal the Bank's risk appetite and preparedness to withstand a liquidity crisis. The main components of the required liquidity are as follows:
The main components of the required liquidity are as follows:

• The duration of the stress-tests.
• Run-off rates on retail and wholesale funding.
• Erosion in the value of liquid assets.
• The liquidity-related consequences of market risks.
• Additional margin calls / collaterals required.
• Restrictions in respect of the availability of assets.

The Bank maintains a buffer of 'readily available liquid assets' to prevent mismatches between the inflow and outflow of the Bank as a consequence of both foreseen and unforeseen circumstances. The definition of this liquidity cushion and the principles regarding its size and composition are directly linked to CEB's 'minor risk appetite':

- The list of eligible liquid assets.
- Liquidity value of liquid assets (i.e. haircuts) and the time-to-liquidity period.
- The treatment of non-marketable assets.
- The assumptions made in respect of the possibilities for rolling over the various funding lines such as wholesale and retail funding.
- The assumptions made in respect of the possibilities for rolling over the maturing assets.
- The use of secured / unsecured central bank facilities.

The Bank ensures that its available liquidity is larger than the required amount implied by its stress scenarios at all times.

### 14.2 Funding Plan & Strategy

The Bank's key funding principles also form an essential part of its liquidity risk appetite:

- Alignment with the asset profile and asset strategy
- Alignment with the liquidity risk appetite
- Minimizing any funding deficit risk by ensuring granular and stable funding
- Support the Bank's overall objective of achieving an investment grade rating
- Satisfy any minimum requirements from regulatory authorities
- Management of asset encumbrance

## 15. Remuneration Policy

CEB's Group Remuneration Policy is in line with national and international regulations. The policy applies to CEB and its subsidiaries. It also covers the remuneration of Managing Board members of CEB and its subsidiaries. Through its conservative remuneration policy, CEB promotes a sound remuneration culture with a long-term focus. The Group Remuneration Policy is reviewed and approved by, among others, the Supervisory Board, which monitors its proper implementation by the Managing Board. The compliance to the rules and procedures under the policy is reviewed annually in line with the Control Functions Remuneration Monitoring Procedure. The HR and Remuneration Committee meets at least each quarter and prepares the decision-making process for the Supervisory Board, taking into account the long-term interests of all CEB stakeholders.

The Supervisory Board determines the level of remuneration for the members of the Managing Board in line with the principles of the Group Remuneration Policy.

The remuneration received by the members of the Supervisory Board is not dependent on the financial results of the bank. Each Supervisory Board member receives an appropriate amount of compensation, taking into account the total number of hours spent for the tasks and the compensation paid to Supervisory Board members of companies of comparable size and business.

The bank's Remuneration Report is included in Section F and is also made available on the bank's website. The main elements of the agreement of a Managing Board member with the bank are not published on the bank's website as CEB holds the view that sufficient information is disclosed in its Remuneration Report.