Pillar III Report 2020

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 III compliance. Banks are expected to meet the capital-requirements constraints imposed by Basel. These are a minimum capital ratio of 8%, which is a ratio of total own funds to total risk weighted assets (RWA). Basel III provides several approaches for calculating regulatory capital requirements. CEB adopted Standardized Approach for credit risk, market risks and operational risk.

2.2. Pillar II

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.

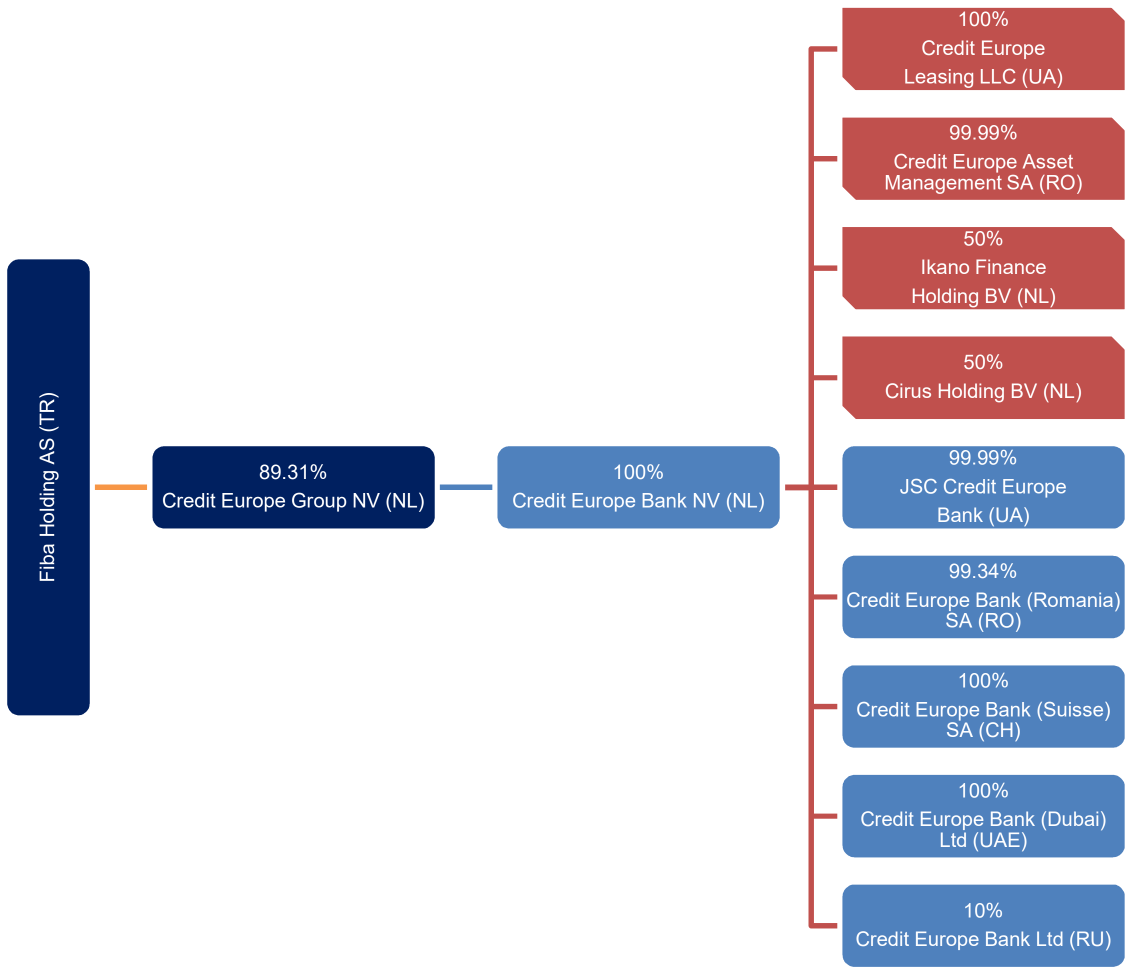
The Pillar III disclosures are prepared for CEB on consolidated basis. All amounts are in *Thousands of Euros*. The report is prepared annually and is published on the CEB's website https://www.crediteuropebank.com/financials.html

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 9 countries. It operates 27 branches, 59 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, including underwriting departments 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 Credits Department

Corporate Credits Department is an independent credit review function providing a credit opinion on all credit proposals. Corporate Credits Department must assure credit proposals are in compliance with established policies and credit risk appetite. Main activities of corporate credit risk department include: providing an independent credit opinion on credit proposals, ad hoc & regular reports (e.g. deep dive assessments), reviewing and deciding on the credit risk-rating grade, making a decision on the ultimate country risk assignment and group of connected clients, monitoring key risk indicators at aggregate level, ensuring that credit risk is within the risk appetite set by the Managing Board, ensuring compliance with credit risk policies and providing an independent assessment on impairment calculations and revaluation of collateral for NPE customers.

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 and the limits 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 sets the risk appetite levels in quantitative and/or qualitative terms and thus, is the ultimate owner of the Policy. 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.

Group Risk Management Division

In corporation with CRO, Group Risk Management Division establishes the risk appetitive measures, limits and expected direction of change in risk measures in line with Bank's strategy and budget and proposes it to Managing Board. Group Risk Management is also responsible from monitoring the portfolio based risk appetite compliance and reporting to Managing Board, Supervisory Board and Supervisory Board Sub-committees.

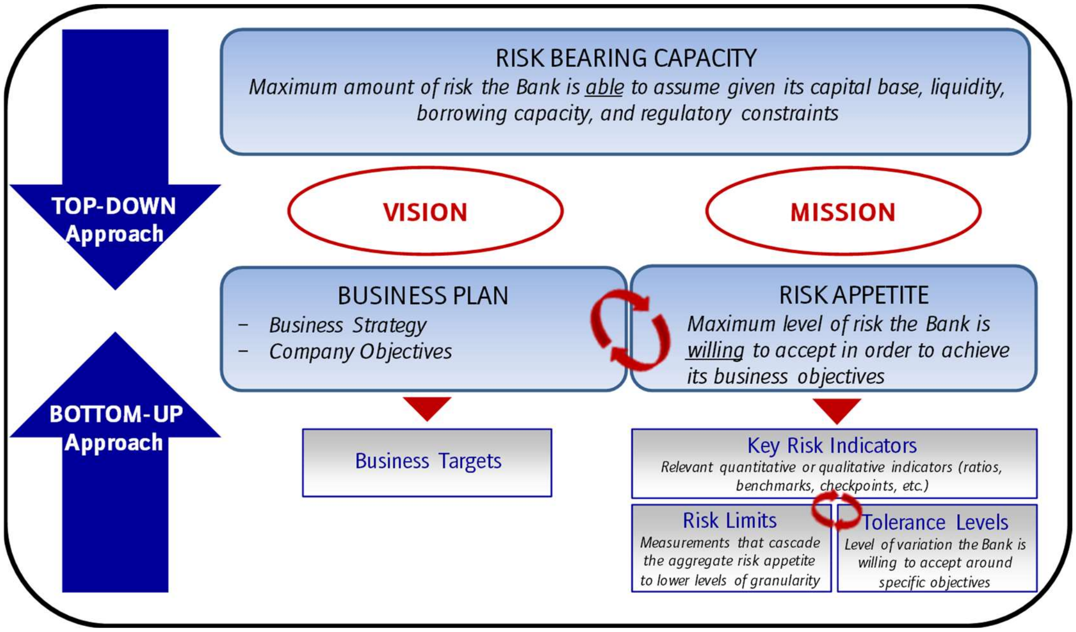
Division/Department Managers

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.



KRIs, risk limits and thresholds, and tolerance levels 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. Qualitative criteria can include the results of risk-assessments where the division/department manager assesses the risks and controls within their area of responsibility. CEB adapts a forward looking approach in assessing its appetite for each category of risk, in the sense that the actual level of risk might be higher or lower than the level implied by the assessment.

Table 1 to 3 presents an overview of CEB's current Risk Appetite Framework. Table 1 and 2 provide a summary of the financial and non-financial risk categories, respectively and of the assessment criteria that are employed. Table 3 summarizes the metrics used to measure and monitor the risks.

Risk Category		Risk Appetite[1]	Assessment Criteria Type[2]
Credit Risk			
Corporate-Commercial		High	Quantitative
	CORPORATE WHOLESALE (INC. CRE[1])	High	
	MARINE FINANCE	Low	
	TRADE FINANCE	Fair	
Retail & SME		Limited	
	RETAIL CREDIT CARD	Low	
	MORTGAGE[2] LOANS	Limited	
	OTHER RETAIL & SME	Low	
Financial Institution		Fair	
Country Concentration Risks			
	Turkey	Fair	Quantitative
	Romania	Fair	

[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.

1 CRE stands for Commercial Real Estate

2 Residential Mortgage

	UAE	Limited	
	Pillar 2 Assessment	Material	
Sector Concentration Risk			
	OIL & DERIVATIVES	Fair	Quantitative
	REAL ESTATE	Fair	
	LEISURE&TOURISM	Limited	
	PILLAR 2 ASSESSMENT	Limited	
SINGLE NAME CONCENTRATION RISK			
	LARGE EXPOSURE	Limited	Quantitative
	PILLAR 2 ASSESSMENT	Limited	
Asset Quality			
	NONPERFORMING EXP.	Limited	Quantitative
	UNDERPERFORMING EXP.	Limited	
Market Risk		Low	Quantitative
Interest Rate Risk		Limited	Quantitative
Liquidity Risk		Low	Quantitative
Operational Risk		Low	Quantitative/Qualitative
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.
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.
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	Definition
Operational Risk	The risk of loss resulting from inadequate or failed internal processes, people, and systems or	**INTERNAL FRAUD**	Risk of fraud committed internally in CEB against its interests: Transactions not reported (intentional) Trans type unauthorized (w/monetary loss) Mismarking of position (intentional) Fraud / credit fraud Theft / extortion / embezzlement / robbery Misappropriation of assets Malicious destruction of assets Forgery

Risk Category	Definition	Sub-Risk Category	Definition
	from external events.		Smuggling Account take-over / impersonation / etc. Tax non-compliance / evasion (willful) Bribes / kickbacks Insider trading (not on Bank's account)
		EXTERNAL FRAUD	Risk of activities committed by third parties: Theft/Robbery Forgery Hacking damage Theft of information (w/monetary loss)
		EMPLOYMENT PRACTICES AND WORKPLACE SAFETY	Risk of Non-compliance to employment or health-and-safety laws and regulations and grave operational hazards in CEB: Compensation, benefit, termination issues Organized labor activity General liability (slip and fall, etc.) Employee health & safety rules events Workers compensation All discrimination types
		CLIENTS, PRODUCTS & BUSINESS PRACTICES	Risk of failing to meet promises made to our clients: Fiduciary breaches / guideline violations Suitability / disclosure issues (KYC, etc.) Retail consumer disclosure violations Breach of privacy Aggressive sales Account churning Misuse of confidential information Lender Liability Antitrust Improper trade / market practices Market manipulation Insider trading (on Bank's account) Unlicensed activity Money laundering Product defects (unauthorized, etc.) Model errors Failure to investigate client per guidelines Exceeding client exposure limits Disputes over performance of advisory activities

Risk Category	Definition	Sub-Risk Category	Definition
		DAMAGE TO PHYSICAL ASSETS	Risk of losses incurred by damages caused to physical assets due to: Natural disaster losses Human losses from external sources (terrorism, vandalism)
		BUSINESS DISRUPTION AND SYSTEM FAILURES	Risk of supply-chain disruptions and business continuity: Hardware Software Telecommunications Utility outage / disruptions
		EXECUTION, DELIVERY & PROCESS MANAGEMENT	Risk of failure in delivery, transaction or process management: Miscommunication Data entry, maintenance or loading error Missed deadline or responsibility Model / system misoperation Accounting error / entity attribution error Other task misperformance Delivery failure Collateral management failure Reference Data Maintenance Failed mandatory reporting obligation Inaccurate external report (loss incurred) Client permissions / disclaimers missing Legal documents missing / incomplete Unapproved access given to accounts Incorrect client records (loss incurred) Negligent loss or damage of client assets Non-client counterparty misperformance Misc. non-client counterparty disputes Outsourcing Vendor disputes
Business Risk	The risk arises due to potential changes in general business	**--**	--

Risk Category	Definition	Sub-Risk Category	Definition
	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 regulation and the standards set by society or by the institution itself.	**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 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.

Risk Category	Definition	Sub-Risk Category	Definition
Strategic[3] Risk	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]
	Country Concentration Capital Add-on Limit
	Asset Quality (NPL Ratio, Texas Ratio) Limits
	Stressed RWA and Profit/Loss Analysis
	IRB Impact 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
	Tier1 Cap Ratio Thresholds

[3] Described in detail in Annex 5

[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")).

	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 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: **'group- and subsidiary-level oriented'**	▪ CEB efficiently manages its capital and risks at group- as well as at subsidiary-level; ▪ 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: **'multiple views oriented'**	▪ CEB manages capital and risk, taking into account multiple views for capital adequacy; ▪ 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; ▪ Incorporating stress-testing views complements the economic perspective of risk capital.
Guiding principle 3: **'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: **'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.

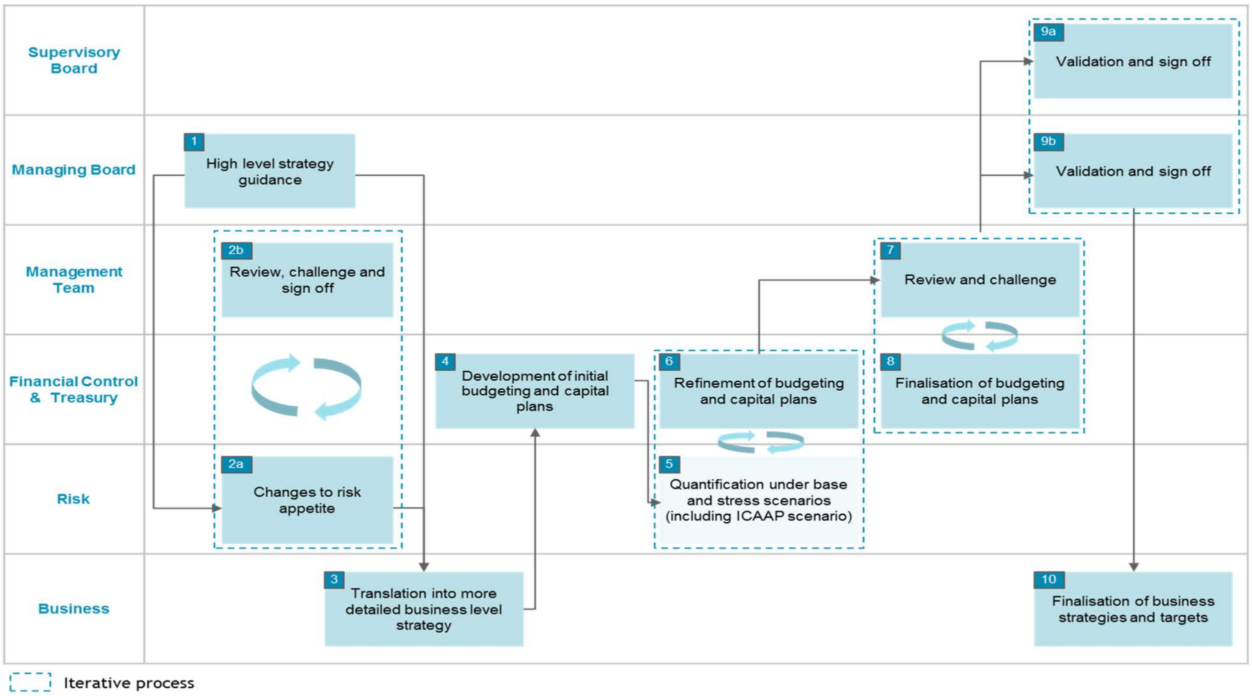
In terms of adequately managing these three dimensions of capital needs, CEB has defined five core activities that in summary build up to its capital management process: CEB will (i) measure, monitor and challenge its defined capital metrics and risk/return thresholds; (ii) estimate its capital (needs) 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 2020

In 2020, the following events required specific attention of the Managing Board:

CEB has strengthen its three lines of defence (LoD) governance structure in 2020 by revising its organizational structure in terms of new roles and responsibilities and job descriptions. In addition to a dedicated underwriting function within the 1st line of defence, CEB also established an independent credit review function -composed of senior credit officers- within the 2nd line of defence. This new 2nd line function is responsible for the oversight of the whole corporate portfolio both at obligor and aggregate level[3] as well as the collateral valuation. This independent credit review function is under the direct supervision of the CRO.

In addition, CEB has improved its risk appetite framework and its monitoring processes. CEB introduced a new portfolio metrics to its risk appetite for both new inflows and existing transactions and designed monitoring reports at rating/collateral type/ account officer/desk/department levels. Moreover, automated credit risk and financial standing dashboards on consolidated level have been established for day-to-day monitoring purposes.

The Bank’s forward-looking corporate risk management process has also been strengthened by improving the processes for regular and ad-hoc forward looking reporting. CEB has started generating general outlook reports for sectors, businesses and developing countries which have critical importance for the bank. These reports are prepared at least annually. Within an outlook report, the current environment, recent developments and future expectations for the sector/business/country and the potential implications for the existing exposures and the future risk-appetite are

[3] FI part will be finalized by March end 2021.

summarized. For ad-hoc reporting, CEB has introduced a list of new macro-economic triggers that would indicate the significant developments that could have a major effect on the credit risk (Probability of Default (PD) and Loss Given Default (LGD)4) of the current portfolio, a specific sector or potential growth targets/risk appetite. In case such triggers are hit, deep-dive reports are prepared for the portfolios/segments that may been affected the most.

In respect of changing regulations, the Bank finalized its system developments to comply with the new EBA guidelines on disclosure and management of non-performing and forborne exposures. Further work has been undertaken on improving the financial and economic crime detection systems. With the help of these improved systems and the specialized units that undertake the systematic monitoring of transactions that are improper, suspicious, or otherwise potentially problematic, the Bank is continuously positioning the implementation of further measures for anti-money laundering, counter terrorist financing, and prevention of other kinds of crimes as a top management priority. CEB also performed a comprehensive risk control self-assessment and internal control evaluation in 2020 that covers every major process. Credit Europe Bank conducts regulatory self-assessments and takes necessary measures by revising its internal policies and processes and updating its IT systems.

Further, CEB has been closely monitoring market developments, announcements from industry bodies and regulators about IBOR Benchmark transition and is taking necessary steps to be ready for the upcoming changes in this regard in a timely manner. Since the initiation of the 'IBOR Transition IT Project' since February 2020, CEB has had significant progress and many of the new requirements have already been developed and tested, starting with Treasury products. Remaining products will be dealt with in the next phases throughout 2021. Identifying and acquiring new data points for yield curves, benchmark indices, etc., were another focus point in 2020 and this has also been completed to a large extent. All new transactions already incorporate the new definitions that were amended by ISDA in October 2020. On Corporate Banking side, the roadmap consists of a standard loan documentation update with robust fallbacks and language accommodating new risk free rates (RFRs).

Furthermore, CEB finalized an IT project in 2020 in order to achieve full compliance with the most recent EBA Guidelines on the Definition of Default, which would enter into effect as of 1 January 2021. As a result of this project, which is named "Corporate Exposure Classification and Treatment", the required changes in terms of day counting methodology for past due exposures, the materiality thresholds, mandatory cure periods for both forborne and non-forborne default cases; among other changes related to the evaluation and treatment of forbearance cases have been implemented and automated to the most extent possible.

Additionally, CEB has initiated a project to improve the data centralization throughout its subsidiaries. The integration of the CORE banking system in CEB Suisse has started in 2020 and the project is expected to be finalized by June 2022. In addition, several data centralization and improvement projects have been executed to enhance the content, quality and the automation of the data inflow at consolidated level.

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[4] Collateral valuations, likelihood of recovery and timing of recovery may have implications on LGD.

Credit Europe Bank has also been improving its credit risk quantification methodologies since 2019 by implementing an internal credit portfolio tool that facilitates economic capital requirement assessment for credit risk. CEB's new internal credit portfolio modelling solution applies a simulation-based approach in line with best practice. The internal credit portfolio modelling solution is a robust software that is customized in order to account for CEB's portfolio by incorporating a tailor-made correlation structure and internal PD assessment. In 2020, CEB's economic capital assessment is utilized for periodic internal credit risk monitoring and bank's capital requirements calculation from a Pillar 2 (ICAAP) perspective. Compared to the top down regulatory concentration risk calculation recipes that are designed as one to fit all, the tool produces more accurate assessments for CEB's single name, sector and country concentration risks by taking into account the correlation between these concentration risks and the specifics of CEB's portfolio.

CEB selected operational risk management as the company focus for 2020, in order to improve the operational risk culture and processes of the Bank. For more information on this topic, reference is made to the chapter on non-financial reporting (section 'Information and Operational Risk').

Credit Europe Bank continued strengthening its cyber security and resilience in order to cope with the emerging and sophisticated cyber threats in the financial sector. Furthermore, enhancements have been made in the areas of operational risk management, information security, data protection and business continuity. As further explained in the IT and 'Information and Operational Risk' sections included in the chapter on non-financial reporting.

Since financial and economic crime prevention requires undiminished attention, management of our key integrity risks has remained a priority throughout the year. CEB recognizes that its improved AML framework serves as a solid foundation, which is to be maintained on a continuous basis. Therefore, all CEB locations will continue their efforts to maintain a strong AML culture in which all staff are aware of the continuous threats and risks related to financial and economic crime.

Last but not the least, CEB has improved it Climate Risk Management process. Since 2019, CEB has been analysing the carbon intensive sectors within CEB's consolidated loan book. In 2020, CEB developed a reliable and accurate carbon emission measurement methodology with the support of an external party, Navigant. The measurement methodology and the metrics to monitor the portfolio are in line with the principles of the PCAF methodology. With this new methodology, we have measured the carbon footprint of our balance sheet for corporate, bank and sovereign exposures5 and analyzed the trend since 2017 year-end. In 2020, CEB has also improved its climate risk management governance structure –inter alia- through establishing a Climate Risk Committee. While the Managing Board has the ultimate responsibility for all sustainability matters, the Climate Risk Committee acts as an advisory body of the Managing Board. Climate related matters have started to be monitored and reported to this committee and to Audit and Risk Committee (ARC) in 2020.

[5] Including repossessed assets

4.6 Areas of improvement for 2021

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 Basel 3 framework’, ‘loan origination and monitoring’, among others. CEB shall continue to strengthen its operational risk framework, with a special focus on extending its risk & control self-assessments (RCSA), introducing new key risk indicators (KRIs) and developing new operational risk stress scenarios.

In addition, CEB has initiated a project to integrate Environmental, Social and Governance (ESG) factors in its credit policies and procedures in line with the respective EBA guideline. CEB will take into account the risks associated with ESG factors on the financial conditions of borrowers and collateral valuation, and in particular the potential impact of environmental factors and climate change. Via ESG factor evaluation, CEB will better manage climate related risk and opportunities in its loan portfolio. Furthermore, CEB will initiate the (regular) monitoring of the carbon emission of its balance sheet and the measurement and monitoring of its own carbon footprint. In 2021, also a climate risk policy will be drafted to document 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 Fintech Risk, increasing complexity of new regulations and cyber-threats have not been "fully" covered within CEB's ICAAP, CEB allocates capital for these types of risk factors 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

There are established processes to ensure compliance with current laws and regulations, industry standards and internal guidelines.

Credit EuropeBank

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	666,135	666,135	666,135				
Items in the course of collection from other banks							
Trading portfolio assets							
Financial assets designated at fair value	87,762	87,762	22,837			64,924	
Derivative financial instruments	189,239	189,239		189,239			
Loans and advances to banks	203,973	203,973	203,973				
Loans and advances to customers	2,564,524	2,564,524	2,563,420	1,105			
Reverse repurchase agreements and other similar secured lending	-	-	-				
Available for sale financial investments	785,626	785,626	785,626				
Others	329,103	329,104	301,545				27,559
Total Assets	**4,826,363**	**4,826,363**	**4,543,536**	**190,344**		**64,924**	**27,559**
Liabilities							
Deposits from banks	677,183	677,183					677,183
Items in the course of collection due to other banks							
Customer accounts	3,127,179	3,127,179					3,127,179
Repurchase agreements and other similar secured borrowings							
Trading portfolio liabilities							
Financial liablities designated at fair value	-	-					-
Derivative financial instruments	165,424	165,424		165,424			-
Others	244,002	244,002					244,002
Total Liabilities	**4,213,789**	**4,213,789**	**-**	**165,424**		**-**	**4,048,365**

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
Asset carrying value amount under scope of regulatory consolidat	**4,798,804**	**4,543,536**		**190,344**	**64,924**
Liabilities carrying value amount under regulatory scope of consolidation	165,424			165,424	
Total net amount under regulatory scope of consolidation	4,633,380	4,543,536	-	24,920	64,924
Off Balance sheet amounts*	779,876	165,764			
Differences in valuations	175,756			145,101	30,655
Differences due to different netting rules, other than those already included in row 2	(178,447)	(60,073)		(98,882)	
Differences due to consideration of provisions	-				
Differences due to prudential filters	27,559	27,559			
Exposure amounts considered for regulatory purposes	**5,438,124**	**4,676,786**	**-**	**71,139**	**95,580**

** 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-20	Dec-19
Total Equity(FINREP)	**612,574**	**620,871**
Current year profit (1)	(4,678)	(19,494)
Eligible Current year profit after approval		
Non-eligible minority interest (2)	(1,305)	(2,445)
Deductions from revaluation Reserve - AFS		
Prudential filters		
Cash flow hedge reserve	-	(0)
Prudent valuation	(998)	(918)
Intangible asset (2)	(5,265)	(4,801)
Deferred tax assets rely on future profitability and do not arise from temporary differences (2)	(22,294)	(15,020)
Transitional adjustments to IFRs 9 provisions (2)	25,499	30,963
Fair value gains and losses arising from the institution's own credit risk related to derivative	-	(20)
Core Tier I	**603,533**	**609,137**
Additional Tier I	40,855	44,638
Tier I	**644,388**	**653,775**
Subordinated Liabilities	121,228	132,145
Tier II	**121,228**	**132,145**
Total Regulatory Capital	**765,616**	**785,920**

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 70% additional IFRs9 provisions back to total own funds as of 2020

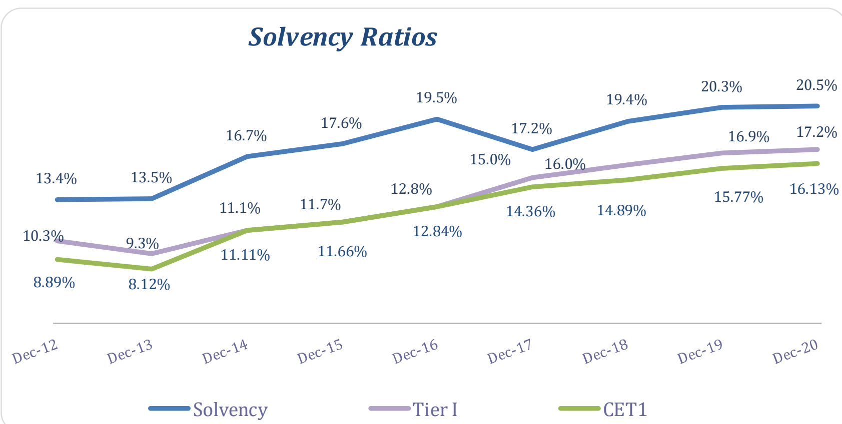
Tier II capital of CEB comprises of subordinated liabilities which is assessed by DNB and approved as CRR compliant. For more details of subordinated liabilities, please see note 20, Subordinated liabilities in CEB's Financial Statements as of 31 December 2020.

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-20	Dec-19
Core Tier 1 (CT1) Ratio	16.13%	15.77%
Tier 1 ratio	17.22%	16.93%
Total Capital Ratio	20.46%	20.35%
Leverage Ratio	13.28%	13.10%

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	Mark-to-market Exposure
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-20	Dec-19	Dec-20
Credit risk (excluding counterparty credit risk)	**3,288,962**	**3,242,495**	**263,117**
of which standardised approach(SA)	3,288,962	3,242,495	263,117
of which Internal rating-based (IRB) approach		-	-
Counterparty credit risk	**13,127**	**19,714**	**1,050**
of which current exposure method for counterparty credit risk	13,127	19,714	1,050
of which Internal model method (IMM)		-	-
CVA (Standardised Method)	18,896	16,741	1,512
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 IRB rating-based approach(RBA)		-	-
Of which IRB Superviosory Formula Approach (SFA)		-	-
Of which SA/simplified supervisory formula approach (SSFA)		-	-
Market risk	**95,580**	**200,819**	**7,646**
of which standardised approach(SA)	95,580	200,819	7,646
of which Internal model method (IMM)		-	-
Operational risk	**309,510**	**360,249**	**24,761**
of which Basic Indicator Approach		-	-
of which Standardised Approach	309,510	360,249	24,761
of which Advanced Measurement Approach		-	-
Amounts below the thresholds for deduction (subject to 250% risk-weight)	**15,797**	**22,009**	**1,264**
Floor adjustment		-	-
Total	**3,741,873**	**3,862,027**	**299,350**

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.
- 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.
- Building a regular cycle of rating models validation that includes 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

EU CRB-B: Total and average net amount of exposures			
Dec-20	**Net value of exposures at the end of the period [1] (Dec-20)**	**Average Net Exposure over the period [2]**	**Net value of exposures at the end of the period [1] (Dec-19)**
Central governments and central banks	1,157,931	1,355,660	1,040,518
Regional governments or local authorities	37,062	19,830	67,338
Public sector entities	-	-	-
Multiateral development banks	-	-	2,690
International organisations	8,856	8,856	-
Institutions	490,417	382,683	338,470
Corporates	2,604,532	2,219,893	2,608,239
of which: SMEs	-	-	-
Retail	334,862	346,650	362,018
of which: SMEs	15,376	15,540	-
Secured by mortgages on immovable property	132,625	178,742	204,627
of which: SMEs	-	-	-
Exposures in default	248,984	271,435	254,233
Items associated with particularly high risk	-	-	-
Covered bonds	4,518	26,101	37,409
Claims on institutions and corporates with a short-term credit assessment	-	-	-
Collective investments undertakings	-	-	-
Equity exposures	48,559	48,307	41,854
Other exposures	282,626	256,745	272,811
Total standardised approach	**5,350,971**	**5,114,903**	**5,230,207**

[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 2020 is mainly due to rise of placement to Dutch central bank (increase around 90 million) and Ministry of Finance the Netherlands (around 100 million)

Institutions:

The increase of Institution exposure is mainly due to increase of export LCs exposures (increase around 65 million) and re-class of Forfeiting loans to credit risk portfolio (around 62 million)

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

Credit EuropeBank

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**

Dec-19	Russia	Turkey	Romania	Ukraine	Other Emerging Markets	Developed markets	Total exposure
Central governments and central banks	1,719	6	283,458	31,996	-	723,339	1,040,518
Regional governments or local authorities	-	4,420	-	-	-	62,918	67,338
Multiateral development banks	-	-	-	-	2,690	-	2,690
Institutions	4,341	50,020	5,222	0	135,039	143,847	338,470
Corporates	91,674	419,709	253,311	60,780	494,579	1,288,185	2,608,239
Retail	-	89	348,931	132	8	12,495	361,654
Secured by mortgages on immovable property	-	74,516	130,204	-	47	223	204,991
Exposures in default	16,472	92,232	84,303	15,916	11,601	33,709	254,233
Covered bonds	-	-	-	-	-	37,409	37,409
Equity exposures	25,280	-	2,098	-	823	13,653	41,854
Other exposures	-	45,066	82,399	1,480	952	142,913	272,811
Total standardised approach	**139,486**	**686,058**	**1,189,926**	**110,305**	**645,741**	**2,458,691**	**5,230,207**

Turkey: During the last three years, CEB's total gross Turkish exposure gradually came down from EUR 1.4 billion to EUR 770 million. CEB's Turkish Risk exposure has remained below EUR 900 mio threshold throughout 2020. The downward trend is a direct reflection of CEB's reduced risk appetite in Turkey, particularly in corporate segment.

The increase in Turkish exposures since 2019 year-end is mainly due to money market placements to financial corporates with tenor up to 1 week and denominated in TRY (around EUR 60 mio), Structured Trade Finance Exposure to Tupras deal and bank exposures.

Russia: After the spin-off, we continue working with a select number of Russian corporates and financial institutions within the pre-determined Russian risk limit. And in 2020, Russia risk continue decreased.

Romania: Our appetite for Romanian risk has been very stable for the past several years and our exposure has a declining trend.

Other Emergency Market: 300 million increase of other emergency market consists of 98 million from forfeiting loans (31 million Nigeria risk, 20 million Oman, 40 million Qatar, 6 million Uzbekitan), out of which 71 million is secured by insurance company or government guarantees. 92 million risk increase is from China, which is mainly due to Export LCs or exposures secured by china export credit insurance company. Greece risk increased around 85 million, out of which 65 million is from a loan to a petro company with tender less than 3 months in line with the risk appetite and strategy.

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

Corporates	Dec-20	Dec-18
Oil & derivatives	755,668	692,810
Leisure & tourism	297,627	270,412
Construction & installation	62,201	170,473
Real estate	354,281	268,762
Financial services & investments	280,975	297,166
Iron & steel	221,351	154,916
Shipping & shipyards	183,104	169,161
Energy & Coal	126,034	235,727
Transportation, logistics & warehousing	82,501	35,741
Petrochemical, plasticizers & derivatives	46,495	81,745
Holding	25,004	-
Fertilizers	56,069	79,751
Retail	25,900	36,517
Textile, clothing and leather	1,252	10,503
Soft commodities & agricultural products	122,045	88,240
Food, beverage & tobacco	15,304	93,596
Paper and Pulp & Forestry	1,370	36,950
Automotive & Derivatives	44,029	24,029
Machinery-Office & Optical Equipment	5,708	6,866
Mining	-	-
Telecommunications	19,616	1
Building materials	9,400	28,887
Private Person	-	0
Technology, IT & Electronic Equipment	25,004	3,208
Luxury Goods	1,756	2,173
Services	706	501
Health & Medical Services	-	-
Media & publishing	24,862	-
Other	17,286	20,593
Total	2,805,547	2,808,729

In line with the risk appetite and strategy, in 2021, "Oil & Derivatives" sector concentration has increased. The majority of the Oil and Derivatives sector exposure is trade finance related and have short maturity (less than 3 months), therefore it is a very flexible portfolio. Given the regional diversified and low default nature of the portfolio in addition to short-term and well collateralized structure, Risk Management believes CEB's capital structure can comfortably support EUR 850 mio concentration in Oil and Derivatives sector.

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

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**

Dec-19	On demand	<= 1 year	> 1 year <= 5 years	> 5 years	No stated maturity	Total
Central governments and central banks	719,078	79,760	77,233	110,497	53,949	1,040,518
Regional governments or local authorities	-	58,153	4,420	4,765	-	67,338
Multiateral development banks	-	2,690	-	-	-	2,690
Institutions	38,694	275,128	9,087	15,562	-	338,470
Corporates	-	1,590,383	606,503	372,386	38,967	2,608,239
Retail	-	110,860	191,642	58,999	154	361,654
Secured by mortgages on immovable prope	-	2,030	1,719	201,241	-	204,991
Exposures in default	-	76,200	83,793	29,626	64,614	254,233
Covered bonds	-	-	-	37,409	-	37,409
Equity exposures	-	-	-	-	41,854	41,854
Other exposures	-	-	-	-	272,811	272,811
Total standardised approach	**757,772**	**2,195,204**	**974,397**	**830,485**	**472,349**	**5,230,207**

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-20	Dec-19
	Defaulted exposures	Non-defaulted exposures	Specific credit risk adjustment	General credit risk adjustment	Net values	Net values
Central governments and central banks		1,157,931			1,157,931	1,040,518
Regional governments or local authorities		37,062			37,062	67,338
Public sector entities					-	-
Multiateral development banks		-			-	2,690
International organisations		8,856			8,856	-
Institutions	-	490,759	-	(341.39)	490,417	338,470
Corporates	227,288	2,646,804	(26,272.76)	(42,272.48)	2,805,547	2,808,729
of which: SMEs	-	-			-	-
Retail	20,772	339,355	(7,576.27)	(4,492.94)	348,058	375,593
of which: SMEs	2,848	12,668	(111.09)	(28.84)	15,376	-
Secured by mortgages on immovable prc	35,038	132,632	(265.16)	(6.99)	167,397	244,795
of which: SMEs		-			-	-
Exposures in default						-
Items associated with particularly high risk					-	-
Covered bonds		4,518			4,518	37,409
Claims on institutions and corporates with a short-term credit assessment					-	-
Collective investments undertakings					-	-
Equity exposures		48,559			48,559	41,854
Other exposures		282,626			282,626	272,811
Total	**283,098**	**5,149,101**	**(34,114)**	**(47,114)**	**5,350,971**	**5,230,207**
Of which: Loans		2,767,393			2,767,393	2,929,341
Of which: Debt securities		785,626			785,626	537,482
Of which: Off-balance-sheet exposures	22,357	757,519	-		779,876	685,051

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

	Gross carrying values				Dec-20	Dec-19
	Defaulted exposures	Non-Defaulted exposures	Specific credit risk adjustment	General credit risk adjustment	Net values	Net values
Oil & derivatives	3,317	754,441	(916)	(1,173)	755,668	692,810
Leisure & tourism	42,352	274,109	(5,991)	(12,843)	297,627	270,412
Construction & installation	9,222	55,379	(308)	(2,093)	62,201	170,473
Real estate	129,071	253,581	(12,619)	(15,752)	354,281	268,762
Financial services & investments	4	282,598	(4)	(1,623)	280,975	297,166
Iron & steel	5,559	216,986	(91)	(1,103)	221,351	154,916
Shipping & shipyards	10,939	176,908	(711)	(4,032)	183,104	169,161
Energy & Coal	1,597	125,448	(139)	(872)	126,034	235,727
Transportation, logistics & warehousing	1,814	82,569	(925)	(957)	82,501	35,741
Petrochemical, plasticizers & derivatives	7,009	43,090	(3,344)	(261)	46,495	81,745
Holding	-	25,004	-	-	25,004	-
Fertilizers	-	56,107	-	(38)	56,069	79,751
Retail	1,458	24,549	(23)	(85)	25,900	36,517
Textile, clothing and leather	294	958	-	(0)	1,252	10,503
Soft commodities & agricultural products	-	122,570	-	(525)	122,045	88,240
Food, beverage & tobacco	10,766	4,766	(160)	(68)	15,304	93,596
Paper and Pulp & Forestry	64	1,328	(15)	(7)	1,370	36,950
Automotive & Derivatives	847	43,250	-	(68)	44,029	24,029
Machinery-Office & Optical Equipment	1,193	5,554	(993)	(47)	5,708	6,866
Mining	-	-	-	-	-	-
Telecommunications	34	19,706	(33)	(91)	19,616	1
Building materials	-	9,755	-	(354)	9,400	28,887
Private Person	-	-	-	-	-	0
Technology, IT & Electronic Equipment	-	25,004	-	-	25,004	3,208
Luxury Goods	1,207	578	-	(28)	1,756	2,173
Services	540	171	-	(5)	706	501
Health & Medical Services	-	-	-	-	-	
Media & publishing	-	25,107	-	(245)	24,862	
Other	-	17,289	-	(2)	17,286	20,593
Total	**227,288**	**2,646,804**	**(26,273)**	**(42,272)**	**2,805,547**	**2,808,729**

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

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

Dec-19	Gross carrying values of				
	Defaulted exposures	Non-defaulted exposures	Specific credit risk adjustment	General credit risk adjustment	Net values
Russia	19,187	124,695	(2,715)	(1,681)	139,486
Turkey	103,918	606,961	(11,686)	(13,135)	686,058
Romania	93,942	1,114,249	(9,639)	(8,626)	1,189,926
Ukraine	17,047	94,754	(1,130)	(365)	110,305
Other Emerging Markets	13,001	637,176	(1,399)	(3,037)	645,741
Developed markets	53,322	2,428,202	(19,613)	(3,219)	2,458,691
Total	300,416	5,006,036	(46,183)	(30,063)	5,230,207

11.4 Impairment allowances

The Bank aims to maintain sufficient reserves to cover its incurred losses. According to its policy, the Bank differentiates between:

· Provisions for individually assessed assets

· Provisions for collectively assessed assets

11.4.1 Individual Assessment

If there is objective evidence that a financial asset is impaired, then the Bank determines whether any specific provision is required.

11.4.2 Collective Assessment

Every obligor that is not individually assessed for impairment is subject to the collective provisioning regardless of its exposure amount. The provision is calculated using Probability of Default (PD), Loss given Default (LGD), and Exposure at Default (EAD).

- The Bank's PDs are derived from internal ratings as presented in the internal PD master scale.
- All subsidiaries are responsible for determining their own LGD estimation methodology. In case the LGD estimation is not available due to limited number of completed work-out cases, regulatory LGD values are used.
- For cash exposures, the EAD is defined as the on-balance sheet amount - carried at amortized cost. For non-cash exposures, the EAD is the exposure converted into cash by using the regulatory Credit Conversion Factor (CCF).

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-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
Loans	15,807			153,717	14,723	18,692	80,159
Debt securities							
Total exposures	15,807	-	-	153,717	14,723	18,692	80,159

Dec-19	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
Loans				30,688	3,640	21,812	244,397
Debt securities							
Total exposures		-	-	30,688	3,640	21,812	244,397

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

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**

Dec-19	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	313,242	155,336	13,404	157,905	157,660	157,660	43,313	(33,116)	(7,852)	(25,264)	(25,264)	275,072	218
Off-balance-sheet exposures													
Total	**313,242**	**155,336**	**13,404**	**157,905**	**157,660**	**157,660**	**43,313**	**(7,852)**	**(7,852)**	**(25,264)**	**(25,264)**	**275,072**	**218**

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-19	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	1,607,845	1,322,373	283,210		7,234		
Debt securities	537,482						
Total Exposures	**2,145,327**	**1,322,373**	**283,210**	**-**	**7,234**	**-**	**-**

Dec-18	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	1,895,242	1,235,892	207,063		15,889		
Debt securities	692,049						
Total Exposures	**2,587,291**	**1,235,892**	**207,063**	**-**	**15,889**	**-**	**-**

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-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	132,627.25	-	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**	

Dec-19	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	1,040,518	-	1,040,518	-	72,740	7%
Regional government or local authorities	67,338		67,338		4,420	7%
Public sector entities						
Multiateral development banks	2,690		2,690		-	0%
International organisations						
Institutions	247,919	128,068	247,919	25,718	157,921	64%
Corporates	2,257,948	365,258	2,182,507	81,566	2,186,590	97%
Retail	186,326	181,771	186,326	37,341	164,839	88%
Secured by mortgages on immovable property	207,686.55	777	207,687	155	84,187	35%
Exposures in default	251,546	9,176	251,463	4,588	323,461	129%
Higer-risk categories						
Covered bonds						
Institutions and corporates with a short-term credit assessment						
Collective investment undertakings						
Equity	41,854	-	41,854	-	55,015	131%
Other assets	272,811	-	272,811	-	235,047	86%
Total	**4,576,635**	**685,051**	**4,501,112**	**149,368**	**3,284,218**	

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

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 assessment												
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**

Dec-19

Risk Weight	0%	2%	10%	20%	25%	35%	50%	75%	100%	150%	250%	Total
Central governments or central banks	905,997		-		88,702		7,994		31,996	-	5,828	1,040,518
Regional government or local authorities	62,918								4,420			67,338
Multilateral development banks (MDBs)	2,690											2,690
Banks	-	7,280	37,409	134,007			64,309		24,247	47,221		314,473
Securities firms												-
Corporates	-			85,302			35,249		2,151,905	-		2,272,456
Regulatory retail portfolios	-							223,667				223,667
Secured by residential property						131,563						131,563
Secured by commercial real estate							76,278.7					76,279
Equity									33,081		8,774	41,854
Past-due loans									123,599	133,241		256,840
Higher-risk categories												-
Other assets	37,764								235,047			272,811
Total	**1,009,369**	**7,280**	**37,409**	**219,309**	**88,702**	**131,563**	**183,831**	**223,667**	**2,604,294**	**180,463**	**14,602**	**4,700,489**

11.6 Counterparty credit risk

Counterparty credit risk (CCR) is part of CEB's overall 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 currently employs the Mark to Market (MTM) method (also known as current exposure method –CEM) among the alternative methods prescribed by the Regulation (EU) No 575/2013 on prudential requirements for credit institutions and investment firms (CRR). Under the Mark to Market Method, the aggregation of MTM (mark to market) and PFE (potential future exposure) forms the exposure at default (EAD), where MTM is defined as the current replacement cost and PFE is determined as a percentage of the notional value of the contract.

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.

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

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)					6,514	1,303
VaR for SFTs						
Total	**49,289**	**36,763**	**-**		**52,243**	**13,127**

Dec-19	Replacement cost	Potential future exposure	EEPE	Alpha used for computing regulatory EAD	EAD post-CRM	RWA
Current Exposure Method	47,682	50,537			43,824	18,477
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	**47,682**	**50,537**	**-**		**50,009**	**19,714**

11.7 CVA capital charge

The valuation of financial OTC trades carried out by Credit Europe 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-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**

Dec-19	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	41,853	16,741
Total subject to the CVA capital charge	**41,853**	**16,741**

11.8 Covid-19-related disclosures

This chapter provides information on the EBA-compliant moratoria. CEB has no Covid-19-related credit facilities under public guarantee schemes.

Most moratoria are expired by end of 2020.

Template 18 - Information on loans and advances subject to legislative and non-legislative moratoria

Dec-20	Gross carrying amount					
	Performing	Of which: exposures with forbearance measures	Of which: Instruments with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)	Non performing	Of which: exposures with forbearance measures	Of which: Unlikely to pay that are not past-due or past-due <= 90 days
Loans and advances subject to moratorium	2,391					
of which: Households	-					
of which: Collateralised by residential immovable property	-					
of which: Non-financial corporations	2,391					
of which: Small and Medium-sized Enterprises	-					
of which: Collateralised by commercial immovable property	1,626					

Dec-20	Accumulated impairment, accumulated negative changes in fair value due to credit risk					
	Performing	Of which: exposures with forbearance measures	Of which: Instruments with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)	Non performing	Of which: exposures with forbearance measures	Of which: Unlikely to pay that are not past-due or past-due <= 90 days
Loans and advances subject to moratorium	(149)					
of which: Households	-					
of which: Collateralised by residential immovable property	-					
of which: Non-financial corporations	(149)					
of which: Small and Medium-sized Enterprises	-					
of which: Collateralised by commercial immovable property	(101)					

Jun-20	Gross carrying amount					
	Performing	Of which: exposures with forbearance measures	Of which: Instruments with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)	Non performing	Of which: exposures with forbearance measures	Of which: Unlikely to pay that are not past-due or past-due <= 90 days
Loans and advances subject to moratorium	15,953		1,892	298		298
of which: Households	2,783		1,099	298		298
of which: Collateralised by residential immovable property	2,527		975	298		298
of which: Non-financial corporations	13,170		794			
of which: Small and Medium-sized Enterprises	13,170		794			
of which: Collateralised by commercial immovable property	9,791		794			

Jun-20	Accumulated impairment, accumulated negative changes in fair value due to credit risk					
	Performing	Of which: exposures with forbearance measures	Of which: Instruments with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)	Non performing	Of which: exposures with forbearance measures	Of which: Unlikely to pay that are not past-due or past-due <= 90 days
Loans and advances subject to moratorium	(158)		(64)	(28)		(28)
of which: Households	(40)		(33)	(28)		(28)
of which: Collateralised by residential immovable property	(31)		(26)	(28)		(28)
of which: Non-financial corporations	(118)		(31)			
of which: Small and Medium-sized Enterprises	(118)		(31)			
of which: Collateralised by commercial immovable property	(98)		(31)			

Template 19 - Breakdown of loans and advances subject to legislative and non-legislative moratoria by residual maturity of moratoria

This template also includes information about expired moratoria.

Dec-20	Number of obligors	Gross carrying amount	Of which: legislative moratoria	Of which: expired	Residual maturity of moratoria				
					<= 3 months	> 3 months <= 6 months	> 6 months <= 9 months	> 9 months <= 12 months	> 1 year
Loans and advances for which moratorium was offered	1118	17,655							
Loans and advances subject to moratorium (granted)	1118	17,655	15,264	15,264	2,391				
of which: Households		3,088	3,088	3,088	-				
of which: Collateralised by residential immovable property		2,849	2,849	2,849	-				
of which: Non-financial corporations		14,567	12,177	12,177	2,391				
of which: Small and Medium-sized Enterprises		12,177	12,177	12,177	-				
of which: Collateralised by commercial immovable property		10,712	9,086	9,086	1,626				

Jun-20	Number of obligors	Gross carrying amount	Of which: legislative moratoria	Of which: expired	Residual maturity of moratoria				
					<= 3 months	> 3 months <= 6 months	> 6 months <= 9 months	> 9 months <= 12 months	> 1 year
Loans and advances for which moratorium was offered	1117	16,251							
Loans and advances subject to moratorium (granted)	1117	16,251	16,251	-	86	16,164			
of which: Households		3,081	3,081	-	22	3,059			
of which: Collateralised by residential immovable property		2,825	2,825	-	15	2,810			
of which: Non-financial corporations		13,170	13,170	-	64	13,106			
of which: Small and Medium-sized Enterprises		13,170	13,170	-	64	13,106			
of which: Collateralised by commercial immovable property		9,791	9,791	-	19	9,772			

12. 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.

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 limits, PV01 Limit, FX limits, equity trading limits, Value at Risk limits, CDS trading limits and holding period limit are in place; and for the banking book, nominal limits, PV01 Limit, modified duration limit and FX 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 this 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 this 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.

Market risk is split into two parts: market risk linked to trading activities and corresponding to trading instruments and derivative contracts; market risk linked to banking activities covering the interest rate and foreign exchange risks originating from the bank's intermediation activities.

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 20 - EU MR1 – Market risk under the standardized approach

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**

Dec-19	RWAs	Capital requirements
Outright products		
Interest rate risk (general and specific)	182,287,544	14,583,004
Equity risk (general and specific)	-	-
Foreign exchange risk	18,531,075	1,482,486
Commodity risk		
Options		
Simplified approach		
Delta-plus method		
Scenario approach		
Securitisation (specific risk)		
Total	**200,818,619**	**16,065,490**

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

12.2 Market Risk – Internal Models (VaR)

CEB also measures the market risk of its trading book and the foreign-exchange risk of its banking book using an internal model, based on VaR methodology. VaR defines the maximum loss not exceeded by a given probability over a given period of time under normal market conditions. However, this approach fails to capture exceptional losses under extreme market conditions; that is why market risk measurement is complemented by periodic stress-testing analyses.

The internal historical simulation method of VaR model is used for risk-monitoring purposes 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 trading portfolio, with VaR at 99% - confidence interval, is EUR 2 million (2019: EUR 8 million). This implies that diversified VaR from foreign-exchange risk and interest-rate risk in the trading book should not exceed this level.

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 (2020)	Total	Diversification effect	Interest-rate risk	Foreign-exchange risk
Average	320	92%	96	291
Maximum	410	100%	407	410
Minimum	269	50%	0	12
Period-end	410	50%	407	410

Value-at-risk figures - Trading Book (2019)	Total	Diversification effect	Interest-rate risk	Foreign-exchange risk
Average	320	92%	96	291
Maximum	410	100%	407	410
Minimum	269	50%	0	12
Period-end	410	50%	407	410

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 'minor`, risk tolerance towards interest-rate risk in its banking book.

The methodologies to calculate the Interest Rate Risk on the Banking Book are designed in view of the CEB's interest rate risk tolerance, regulatory reporting requirements and EBA guidelines on the management of interest rate risk arising from non-trading book activities. CEG monitors and measures its interest rate risk exposure with a static maturity/repricing schedule that distributes interest-sensitive assets, liabilities, and off-balance sheet positions into a certain number of predefined time bands according to their maturity (if fixed-rate) or time remaining to their next repricing (if floating-rate). When interest rates change, the present value and timing of future cash flows change. This in turn changes the underlying value of a bank's assets, liabilities and off-balance sheet items and hence its economic value.

The new EBA guideline on the management of interest rate risk arising from non-trading book activities became applicable starting from 31 December 2019. CEB has successfully implemented the required changes with respect to new guideline. According to the revised guideline, CEB applies six additional interest rate shock scenarios (parallel shock up, parallel shock down, steepener shock, flattener shock, short rates shock up, short rates shock down) on the top op +/-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 31 December 2020, EVE drop by EUR 15.8 mio in case of steepener shock (short rates down, long rates up) (EUR 17.9 million for 2019 with steepener shock).

The interest rate repricing gap table below is prepared to determine the Bank's exposure to interest rate risk as a result of maturity mismatches in its balance sheet.

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. New products, or changes to existing products, are subject to the Product Approval and Review. Key Risk Indicators are established and regularly monitored.

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.

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 considers funding and liquidity as a major source of risk. CEB's minor and very limited tolerance towards liquidity risk is explicitly reflected its stress-testing and funding plan framework.

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 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 amongst others the Supervisory Board. The Supervisory Board monitors the proper implementation of the policy by the Managing Board. Annually the compliance to the rules and procedures under the policy is reviewed in line with the Control Functions Remuneration Monitoring Procedure. The HR & 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 stakeholders of CEB.

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 of the annual report 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 the Bank's Remuneration Report.