CEB

COUNCIL OF EUROPE DEVELOPMENT BANK
BANQUE DE DEVELOPPEMENT DU CONSEIL DE L'EUROPE

Risk Management Disclosure Report 2022

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About the CEB

The Council of Europe Development Bank (CEB) is a multilateral development bank, whose unique mission is to promote social cohesion throughout Europe. The CEB finances investment in social sectors, including education, health and affordable housing, with a focus on the needs of vulnerable people. Borrowers include governments, local and regional authorities, public and private banks, non-profit organisations and others. As a multilateral bank with an excellent credit rating, the CEB funds itself on the international capital markets. It approves projects according to strict social, environmental and governance criteria, and provides technical assistance. In addition, the CEB receives funds from donors to complement its activities.

The CEB has 43 member states. It was established originally as a resettlement fund in 1956 by eight of the 15 member states that made up the Council of Europe at the time. The CEB is Europe's oldest multilateral development bank, and is legally and financially separate from the Council of Europe.

For more about CEB, visit
coebank.org/en/about/

Disclaimer

The information presented in this report has not been subject to external audit.

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Executive Summary

The Council of Europe Development Bank (the CEB or the Bank) follows a prudent risk management framework serving the primary purpose of ensuring the Bank's long-term financial sustainability and operational resilience while enabling it to fulfil its social mandate. Being a multilateral development bank, the CEB does not fall within the scope of application of the EU legislation on credit institutions. However, the CEB applies international best banking practices that are anchored in the EU directives on banking regulation, the recommendations from the Basel Committee on Banking Supervision and its status as a multilateral development bank.

The CEB publishes its second Risk Management Disclosure Report to provide further information on its approach to risk management and the assessment of its capital adequacy. To implement its Strategic Framework, the Bank takes credit, market and liquidity risks to a level compatible with its risk appetite and public mission. The CEB's financial strength, as reflected by its high credit rating assessments, is key to the Bank's business model as it enables favourable access to the capital markets and low funding costs. Solid key risk measures are essential to sustaining the CEB's financial strength.

In 2022, the CEB increased its lending activity while retaining a sound risk profile and an adequate capital buffer. The credit quality of the CEB's loan portfolio remains sound based on adequate security, guarantees and standard protective contractual clauses. Thus far, no counterparty in the portfolio presents signs of distress and all counterparties are up to date in their payment obligations towards the Bank. Nevertheless, a deterioration in the risk profile could materialise as a consequence of geopolitical events or adverse developments in the financial markets, even though current stress test results show that the CEB is in an adequate position to cope with such events. The CEB continues to monitor the situation of its borrowers closely.

The CEB has a prudent liquidity management approach, maintaining a strong liquidity position to ensure flexibility in the execution of its funding programme. In terms of market risk, the Bank has no trading activities and uses derivatives only to hedge against interest and foreign exchange risks. The CEB also possesses the required operational resilience as proven by its strong capacity to face challenging financial environments.

The present report is structured as follows:

- Chapter 2 provides an overview of the Bank's risk management framework. It includes the main features of the CEB's risk management principles and objectives, governance and organisation, risk appetite framework and risk management policies.
- Chapter 3 presents the high-level components of the CEB's risk appetite framework which are discussed in more detail in the subsequent chapters of the report.
- Chapter 4 provides information on capital management and capital adequacy, including leverage and stress testing.
- Chapters 5 and 6 provide information about the CEB's exposure to credit risk, the principles of how credit risk is managed and measured, and how the respective risk-weighted asset amounts are calculated.
- Chapter 7 contains information on counterparty credit risk due on derivatives.
- Chapters 8 and 9 provide information on market risk management, including interest rate and foreign exchange rate risk, as well as liquidity risk management.
- Chapters 10 and 11 deal with operational risk and climate risk.

Risk Highlights

- **Resilient risk profile:** The CEB maintained a sound risk profile and an adequate capital buffer. All ratios and indicators in the risk appetite framework remained within the authorised limits and thresholds. The Bank also evidenced operational resilience and a strong capacity to face challenging financial environments. The CEB enjoys high credit ratings (Aaa/AAA/AA+) from Moody's[1], Standard & Poor's and Fitch Ratings, which reflect its strong financial profile, the support of its shareholders and its stringent risk management policy[2].

- **Strong capital adequacy:** As at 31 December 2022, the CEB's capital adequacy ratio, equivalent to Common Equity Tier 1 ('CET1') capital ratio, reached 30.4%, increasing from 29.1% at the end of 2021.

- **Prudent leverage:** As at 31 December 2022, the CEB leverage ratio, equivalent to Basel III leverage ratio, reached 10.3%, increasing from 10.2% at the end of 2021.

- **Ample liquidity:** At end 2022, the CEB registered a Liquidity Coverage Ratio ('LCR') of 554% (end 2021: 261%) and a NSFR of 130% (compared to 132% in December 2021).

- **Exceptionally high asset quality:** The CEB benefits from a large proportion of investment-grade rated borrowers or guarantors as well as from credit enhancements and guarantees. At the end of December 2022, the average rating of the loan portfolio (after credit risk mitigation) is 6.86 (6.90 at year-end 2021), roughly equivalent to A- (7.0).

Figure 1: Key risk metrics

	2022	2021
Capital Adequacy Ratio (CET1 eq.) %	30.40%	29.10%
Total risk-weighted assets (in million euros)	11 306	11 089
Total credit risk exposure (in million euros)	36 559	34 757
Leverage Ratio %	10.34%	10.21%
Liquidity Coverage Ratio (LCR) %	554%	256%
Net Stable Funding Ratio (NSFR) %	130%	132%

1. Moody's upgraded CEB's long-term rating to Aaa, its highest rating, on 10 March 2023.
2. The CEB is also assigned unsolicited credit rating by Scope (AAA with a stable outlook).

Risk Management Framework

The primary purpose of risk management is to ensure the Bank's long-term financial sustainability and operational resilience while enabling the CEB to fulfil its social mandate. The Bank implements international best banking practices and promotes a sound and prudent risk culture across its business lines. The CEB's risk policies observe the following **principles**.

Risk Management objective and principles

- **Prudent risk approach:** As a Multilateral Development Bank (MDB), the CEB sets its financial risk tolerance at a prudent level as defined by approved limits and has established a cautious financial and risk management framework. Therefore, the Bank aims to mitigate all material financial risks and does not engage in speculative exposures to financial risks.

- **Robust financial position:** The CEB gears its financial policies to ensure a robust financial position to support its core lending activity. In particular, this objective translates into the preservation of the Bank's capital base.

- **Adherence to best practice methods:** The Bank applies best practices for financial risk management. The objective is to obtain the strongest protection for its assets, its financial results and, consequently, its capital. While the Bank, as an MDB, is not subject to prudential regulation, it nevertheless considers the relevant recommendations by the Basel Committee on Banking Supervision (BCBS) as transposed into EU bank directives (Basel/EU regulation), notably the EU Capital Requirement Directives and the guidelines of the European Banking Authority (EBA), adapting these when necessary to its MDB status.

- **Segregation of duties:** Following the "four eyes" principle of internal controls, the Bank adopts a system of checks and balances whereby the risk management function exercises independent control and supervision of the operational departments' activity.

- **Control framework:** The Bank's Risk Management Framework includes policies, procedures, limits and controls that provide adequate identification, measurement and mitigation of the risks arising from the Bank's activities and allows for their appropriate monitoring and reporting.

Risk culture

The CEB develops and fosters a sound risk culture across the whole organisation.

- The CEB is consistent in building appropriate risk awareness and in promoting behaviours and judgements about risk-taking.

- The CEB develops effective risk management, promotes sound risk-taking and ensures that risks are identified, assessed, monitored, reported and managed.

- The risk management function is independent of the business and support functions. It constitutes the point of reference in spreading a high-quality risk culture throughout the organisation.

Risk Appetite

The CEB establishes its Risk Appetite Framework as a strategic decision tool for monitoring its risk profile.

- Risk appetite is the aggregate level and types of risk that the CEB is willing to assume to fulfil its mandate and objectives, and succesfully execute its Strategic Framework.

- The CEB establishes its risk appetite to maximise the fulfilment of its mandate, taking into account the Bank's capital endowment and risk capacity. The Bank finances projects with high social impact while preserving a financial profile that enables it to raise funds in the capital markets to provide loans at advantageous conditions for the final beneficiaries.

- The Risk appetite cascades down through the organisation and is translated into operational limits that are adhered to at origination and monitored throughout the life cycle of operations.

- Risk appetite is an essential pillar in the CEB's Strategic Framework, aligning business objectives with risk objectives and feeding into the capital planning process.

- The definition of risk appetite covers, inter alia, the following items:

  - capital, which aims to absorb unexpected losses in line with best banking practices. The higher the available capital, the stronger the Bank's financial standing, as assessed by the different stakeholders, including the rating agencies;

  - liquidity risk, which is managed prudently to ensure the regular functioning of the institution's core activities;

  - leverage and gearing, which allow achievement of an adequate balance-sheet size for the Bank commensurate with the Strategic Framework objectives.

- The CEB's large exposures, as defined by EU regulation and the BCBS recommendations, are monitored according to core activity (loans) and treasury activity guidelines.

Risk policies and reports

The decision-making processes are supported by a set of policies defining the governance framework, business activities and risk management to comply with all the applicable best banking practices.

The Bank's risk management architecture is set out as follows:

- **The Risk Management Charter** codifies the core risk management principles and defines the CEB's Risk Management Framework, ensuring appropriate consistency with international best banking practices and

prudential requirements. The Charter enshrines the prudent approach that has always characterised the CEB and ensures that its shareholders' resources are safeguarded while the Bank fulfils its social mandate, managing risks effectively and consistently at all times and in all its products and activities. The Charter is approved by the CEB's Administrative Council.

- **The Financial and Risk Policy (FRP)** sets out the general principles guiding the CEB's financial and risk policies within the context of the Bank's mission, taking into account its capacity to manage the risks inherent in its operations. While containing elements of flexibility in financial management, the Financial and Risk Policy is guided by a prudent approach that has always characterised the Bank's business model and management strategy. The FRP is approved by the Administrative Council.

- **The Financial and Risk Policy Guidelines (FRPG)** develop the orientations and principles set out in the FRP relating to the identification, measurement and monitoring of its financial risks. The FRPG are presented to the Administrative Council for information.

- **The Financial and Risk Policy Handbook (FRPH)** ensures that the Bank's operations comply with the FRP. The FRPH is a living document that translates the FRP into operational details and is regularly presented to the Credit Risk Committee for approval.

A quarterly Report on Risk Management released by the Financial Risk Division (FRD) and submitted to the Administrative Council and the Governing Board provides information to the shareholders about the changes in the CEB's exposure to the main types of risk: credit, market, liquidity, operational risk and compliance with the Risk Appetite Framework as defined internally.

Finally, the annual Financial Report takes stock of the risk management processes and practices, thus contributing to external risk reporting.

Risk processes

The CEB identifies, understands and assesses all material risks inherent to its activities, products, funding sources and transactions on an ongoing basis.

- The CEB establishes policies supported by appropriate control procedures and processes.

- The processes and procedures ensure that the Bank's risk identification, aggregation, mitigation and monitoring capabilities are commensurate with its size, complexity and risk profile.

- Risk guidelines for the main types of risk (credit, market, liquidity and operational risk) are developed in line with the principles set out in the Risk Management Charter.

- Internal risk models correctly identify, assess and report the risks incurred by the CEB.

- The risk profile is assessed according to the relevant governance framework, enabling the organisation's smooth functioning under a range of adverse conditions.

Figure 2: Risk processes at the CEB

	Risk Identification, Assessment and Measurement	Risk Monitoring	Risk Controls
Capital Adequacy and Stress Testing	• Capital adequacy assessment • ICAAP • Economic capital model • Stress testing model	• Quarterly Report on Risk Management • Capital Adequacy Review Report • Report on Economic Capital and Stress Testing	• Financial and Risk Policy (FRP) • Risk Appetite Framework (RAF) • FRP Guidelines • FRP Handbook
Loss Provisioning	• ECL model (IFRS 9)	• Report on credit impairment provisions	
Credit Risk	• Sovereign rating model • Local and regional government rating model • Financial institution rating model • Corporate rating model • GRE rating • Transaction credit rating	• Annual counterparty reviews • Credit Risk Limits • Quarterly Report on Risk Management • Collateral Management Report • Clauses and Covenants Report • Large Exposures and Concentration Report • Credit Valuation Adjustment Report	
Counterparty Credit Risk	• Counterparty credit risk • Exposure at default model • Credit valuation adjustment model		
Market Risk	• EVE and NII • Value at risk model • Valuation model (derivatives)	• ALCO reports • Report on the impact of fair value instruments • Report on Collateral Requirements on Derivatives • Report on the Risk Appetite Framework	
Liquidity Risk	• Liquidity risk assessment • Self-sufficiency, survival horizon, short-term liquidity ratios • ILAAP • Liquidity risk modelling (collateral requirements on derivatives)		
Operational Risk	• Risk and Control Assessment • Internal Control Framework • Operational Risk Event collection • Business Continuity Management	• Internal Control Annual Assertion Report • Half-year Operational Risk Management Report	

Risk organisation and governance

The risk management function is independent of the business and other support functions.

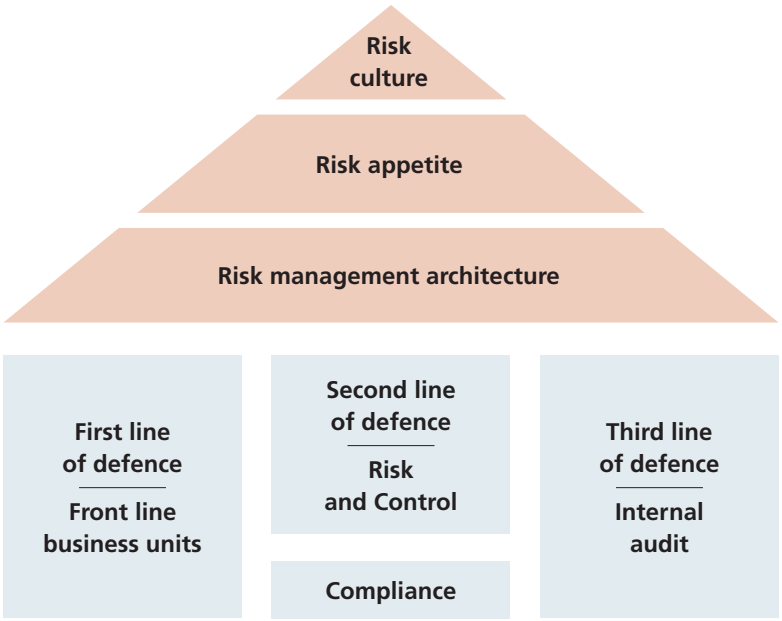
Risk governance within the CEB is established on the 'Three Lines of Defence' concept, setting out lines of responsibility and appropriate segregation of powers and duties:

1. The business or activity functions assuming or generating risk exposures constitute the first line of defence. Risk arising from operations must align with the predefined risk appetite limits.

2. The second line of defence consists of the risk supervision and control function in line with applicable policies and rules. This includes the Risk & Control (R&C), Legal and Compliance functions. R&C ensures that risks are controlled effectively and are managed in line with the risk appetite.

3. As the third line of defence and the last layer of control, Internal Audit regularly assesses the adequacy of policies, methods and procedures and examines their effective implementation.

Figure 3: The three lines of defence



R&C is responsible for implementing the risk management framework. It makes proposals for risk policies and methodologies, supervises their implementation and undertakes risk reporting. It is independent of other operational and business directorates and reports directly to the Governor. The different R&C divisions address specific risk areas such as credit risk, market risk (including asset and liability management from a risk perspective) and operational risk.

Credit risk assessment is conducted by the Credit Risk Unit (CRU) (Financial Risk Division/R&C) independently of lending or treasury officers with the aim of providing (i) appropriate checks and balances to ensure that credit is extended in accordance with risk principles, and (ii) an independent judgment, uninfluenced by relationships with the borrower or intermediaries. Credit exposure is measured, monitored and controlled on a daily basis. Breach of limit, if any, is reported to senior management.

Market and liquidity risk and ALM are a shared responsibility between the Asset & Liability Management Unit (ALM Unit) and the Market Risk and Capital Management Unit (MRC). The ALM Unit acts as the first line of defence and carries out the asset and liability management and day-to-day management of market and liquidity risks. The MRC Unit acts as a second line of defence and has the overall responsibility for identifying, measuring, assessing, monitoring and providing an independent oversight of market and liquidity risks to the Administrative Council.

The following decision-making committees, chaired by the Governor, are in charge of defining and overseeing risk management policies:

- The Credit Risk Committee (CRC) meets weekly to approve credit risk decisions concerning lending and treasury exposure, based on internal credit risk assessments and recommendations.

- The Asset & Liability Committee (ALCO) meets monthly – or more frequently when necessary – to formulate strategic orientations and address, on a forward-looking basis, interest rate, foreign exchange and liquidity risk.

- The Committee for Operational Risks & Organisation (CORO) discusses operational risk issues on a semi-annual basis. It ensures that adequate measures are taken to mitigate, monitor and control these risks.

Controlling Bodies

- Internal Audit is a permanent, autonomous body within the CEB's internal control system. It provides independent and objective assurance of effective and controlled businesses, operational activities and performance in compliance with existing policies, procedures and best practices. It also proposes recommendations for potential improvements in the Bank's operations.

- The Office of the Chief Compliance Officer (OCCO) addresses money laundering/financing of terrorism and tax evasion risks and integrity, corruption and fraud issues. OCCO safeguards the CEB's integrity in its financial and loan operations, prevents reputational risks and promotes ethical business standards.

- The Chief Information Security Officer (CISO) defines the Bank's security policy by designing the security framework and developing processes across the CEB to reduce information technology (IT) risks.

- The Auditing Board certifies that the Bank is managed according to sound financial management principles, examines the Bank's accounts, and checks their accuracy. The Governing Board appoints three representatives from the member states on a rotating basis for a three-year term (outgoing members act as advisors for an additional year). The Auditing Board's report, an excerpt of which is appended to the financial statements, is presented to the CEB's governing bodies when the annual financial statements are submitted for approval.

- The External Audit is responsible for auditing the Bank's financial statements according to International Standards on Auditing (ISAs) issued by the International Auditing and Assurance Standards Board (IAASB), and for reviewing its internal control and risk management processes. The External Audit drafts various reports, including the Opinion Report. The External Audit is appointed by the Governing Board for a four-year term – renewable once for three years following a tender procedure – based on the Auditing Board's opinion and recommendations by the Administrative Council.

Risk Appetite Framework

While the CEB, as a MDB, is not formally subject to prudential regulation, it nevertheless follows the recommendations of the Basel Committee on Banking Supervision (BCBS), adapting them when necessary to its MDB business model and status.

CEB's risk appetite is defined in the Risk Appetite Framework, which summarises a set of risk indicators and ratios with their associated limits as regards interest rate risk, foreign exchange risk, liquidity risk, market credit risk, capital and leverage. The ratios and indicators are as follows.

Figure 4: Risk Appetite framework

Purposes	Indicators / Ratios
Capital	Capital Adequacy Ratio (CAR) Gearing Ratio (GR)
Leverage	Leverage Ratio (LR) Treasury Assets Ratio (TAR)
Liquidity Risk	Survival Horizon (SH) Regulatory Liquidity Coverage Ratio (LCR) Regulatory Net Stable Funding Ratio (NSFR)
Interest Rate Risk	Sensitivity of the Economic Value of Equity (EVE)
Foreign Exchange Risk	Spot Net Open Position
Market Credit Risk	Minimum Internal Rating

Capital

Capital Adequacy Ratio (CAR)

The Bank assesses its capital adequacy through the Capital Adequacy Ratio (CAR) which compares the Bank's prudential equity to its risk-weighted assets[3] (RWA). The Bank monitors this ratio to ensure that its prudential equity is able to absorb unexpected losses arising from its lending and treasury acitivities which include credit, market and operational risk.

Although the actual floor for this ratio is set at 10.5%, the Bank aims to maintain a ratio above 20% to ensure first rank financial fundamentals. Additionally, the Bank targets a sufficient buffer and considers a comfort zone at a level above 25%.

3. Risk-weighted assets: outstandings of assets (loans, financing commitments, securities, deposits, derivatives) weighted by risk factors based on external indicators of credit (ratings, type of counterparty), market and operational risk (Basic Indicator Approach); credit enhancement embedded in each transaction is taken into account.

Gearing Ratio (GR)

The Gearing Ratio (GR) compares loans outstanding after swap and guarantees to own funds[4] and establishes a volume ceiling (as opposed to a risk ceiling) to the CEB's lending activity. This ratio is intended to serve as a benchmark for other multilateral development banks. The limit is set at 2.5 times the CEB's own funds.

Leverage

Leverage Ratio (LR)

The Bank assesses its leverage through the Leverage Ratio (LR), which compares prudential equity to the total assets on- and off-balance sheet as defined by Basel/EU[5]. The leverage ratio provides a simple indicator to complement the capital adequacy ratio to act as a limit to excessive leverage of the Bank. The minimum LR is set at 7%.

Treasury Assets Ratio (TAR)

The Bank also monitors the Treasury Assets Ratio (TAR) which compares total financial assets after swaps[6] to prudential equity. The limit is fixed at 5 times the CEB's prudential equity.

Liquidity Risk

Survival horizon (SH)

The survival horizon is the period during which the Bank is able to fulfil its payment obligations stemming from ongoing business operations under a severe stress scenario without any access to new funding by using its available liquid assets. The minimum survival horizon is 12 months.

Regulatory Liquidity Coverage Ratio (LCR)

The CEB requires that the liquidity position should be sufficiently strong to fulfil the regulatory Liquidity Coverage Ratio (LCR), to ensure that it has sufficient high-quality liquid assets (HQLA) to withstand a significant stress scenario of 30 calendar days. The minimum LCR is 100%.

Regulatory Net Stable Funding Ratio (NSFR)

The CEB requires that the liquidity position should be sufficiently strong to fulfil the regulatory Net Stable Funding Ratio (NSFR), to ensure it maintains a stable funding profile in relation to the composition of its assets. The minimum NSFR is 100%.

Interest Rate Risk

Sensitivity of the Economic Value of Equity

The Bank uses the sensitivity of the Economic Value of Equity metric to define its interest rate risk appetite. This metric represents the change in the present value of interest rate sensitive assets and liabilities, excluding equity, resulting from application of the most severe prescribed Basel/EU interest rate shock. The limit (ceiling) is 20% of the Bank's prudential equity[7].

4. Own funds: subscribed capital, reserves and net profit.
5. Total on- and off-balance sheet exposures: sum of the exposure values of all on-balance sheet assets and the off-balance sheet items. The exposure value of derivatives is calculated per the method used in the Capital adequacy ratio standardised approach. The exposure value of other off-balance sheet items (credit commitments) is calculated by applying a credit conversion factor.
6. Total Financial Assets comprise the outstanding amounts in the securities portfolios after swaps, bank deposits, repos, and nostro accounts, with collateral excluded.
7. Prudential equity: paid-in capital reserves and net profit after deduction of appropriate adjustment items prescribed in the capital requirements directive of the European Union which the CEB deems relevant.

Foreign Exchange Risk

Spot net open position

The Bank measures its currency exposures by calculating spot net open positions by currency (i.e. the difference between the total asset amount and total liability amount, including both on- and off-balance sheet positions). The limit for the net open position per currency is €1 million.

Credit Risk on market transactions

The Bank defines minimum internal ratings at purchase date under which the Bank may enter into transactions for short-term and long-term investments. The minimum internal rating at purchase date for short-term placements and investments in treasury operations is 7.0 (A-). The minimum internal rating at purchase date for long-term treasury investments is 8.0 (A+).

Capital Management and Adequacy

Although not subject to international banking supervision and prudential regulations, nor required to comply with regulatory capital adequacy requirements, the Bank considers the observance of prevailing capital adequacy standards to be essential in order to maintain the confidence of external stakeholders, such as investors and rating agencies.

Capital Management

Sound capital management is essential to ensure the appropriate level of capital required to fulfil the Bank's mandate. The Bank manages its capital in accordance with its statutory obligations, the objectives of its Strategic Framework, its risk position, and the macroeconomic environment, and in such a way that its solvency is always compatible with the following objectives:

- Preserving the financial soundness and respecting Risk Appetite;
- Ensuring the achievement of the objectives of the the Strategic Framework 2023-2027;
- Maintaining the confidence of external stakeholders, such as investors and rating agencies;
- Maintaining resilience in crisis scenarios.

Internal Capital Adequacy Assessment Process

The Bank has an internal capital adequacy assessment process that measures and explains the evolution of its capital ratios. The process is based on key indicators, which are relevant for measuring risks and capital adequacy. These indicators are defined in the CEB's Risk Appetite Framework. They include the capital adequacy ratio under the standardised approach, which is equivalent to the regulatory Common Equity Tier 1 ('CET1') capital ratio, as well as other regulatory or internal metrics such as the Basel Leverage Ratio and the Gearing Ratio.

All these key capital ratios are continuously monitored by the senior management as part of CEB's governance process, and are thoroughly reviewed during the preparation of CEB Strategic Framework. They are measured on a forward-looking basis under baseline and adverse scenarios to measure CEB's resilience to adverse macroeconomic and financial environments.

As part of its ICAAP, the CEB also calculates a risk-based economic capital based on internal models. These models estimate the amount of capital required for credit and market risks under baseline and adverse scenarios.

- The credit risk model assesses the risk of counterparty default by projecting the rating of counterparties on a probabilistic basis.

- The market risk model assesses the market price risks that may have a significant impact on CEB's prudential capital, by projecting the fair value of financial instruments recorded at fair value.

Capital Adequacy

The CEB calculates a regulatory Capital Adequacy Ratio (CAR), which is equivalent to the regulatory Common Equity Tier 1 ('CET1') capital ratio, in order to ensure that it holds sufficient capital to absorb unexpected losses embedded in its operations arising from credit, market and operational risk.

The Bank aims to maintain a CAR above 20% so as to ensure first-rank financial fundamentals, although the existing floor (for this ratio) is set at 10.5%. Additionally, the Bank targets a sufficient buffer and sets a comfort zone at a level above 25%.

The CAR compares CEB prudential equity to the total capital requirements or risk-weighted assets (RWA) for credit, market and operational risk exposure under the standardised approach.

$$\text{CAR} = \frac{\text{Prudential equity}}{\text{Risk-weighted assets}}$$

Prudential Equity

The prudential equity is equivalent to the Common Equity Tier 1 (CET1) capital. It comprises the paid-in portion of the capital subscribed by member countries, the reserves accumulated through internal profit generation, the profit to be allocated, and gains or losses recognised directly in equity on debt securities, hedging derivatives or pension scheme and other post employment benefits.

Capital requirements and Risk-Weighted Assets

Capital requirements or Risk-Weighted Assets (RWA) are determined in the Basel standardised approach by assigning standardised risk weights to exposures for credit, market and operational risk. The following figure shows the breakdown of risk-weighted assets by risk exposure under the standardised approach.

Figure 5: RWA by risk exposure

31.12.2022	RWA (in million euros)	% of Total RWA
Credit Risk	10 676	94.4%
Loans and financing commitments	8 846	78.2%
Treasury	1 830	16.2%
Counterparty Credit Risk (CCR)	302	2.7%
Derivatives CCR (SA-CCR approach)	91	0.8%
Credit Valuation Adjustment (CVA)	211	1.9%
Operational Risk	273	2.4%
Other assets	55	0.5%
TOTAL	**11 306**	**100.0%**

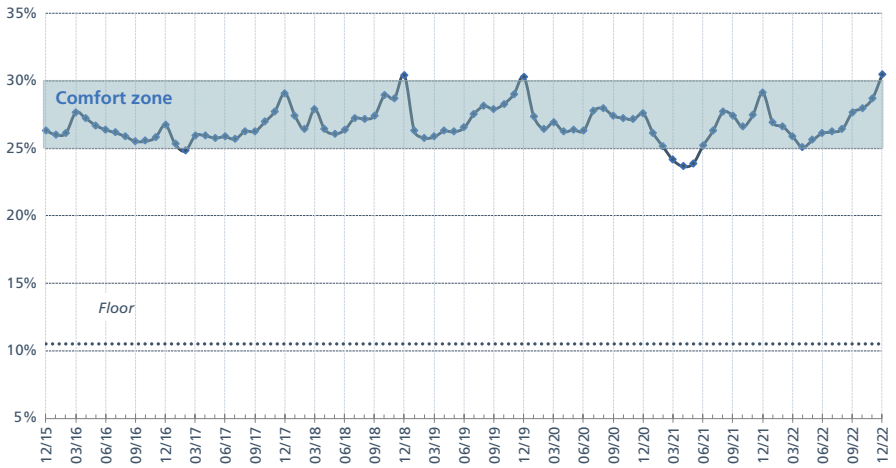
Evolution of the Capital Adequacy Ratio

Figure 6 provides a breakdown of the capital adequacy ratio calculation. The CAR reached 30.4% at the end of December 2022, increasing from 29.1% at year-end 2021. The CAR improved in 2022 due to the decrease in RWA for the treasury activity and the increase in prudential equity partially offset by the increase in RWA for lending activity.

Figure 6: Development of the Capital Adequacy Ratio

Capital Adequacy Ratio – (A/B)	**30.4%**
Floor =	*10.5%*
Paid-in Capital	613
Reserves	2 723
Unrealized or deferred gains or losses	27
Profit to be allocated	0
Net profit	80
A – Prudential Equity	**3 442**
Credit Risk Weighted Loan & Stock	8 846
Credit Risk Weighted Treasury	1 921
Other RWA	539
B – Global Risk Weighted Assets	**11 306**

Figures in € Million



Gearing Ratio

The Gearing Ratio measures the outstanding loans divided by Own-funds[8], thus establishes a volume ceiling to the Bank's loan activity. This ratio is primarily intended to provide a benchmark with other multilateral development banks.

The ratio reached 2.41 at the end of December 2022, higher than at year-end 2021 (2.30) due to the increase in the Loan portfolio outpacing internal capital generation.

The prudential framework ceiling limit is 2.5 times Own funds, corresponding to a maximum possible loan volume of €20.7 billion, at the end of December 2022, stable compared to year-end 2021 (€20.5 billion).

8. CEB's own funds: subscribed capital, reserves and net profit.

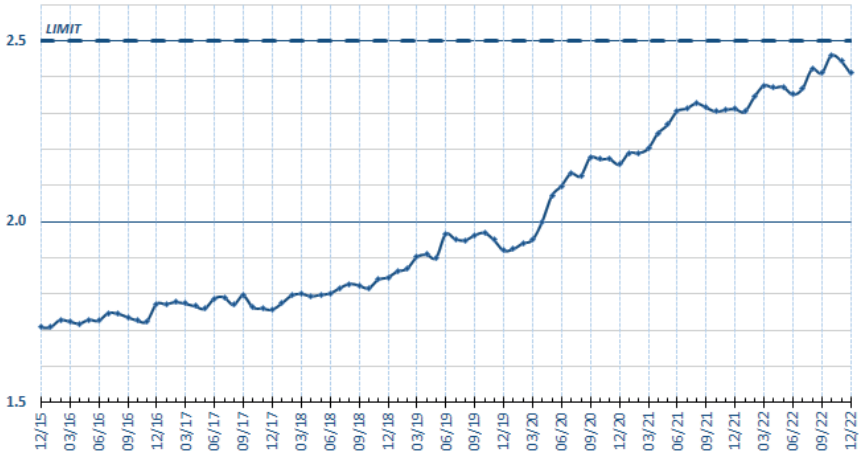
Figure 7: Development of the Gearing Ratio

Gearing Ratio (A/B)	2.41
Ceiling =	*2.5*
Loan portfolio*	19 958
Guarantees	0
A – Total Loans	**19 958**
Subscribed capital	5 477
Reserves	2 723
Net profit	80
Profit to be allocated	0
B – Own Funds	**8 280**

**Without fwd and after swap*

Max Loans	*20 699*
Headroom	*741*

Figures in € Million



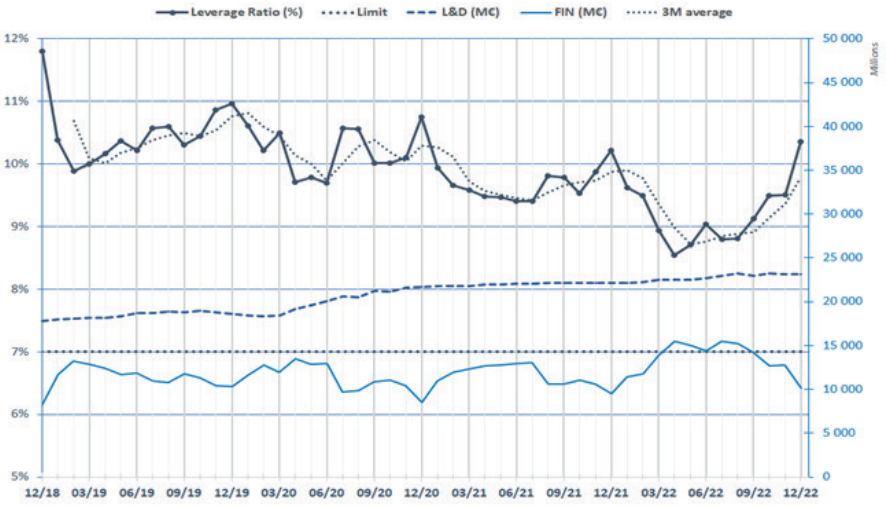
Leverage Ratio

The CEB leverage ratio is calculated as per Basel/EU standards. It measures the ratio of the prudential equity divided by the exposure value of all assets and off-balance sheet items. At end of December 2022, the leverage ratio was 10.3%, slightly higher than at year-end 2021 (10.2%).

Figure 8: Development of the Leverage Ratio

Leverage Ratio (A/B)	10.3%
Regulatory minimum =	*3%*
Internal limit =	*7%*
A – Prudential Equity	**3,442**
L&D	**23 153**
Loans	19 887
Commitments (50% of gross amount)	3 266
FIN	**10 141**
Bonds	4 493
Nostro & Money Market	5 352
FX & Derivatives	294
Equity	1
B – Total Exposures	**33 294**

Figures in € Million



Credit Risk

Credit risk is defined as the potential loss arising from a bank borrower or counterparty failing to meet their obligations in accordance with agreed terms. The Bank is exposed to credit risk in both its lending and treasury activities, as borrowers and treasury counterparties could default on their contractual obligations, or the value of the Bank's investments could become impaired. Credit risk may also materialise in the form of a rating downgrade that may negatively affect the Bank's capital or provisioning against credit losses. Credit risk also covers settlement and pre-settlement risk. Similarly, the collateral risk is considered as part of credit risk (collateral is essentially a credit risk mitigation technique). Overall, credit risk is a function of the amount of credit exposure and the credit quality of the borrower or transaction.

Credit Risk identification and assessment

Credit risk management identifies all potential sources of credit risk inherent in all products and activities arising from the Bank's lending and treasury activities across its balance sheet and off-balance sheet operations. The Bank ensures that the risk of new products and activities is subject to adequate risk management procedures and controls before being introduced or undertaken. Credit risk may materialise in the form of rating downgrades, (cross-) default on payment obligations or during the transaction settlement process.

Internal ratings

Internal credit ratings are the result of the Bank's independent internal credit risk assessment. They are an opinion on the ability and willingness of a borrower to pay its obligations in full and in a timely manner. They are generally based on a qualitative and quantitative assessment of risk factors and potential scenarios that may ultimately lead to a default situation. Internal credit ratings are assigned to all counterparties at the Finance Directorate (FIN) and at the Loans & Social Development Directorate (L&D). The Bank may use external ratings for specific transactions, products or counterparties while ensuring a sound understanding of the underlying risk incurred. The defined limits for monitoring credit risk arising from lending and treasury operations are regularly reviewed. The internal rating methodologies are regularly reviewed and calibrated. Internal ratings are mapped to the rating scale of international credit rating agencies, and each internal rating thus corresponds to a rating on the scale, as described in Figure 9.

Figure 9: Internal rating classification

		Long Term		Short Term	
	Internal rating	Moody's	S&P / Fitch	Moody's	S&P / Fitch
Investment Grade (I.G.)	10	Aaa	AAA	P-1	A-1+
	9.5	Aa1	AA+	P-1	A-1+
	9	Aa2	AA	P-1	A-1+
	8.5	Aa3	AA-	P-1	A-1+
	8	A1	A+	P-1	A-1
	7.5	A2	A	P-1	A-1
	7	A3	A-	P-1/P-2	A-2
	6.5	Baa1	BBB+	P-2	A-2
	6	Baa2	BBB	P-2/P-3	A-3
	5.5	Baa3	BBB-	P-3	A-3
Non-Investment Grade (Non-I.G.)	5	Ba1	BB+	N-P	B
	4.5	Ba2	BB	N-P	B
	4	Ba3	BB-	N-P	B
	3.5	B1	B+	N-P	B
	3	B2	B	N-P	B
	2.5	B3	B-	N-P	B
	2	Caa1	CCC+	N-P	C
	1.5	Caa2	CCC	N-P	C
	1	Caa3	CCC-	N-P	C
	0.5	Ca	CC	N-P	C
	0.25	C	C	N-P	C
Default	0	D	D	D	C

The Bank uses the standardised method to calculate its RWA. The Bank also calculates RWA using the "internal ratings-based" (IRB) foundation approach for internal benchmarking purposes. The IRB foundation approach allows internal ratings be used for assigning the risk weight, whereas the standardised method imposes external ratings for risk weights.

To ensure consistency and quality of ratings, internal ratings are scored with rating models each adapted to the type of borrower (sovereigns, banks, local and regional governments and others) and subject to a specific governance framework. The rating methodologies follow the generally accepted principles for through-the-cycle ratings whereby the rating is a function of both a qualitative and a quantitative assessment.

The risk model is based on a qualitative and quantitative risk assessment of risk factors typically considered as driving the creditworthiness of the counterparty. The risk assessment is the result of analysis of the counterparty's financial and economic information, governance and management structure.

Currently, the CEB uses internal rating models for the following instrument/counterparty categories:

- Sovereigns
- Local and regional governments
- Financial institutions
- Corporates
- Government-related entities (GREs)
- Covered bonds

All internal rating models at the CEB follow an expert system approach, meaning the ratings are primarily based on scorecards, which rely on quantitative factors and an analyst's opinion for qualitative factors, but also allow adjustments to the rating based on judgmental factors to an explicitly limited degree.

The internal rating model for **sovereign counterparties** evaluates the economic, institutional and fiscal strength as well as the external position of the sovereign in order to assess the risk profile of each of the four risk components. The risk profiles of the four risk components are then used by the model to perform three intermediate horizontal calculations in order to arrive at a final score and assign a sovereign credit rating. The resulting score for each calculation step falls within a bucket (three-notch range) and the actual score is subject to the expert judgement of the model user.

The rating methodology for **local and regional governments (LRGs)** evaluates 11 intrinsic risk factors that are deemed relevant for assessing the intrinsic creditworthiness of the LRG. The relevant risk factors included in the model are scored on either a quantitative or a qualitative basis and relate to the economic fundamentals, institutional framework, governance and management, budgetary performance and indebtedness of a given local or regional government. The resulting rating is scaled to the sovereign rating and, finally, extraordinary support from the central government, if any, is factored in, and any necessary analyst overrides are applied.

The internal rating model for **corporate counterparties** assesses business risk and financial risk factors (including industry risks, company specifics, corporate governance, capital structure and debt service capacity) on a quantitative and qualitative basis by taking into account sector and country specific factors to determine an initial rating. Expert adjustments are made by considering each legal entity's shareholder or government support.

Most **financial institution counterparties** are rated by external credit rating agencies. Nevertheless, an internal rating will be derived for all such counterparties. The internal rating process is very similar to that for corporates, although the rating criteria used differ and, on the one hand, measure qualitative criteria such as management experience and the effectiveness of internal controls, the robustness of information systems, the quality of bank supervision, the bank's franchise and diversification, systemic importance, and potential shareholder or state support while, on the other hand, financial criteria are assessed to evaluate the institution's financial soundness (asset quality, profitability, capitalisation and liquidity and funding based on nine financial ratios). The final rating allows for judgemental overrides.

A **government-related entity ('GRE')** is an entity with full or partial government ownership or control, a special charter, or a public policy mandate from the national, regional or local government. There are two approaches for rating GREs, the bottom-up approach and the top-down approach. Under the bottom-up approach, the borrower's 'standalone' rating is first computed, and then a rating uplift is added to account for the probability of extraordinary government support. Under the top-down approach, the borrower's rating is derived directly from the supporting government rating, by notching down to account for different factors indicating the strength of the linkages between the two entities.

The **covered bond** rating model uses a notching-up approach. The starting point is the internal rating of the issuer, which can be notched up based on several steps and assessments. The overall possible uplift is a maximum 6 notches. It considers factors such as each jurisdiction's resolution framework, probability of government support in the jurisdiction, legal aspects of over-collateralisation, presence of a secondary market for the assets of the cover pool.

Credit Risk Mitigation

The CEB actively uses credit risk mitigation (CRM) techniques to monitor and mitigate credit risk during the life of its transactions. CRM techniques can take the form of a guarantee, collateral, or contractual safeguards (contractual covenants).

CRM techniques for new transactions are proposed by the CRU and are subject to the approval of the Credit Risk Committee (CRC). Credit risk mitigation techniques for existing transactions are presented to the CRC at the annual counterparty review.

The credit risk of a new project is assessed during the appraisal process and requires approval from the relevant internal committees. All projects are submitted to the Administrative Council for approval, which in turn establishes an overall framework for financial operations through the Bank's Financial and Risk Policy. Within this framework, treasury transactions are assessed by the CRU and submitted to the CRC for approval.

Finally, large exposure and concentration limits are also defined and reported to the CRC.

Credit Risk Exposure

Exposure breakdown by product, counterparty type and country

Throughout the report, data sorted by rating category is presented using the second best rating or, when an entity is not rated by international credit rating agencies, using the internal rating. Exposure after CRM is presented unless specified otherwise.

The figure below presents the Bank's total credit risk exposure. It displays exposure both at L&D (loans and financing commitments) and FIN (deposits, securities and derivatives) levels as at 31 December 2022 and 31 December 2021. Non-IG stands for below Investment Grade exposure.

Figure 10: Overall exposure by product and rating category

	2022				2021			
In € million	**AAA/AA**	**A/BBB**	**Non-IG**	**Total**	**AAA/AA**	**A/BBB**	**Non-IG**	**Total**
Loans	4 357	12 818	2 712	19 887	3 760	12 535	2 621	18 916
Financing commitments	952	4 345	1 235	6 532	1 403	3 684	1 228	6 316
Deposits	1 414	3 939	–	5 352	1 737	2 409	–	4 146
Securities	3 818	675	–	4 493	3 497	1 589	–	5 085
Swap & FX Forward	185	109	–	294	182	112	–	294
Total	**10 726**	**21 885**	**3 948**	**36 559**	**10 579**	**20 329**	**3 849**	**34 757**

- Rating as recommended by the Basel Committee (second best rating) or, when not rated by international rating agencies, internal rating.
- Loans and financing commitments are reported after CRM.
- Loans, deposits and securities are reported at nominal value and excluding accrued interest.

Figure 11 presents the Bank's credit risk exposure split by loans and securities and per counterparty type (sector) as at 31 December 2022.

"Sovereign" includes Public Sector Entities and national promotional banks, i.e. financial institutions set up and sponsored by a central government. "Sub-sovereign" class includes regional governments, local authorities and regional promotional financial institutions.

Figure 11: Credit risk exposure by counterparty type

31.12.2022	In € million		
	Finance	**Lending**	**Total**
Sovereign	2 979	13 946	16 924
Sub-sovereign	453	7 698	8 151
Banks	6 147	3 724	9 872
Other	561	1 052	1 612
Total	**10 139**	**26 419**	**36 559**

- Takes into account forward transactions, including non-collateralised swaps

The figure below presents the Bank's overall credit risk exposure as at 31 December 2022 per counterparty type and per country.

Figure 12: Geographical distribution of credit risk exposures (in € million)

Country	Sovereign	Sub-sovereign	Banks	Other	Total
France	1 326	1 103	1 926	830	5 185
Spain	704	1 687	1 117	–	3 508
Italy	1 725	150	166	235	2 276
Germany	271	1 386	421	282	2 360
Poland	1 198	450	656	–	2 305
Türkiye	1 463	–	0	–	1 463
Belgium	175	1 413	10	–	1 598
Netherlands	681	–	786	–	1 467
Slovak Republic	938	137	92	50	1 217
Serbia	937	–	–	–	937
Lithuania	665	159	46	29	899
Finland	76	781	87	1	944
Switzerland	–	–	917	–	917
Romania	623	69	–	–	691
Croatia	834	–	–	–	834
Czech Republic	554	–	120	–	673
Hungary	716	–	–	–	716
Portugal	650	30	4	–	684
Sweden	–	524	62	–	586
Ireland	463	119	–	2	583
Cyprus	408	–	–	–	408
Bulgaria	192	–	–	–	192
Greece	270	–	–	–	270
Estonia	200	–	–	25	225
Slovenia	233	–	12	–	245
Luxembourg	192	–	0	–	192

Figure 12: Geographical distribution of credit risk exposures (in € million) – *continued*

Country	Sovereign	Sub-sovereign	Banks	Other	Total
Montenegro	141	–	–	–	141
Norway	–	–	136	–	136
Albania	135	–	–	–	135
Denmark	–	8	120	–	128
Moldova (Republic of)	123	–	–	–	123
North Macedonia	122	–	–	–	122
Bosnia and Herzegovina	99	–	–	–	99
Kosovo	60	–	–	–	60
Iceland	–	8	–	54	63
Latvia	5	–	–	27	32
Malta	–	–	29	–	29
Andorra	19	–	–	–	19
Georgia	14	–	–	–	14
San Marino	9	–	–	–	9
Sub-Total I	**16 219**	**8 024**	**6 706**	**1 534**	**32 483**
Non-Member Countries					
Great Britain	–	–	770	–	770
Canada	–	75	657	–	732
Japan	–	–	692	–	692
Australia	0	–	508	–	508
Singapore	–	–	272	–	272
Austria	10	–	89	78	178
United States of America	–	–	124	–	124
Hong Kong	–	–	53	–	53
New Zealand	–	52	–	–	52
South Korea	4	–	–	–	4
Supranational	**691**	–	–	–	**691**
Sub-Total II	**705**	**127**	**3 166**	**78**	**4 076**
Total	**16 924**	**8 151**	**9 872**	**1 612**	**36 559**

Loan portfolio

Credit risk profile of loan portfolio

At the end of December 2022, loans outstanding reached €19.9 billion, increasing by 5.1% compared to year-end 2021.

Figure 13: Credit risk profile of loan portfolio after credit enhancement*

In € million	2018	2019	2020	2021	2022	/End 2021
TOTAL	**14 625**	**15 427**	**17 427**	**18 916**	**19 887**	**5.1%**
Investment Grade	12 298	13 348	15 104	16 295	17 175	5.4%
AAA/AA	2 612	2 967	3 109	3 760	4 357	15.9%
A/BBB	9 686	10 381	11 995	12 535	12 818	2.3%
Non-I.G.	2 327	2 079	2 323	2 621	2 712	3.5%
% I.G.	*84.1%*	*86.5%*	*86.7%*	*86.1%*	*86.4%*	
% Non-IG	*15.9%*	*13.5%*	*13.3%*	*13.9%*	*13.6%*	

* The rating of a loan is the second-best out of the three major Credit Rating Agencies (CRAs) Fitch, Moody's and Standard & Poor's, or the internal rating if unrated by the CRAs. The credit enhancement (Credit Risk Mitigation – CRM) is generated either by guarantees or by securities pledged as collateral.

The credit quality of the loan portfolio remains robust, with 86.4% of the exposure rated Investment Grade after CRM, slightly higher than the level observed at the end of 2021 (86.1%), reaching a plateau after the positive trend registered over the past few years.

It is worth recalling that the credit quality of the loan portfolio may be subject to sudden changes in the event of counterparties with sizeable exposure being downgraded or upgraded. The Bank manages such concentrations by defining guidelines to monitor them at different levels, i.e. counterparties, group of counterparties, country/geographic distribution and portfolios of activity (loans and treasury).

Figure 14 shows that the single-A and BBB categories represent 64.5% of the loan portfolio. Besides, €1.6 billion of loans outstanding is rated BBB-, thereby subject to a potential cliff effect if downgraded to below "Investment Grade", with a subsequent impact on the capital adequacy ratio. However, there is reasonable diversification with 20 counterparties rated BBB- (after CRM).

Figure 14: Credit risk profile of the loan portfolio by broad rating class

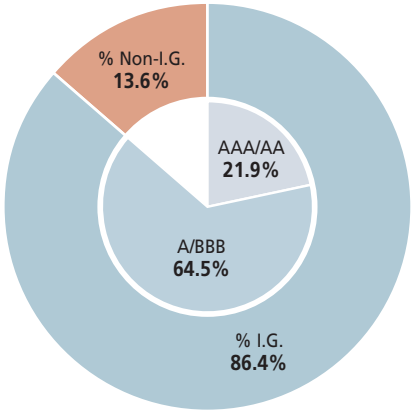
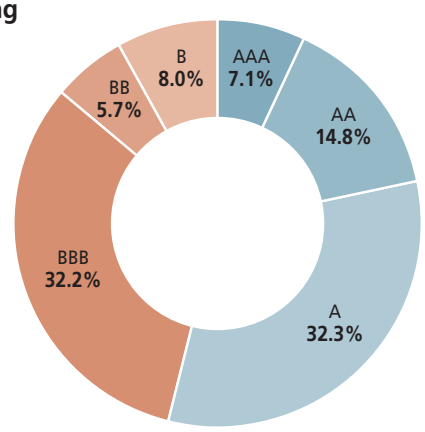


Figure 15: Breakdown of the loan portfolio by rating



The following figure presents the evolution, since 2015, of the average rating of the loan portfolio, weighted by the amounts. At the end of December 2022, the average rating (after CRM) is at 6.86 (6.90 at year-end 2021), roughly equivalent to A- (7.0). Meanwhile, the average rating before CRM was 6.53, i.e. BBB+ (6.57 at year-end 2021).

New loans disbursed in 2022 (€3 518 million) present an average rating (after CRM) of 6.88 (i.e. A- on the external rating scale), at the same level as the current average rating of the loan portfolio (6.86).

The average rating of the loan portfolio is computed by taking the second-best rating (out of the three major credit rating agencies or the internal rating if the counterparty is not rated by any credit rating agency) after CRM, i.e. guarantees and collateral received. For comparison purposes, the average rating before CRM is also displayed in the figure below.

Figure 16: Average rating development of the loan portfolio

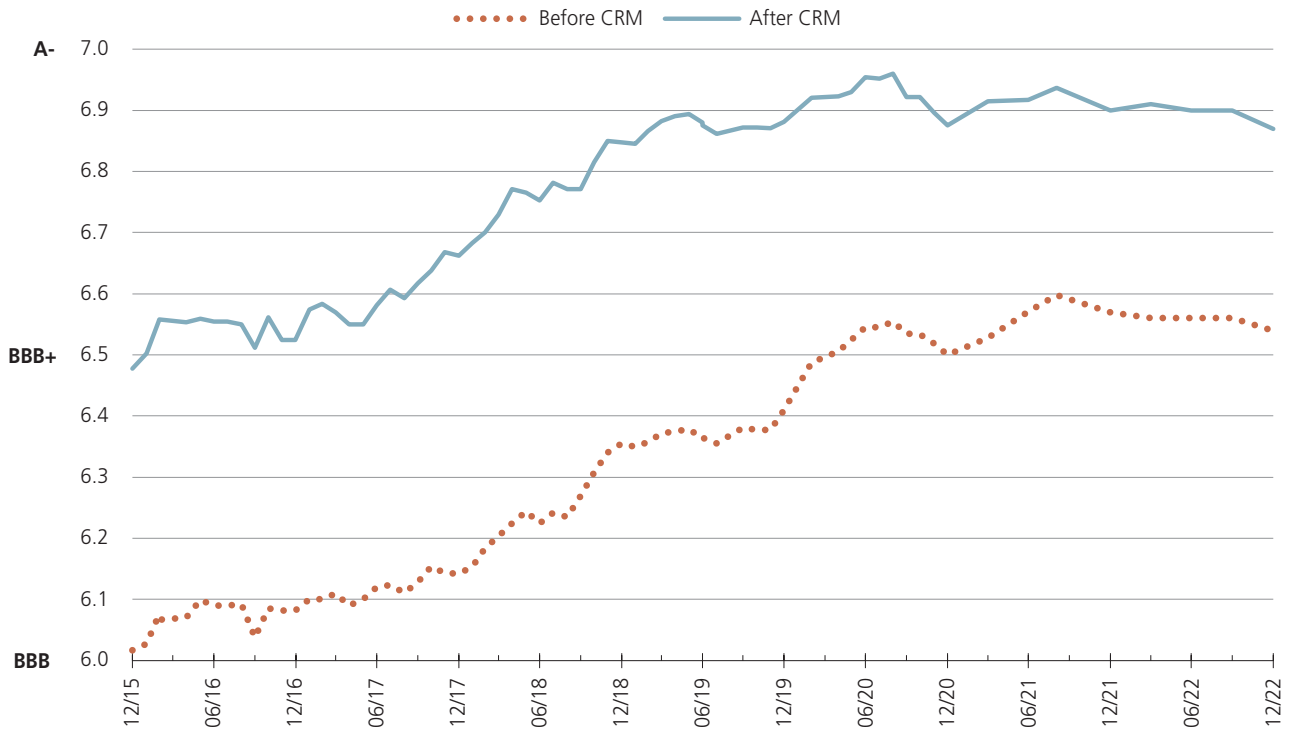


Figure 17: Credit risk exposure of the loan portfolio by country and by rating

31.12.2022	In € million			
Country	**AAA/AA**	**A/BBB**	**Non-IG**	**Total**
France	861	1 315	36	2 212
Spain	–	2 118	25	2 143
Poland	–	1 670	10	1 680
Italy	–	1 257	100	1 357
Germany	1 048	231	–	1 279
Türkiye	–	–	1 143	1 143
Belgium	214	869	–	1 084
Slovak Republic	–	1 043	15	1 058
Netherlands	537	433	6	976
Hungary	–	716	–	716
Lithuania	–	689	3	692
Croatia	–	634	–	634
Finland	344	267	1	612
Serbia	–	–	519	519
Sweden	446	–	–	446
Czech Republic	300	64	59	423
Ireland	392	14	–	406
Romania	–	334	33	367
Cyprus	–	308	–	308
Portugal	–	293	–	293
Greece	–	–	218	218
Estonia	200	–	–	200
Bulgaria	–	192	–	192
Slovenia	–	170	–	170
Albania	–	–	133	133
Montenegro	–	–	100	100
North Macedonia	–	–	97	97
Bosnia and Herzegovina	–	–	88	88
Moldova (Republic of)	–	–	64	64
Iceland	–	63	–	63
Kosovo	–	–	46	46
Malta	–	29	–	29

Figure 17: Credit risk exposure of the loan portfolio by country continued and by rating – *continued*

31.12.2022	In € million			
Country	**AAA/AA**	**A/BBB**	**Non-IG**	**Total**
Latvia	–	24	–	24
Andorra	–	15	–	15
San Marino	–	–	9	9
Georgia	–	–	9	9
Switzerland	–	–	–	–
Sub-Total I	**4 342**	**12 749**	**2 712**	**19 803**
Non-member countries				
Austria	–	69	–	69
Supranational	**14**	–	–	**14**
Sub-Total II	**14**	**69**	**–**	**84**
Total	**4 357**	**12 818**	**2 712**	**19 887**

The loan portfolio breakdown by sector reflects the predominance of public sector exposure (sovereigns or central states, sub-sovereigns or regional and local authorities and state-owned financial institutions). Public Sector-related exposures after CRM remained broadly stable, with a share of 83.1% of the total portfolio at the end of December 2022 (Figure 18).

Figure 18: Credit risk exposure of the loan portfolio by type of counterparty

In € million	**2018**	**2019**	**2020**	**2021**	**2022**	**/End 2021**
TOTAL	**14 625**	**15 427**	**17 427**	**18 916**	**19 887**	**5.1%**
Sovereign	7 547	7 710	9 107	9 956	10 623	6.7%
Sub-Sovereign	3 596	4 085	4 738	5 443	5 911	8.6%
Banks	3 290	3 422	3 268	3 190	2 834	–11.2%
Other	192	210	313	327	519	58.9%
% Public Sector	*76.2%*	*76.5%*	*79.4%*	*81.4%*	*83.1%*	

It is worth highlighting that CRM plays an important role in defining the risk profile of the loan portfolio and thus in improving its credit quality: 10.7% of the portfolio shifted from Non-Investment Grade to the Investment Grade category when applying credit risk mitigation techniques, as shown in the table below.

Figure 19: Loan portfolio before versus after CRM by rating

In € million	Before CRM	%	After CRM	%	Change
TOTAL	**19 887**		**19 887**		
Investment Grade	15 050	75.7%	17 175	86.4%	10.7%
AAA/AA	3 426	17.2%	4 357	21.9%	4.7%
A/BBB	11 624	58.4%	12 818	64.5%	6.0%
Non-Investment Grade	4 837	24.3%	2 712	13.6%	–10.7%

At the end of December 2022, the CEB had received €6.1 billion in legal guarantees and €211 million in collateral consisting of bonds, the two main types of credit risk enhancement the Bank uses to mitigate risk in its loan activities.

The figure below presents the credit risk exposure by guarantor rating class for guaranteed loan exposures as at 31 December 2022 and 31 December 2021.

Figure 20: Guaranteed loan exposure by guarantor rating class

In € million	2022	2021
AAA	561	679
AA	1 180	824
A	2 049	2 429
BBB	2 145	2 243
BB	–	–
B	208	318
Total	**6 143**	**6 493**

The figure below presents the shift in exposure from banks to sovereigns (including state-owned financial institutions) after considering guarantees and collateral.

Finally, commercial financial institutions (mainly Banks) accounted for 14% of the loan portfolio after CRM (15% before CRM). A significant part of this exposure benefits from guarantees.

Figure 21: Loan portfolio before versus after CRM by type of counterparty

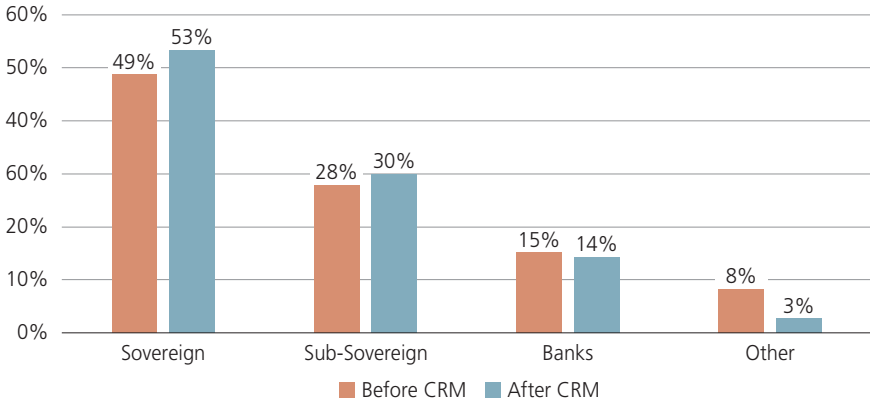


Figure 22: Loan portfolio by rating and type of counterparty

In € million	31.12.2022			
	AAA/AA	**A/BBB**	**Non-IG**	**Total**
Sovereign	1 891	6 307	2 425	10 623
Sub-sovereign	2 297	3 456	158	5 911
Banks	10	2 731	93	2 834
Other	159	324	37	519
Total	**4 357**	**12 818**	**2 712**	**19 887**

- Rating as recommended by the Basel Committee (second best rating), or, when not rated by international rating agencies, internal rating.
- Loans reported after CRM at nominal value and excluding accrued interest.

The loan portfolio breakdown by sector reflects the predominance of public sector exposure (i.e. sovereigns or central states; sub-sovereigns or regional and local authorities).

Figure 23 displays the breakdown of loans outstanding by remaining time to maturity:

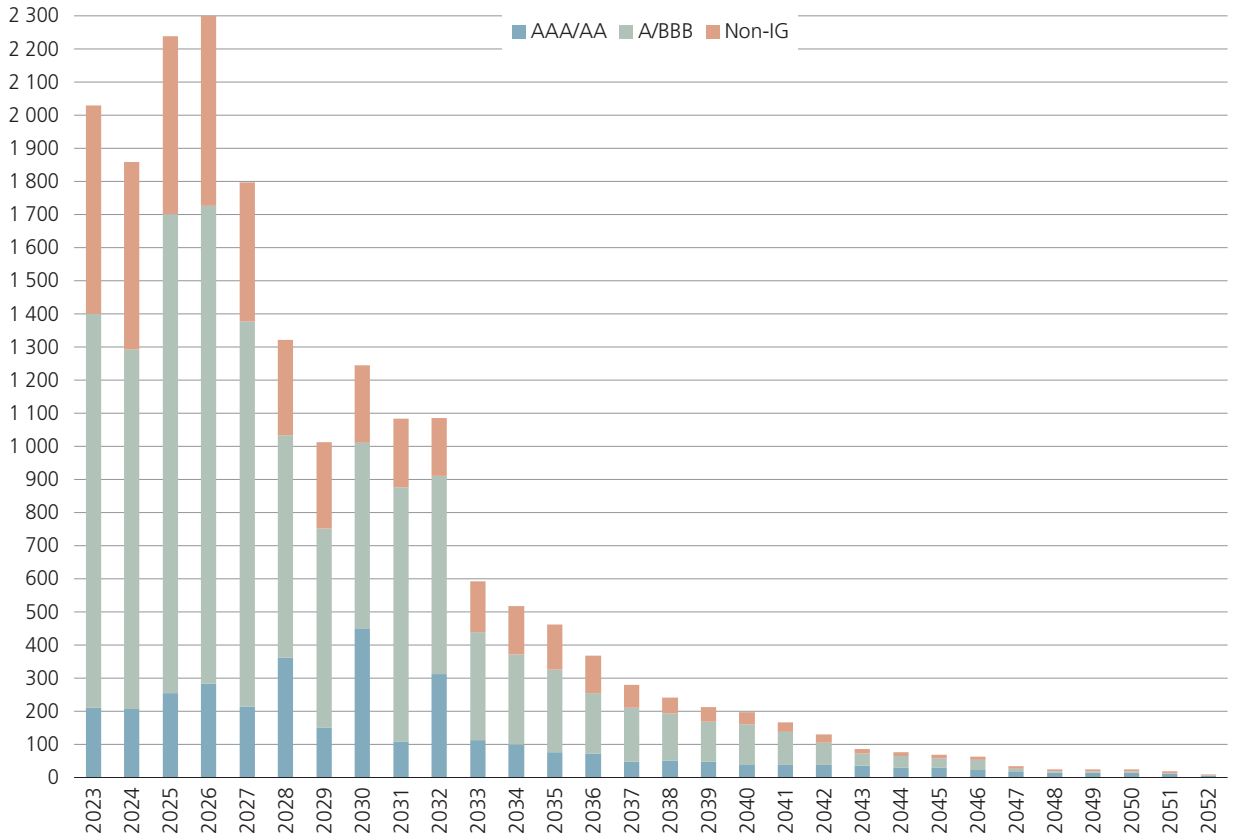
Figure 23: Loan portfolio by maturity

In € million	**2022**	**%**	**2021**	**%**
Up to 1 year	2 094	11%	2 414	13%
1 year to 5 years	8 313	42%	7 711	41%
5 years to 10 years	5 816	29%	5 552	29%
10 years to 20 years	3 227	16%	2 896	15%
More than 20 years	437	2%	343	2%
Total	**19 887**	**100%**	**18 916**	**100%**
Weighted average residual life	6.2 years		5.9 years	

Credit risk profile of scheduled reimbursements

To assess the future development of the loan portfolio, the credit risk profile of scheduled reimbursements is compared with potential inflows arising from new loans. The current stock of projects is used as a proxy for new loans.

Figure 24: Loan portfolio reimbursements by rating (in € million)



Credit risk profile of the stock of projects

The stock of projects encompasses all projects approved by the Administrative Council awaiting financing. At the end of December 2022, the stock of projects amounted to €9.1 billion, increasing by 2.0% compared to year-end 2021. The Investment Grade category increased by 0.6% (approx. €46 million), while the Non-Investment Grade category increased by 8.0% (approx. €132 million) compared to the end of 2021 (Figure 25).

Figure 25: Credit risk profile of the stock of projects

In € million	2018	2019	2020	2021	2022	/End 2021
TOTAL	**7 891**	**8 521**	**9 514**	**8 915**	**9 093**	**2.0%**
Investment Grade	6 924	7 320	7 520	7 277	7 323	0.6%
AAA/AA	1 796	2 187	1 584	1 453	1 382	-4.9%
A/BBB	5 128	5 133	5 936	5 824	5 941	2.0%
Non-I.G.	967	1 201	1 994	1 638	1 770	8.0%
% I.G.	*75.9%*	*71.3%*	*85.9%*	*70.8%*	*71.8%*	
% Non-IG	*87.7%*	*85.9%*	*79.0%*	*81.6%*	*80.5%*	

Credit risk profile of the financing commitments

Financing commitments are projects still awaiting financing, and for which a framework loan agreement has been signed. At the end of December 2022, the financing commitments reached €6.5 billion, i.e. 71.8% of the total stock of projects. The credit quality of the financing commitments, with an average rating of 6.46, is below that of the loan portfolio (6.86). The share of Investment Grade counterparties was at 81.1%, compared to the 86.3% share of Investment Grade counterparties in the loan portfolio.

Figure 26: Credit risk profile of the financing commitments after CRM

In € million	2018	2019	2020	2021	2022	/End 2021
TOTAL	**5 992**	**6 079**	**8 175**	**6 316**	**6 532**	**3.4%**
Investment Grade	5 404	5 533	6 645	5 087	5 297	4.1%
AAA/AA	1 392	1 796	1 236	1 403	952	-32.1%
A/BBB	4 012	3 736	5 409	3 684	4 345	17.9%
Non-I.G.	588	546	1 530	1 228	1 235	0.6%
% Invest. Grade	*90.2%*	*91.0%*	*81.3%*	*80.5%*	*81.1%*	

Figure 27: Financing commitments by rating and type of counterparty

In € million	AAA/AA	A/BBB	Non-IG	Total
Sovereign	306	1 968	1 048	3 322
Sub-sovereign	612	1 117	58	1 787
Banks	–	848	43	891
Other	34	412	86	532
Total	**952**	**4 345**	**1 235**	**6 532**

Figure 28: Financing commitments by country (in € million)

Country	AAA/AA	A/BBB	Non-IG	Total
France	217	435	11	663
Poland	–	625	–	625
Spain	–	553	22	575
Italy	–	493	75	568
Germany	256	169	–	425
Serbia	–	–	418	418
Portugal	–	292	100	392
Belgium	–	339	–	339
Romania	–	289	36	325
Türkiye	–	–	320	320
Czech Republic	200	50	–	250
Lithuania	–	164	43	207
Croatia	–	200	–	200
Netherlands	–	200	–	200
Finland	140	40	–	180
Ireland	60	107	–	167
Slovak Republic	–	159	–	159
Cyprus	–	100	–	100
Slovenia	–	75	–	75
Sweden	71	–	–	71
Moldova (Republic of)	–	–	60	60
Greece	–	–	53	53
Montenegro	–	–	41	41
Estonia	–	25	–	25
North Macedonia	–	–	25	25
Kosovo	–	–	14	14
Bosnia and Herzegovina	–	–	11	11
Latvia	–	8	–	8
Georgia	–	–	5	5
Andorra	–	4	–	4
Albania	–	–	1	1
Sub-Total	**944**	**4 325**	**1 235**	**6 505**
Non-member countries				
Austria	–	20	–	
Supranational	**8**	–	–	**8**
Sub-Total	**8**	**20**	**–**	**28**
Total	**952**	**4 345**	**1 235**	**6 532**

Social Dividend Account guarantee window

The Social Dividend Account (SDA) guarantee is an internal credit risk mitigation mechanism that secures a pool of CEB loan exposures with part of the funds deposited on the CEB's SDA.

New loans can be added to the SDA guarantee scheme as long as the anticipated credit losses on the pool of SDA-guaranteed loans (within a one-year time horizon and at a 99% confidence level) do not exceed the SDA guarantee endowment. If the anticipated credit losses exceed 75% of the SDA guarantee endowment, new loan additions will be restricted.

Figure 29: SDA guarantees by country (in € million)

Country	2022	2021
Existing Loans	**20**	**13**
Bosnia and Herzegovina	8	4
Georgia	2	2
Italy	4	4
Romania	1	1
Greece	1	1
North Macedonia	1	1
Luxembourg	0.3	–
Lithuania	3	–
Committed Loans	**9**	**3**
Bosnia and Herzegovina	2	1
Georgia	–	1
Greece	1	1
North Macedonia	–	1
Luxembourg	3	–
Lithuania	3	–
Uncommitted Loans	**9**	**13**
Bosnia and Herzegovina	–	4
Kosovo	–	2
Lithuania	–	4
Luxembourg	–	3
Ireland	8	–
Spain	1	–
Total	**29**	**29**

As of December 2022:

- the total endowment of the fund was €18.8 million;
- the current amount of loans outstanding was €19.7 million;
- the stock of projects committed awaiting disbursement was €8.7 million;
- the stock of projects uncommitted was €9.0 million.

The expected shortfall, with a 99% confidence level and a one-year time horizon, reached €8.7 million at the end of 2022. The ES level is well below the threshold of 75% of the endowment (€14.1 million). Therefore, new projects can be submitted to the fund.

The risk borne under the SDA guarantee window is monitored on a regular basis and reported to the CRC.

Finance portfolio

The credit risk profile of finance portfolio

Credit risk exposure in Finance operations mainly arises from the purchase of securities, placement in deposits, repo / reverse repo, derivative transactions for hedging purposes, and collateral posted in the derivative transactions.

At the end of December 2022, the credit risk arising from finance operations amounted to €10.1 billion compared to €9.5 billion at year-end 2021, increasing by 6.5%.

Figure 30: Credit risk profile of Finance operations

In € million	2018	2019	2020	2021	2022	/End 2021
TOTAL	**8 230**	**9 174**	**8 733**	**9 524**	**10 139**	**6.5%**
AAA	1 318	1 197	1 203	991	1 254	26.6%
AA	4 036	4 079	3 697	4 425	4 163	-5.9%
A	2 626	3 290	3 372	3 389	4 572	34.9%
BBB/BB	250	607	460	721	150	-79.2%
% AAA/AA	*65.1%*	*57.5%*	*56.1%*	*56.9%*	*53.4%*	
% A/BBB/BB	*34.9%*	*42.5%*	*43.9%*	*43.1%*	*46.6%*	

Figure 31: Credit risk exposure of Finance operations by country (in € million)

Country	Sovereign	Sub-sovereign	Banks	Other	Total
France	1 090	227	759	235	2 310
Switzerland	–	–	917	–	917
Spain	239	–	551	–	790
Germany	268	85	303	–	656
Italy	350	–	–	–	350
Netherlands	144	–	147	–	290
Luxembourg	192	–	0	–	192
Belgium	175	–	–	–	175
Finland	76	–	77	–	153
Norway	–	–	136	–	136
Denmark	–	8	120	–	128
Sweden	–	8	62	–	69
Ireland	10	–	–	–	10
Czech Republic	–	–	0	–	0
Türkiye	–	–	0	–	0
Sub-Total	**2 543**	**326**	**3 071**	**235**	**6 175**
Non-member countries					
Great Britain	–	–	770	–	770
Canada	–	75	657	–	732
Japan	–	–	692	–	692
Australia	0	–	508	–	508
Singapore	–	–	272	–	272
Austria	89	–	–	–	89
United States of America	–	–	124	–	124
Hong Kong	–	–	53	–	53
New Zealand	–	52	–	–	52
South Korea	4	–	–	–	4
Supranational	**668**	–	–	–	**668**
Sub-Total	**762**	**127**	**3 076**	–	**3 965**
Total	**3 305**	**453**	**6 147**	**235**	**10 139**

The overall credit quality in financial operations slightly declined but remained sound with exposure to counterparties rated AAA/AA representing 53.4% of the total. This portion of the portfolio has been volatile in the last few years due to the scarcity of highly rated counterparties and the increase in lower-rated counterparties for the short-term activity, namely deposits and short-term bonds.

Long-term activity involves mainly investments in sovereign and quasi-sovereign counterparties with high ratings. Conversely, the shorter-term operations, primarily for liquidity management purposes and derivative transactions, are carried out through banks which are usually assigned a lower rating.

Figure 32: Finance operations by type of transaction

In € million	2018	2019	2020	2021	2022	/End 2021
TOTAL	**8 230**	**9 174**	**8 733**	**9 524**	**10 139**	**6.5%**
Deposits	1 831	2 849	2 629	4 146	5 352	29.1%
Securities	6 019	5 856	5 579	5 085	4 493	-11.6%
Swaps & FX Forward*	370	465	516	294	294	0.0%

* SA-CCR methodology for Swaps and FX Forwards was implemented in October 2021 for the calculation of exposures.

Exposure to finance operations, broken down by type of transaction, remains concentrated in securities purchased and deposits (including "Nostro" Accounts) placed mainly in banks and central banks. At the end of December 2022, securities and deposits accounted for 97.1% of the total credit exposure in financial operations.

The Treasury and ALM Division (TALM) manages the treasury activity of the Bank through different portfolios: The Treasury Monetary portfolio (TM) of short-term deposits, and three Securities portfolios, namely the Amortised Cost Portfolio (ACP), the Fair-value through Equity (FVOCI) portfolio and the Short-Term Liquidity (STL) portfolio.

The credit risk profile of the deposit portfolios

The Treasury monetary portfolio (TM) consists of short-term placements such as "Nostro" accounts, bank deposits up to one year, and cash received as collateral from derivative and (reverse) repurchase (repo) activities. Repo transactions are included in this portfolio. The portfolio's objective is to manage day-to-day cash-flow in all different currencies. To be eligible for investments up to three months, counterparties must have a minimum internal rating of 6.5 (BBB+). For investments between three months and one year, the minimum required rating is 7.0 (A-).

Exposure development over time fluctuates with business activity, optimising return while maintaining an adequate credit risk profile. At the end of December 2022, the nominal value of deposits and "Nostro" was €5.4 billion (€4.2 billion in deposits and €1.2 billion in "Nostro" accounts), compared to €4.1 billion at the end of 2021.

Figure 33: Money market transactions by rating

In € million	2018	2019	2020	2021	2022	/End 2021
TOTAL	**1 358**	**2 162**	**1 562**	**2 094**	**4 195**	**100.4%**
AAA					50	
AA	320	473	80		623	
A	995	1 689	1 482	2 044	3 522	72.3%
BBB/BB	43			50		
% AAA/AA	*24%*	*22%*	*5%*		*16%*	
% A/BBB/BB	*76%*	*78%*	*95%*	*100%*	*84%*	

Figure 34: Nostro exposure by rating

In € million	2018	2019	2020	2021	2022	/End 2021
TOTAL	**473**	**687**	**1 067**	**2 052**	**1 157**	**-43.6%**
AAA	242	269	291	280	406	44.9%
AA	110	162	521	1 457	335	-77.0%
A	118	253	254	315	416	32.2%
BBB/BB	2	3	2			
% AAA/AA	*74%*	*63%*	*76%*	*85%*	*64%*	
% A/BBB/BB	*26%*	*37%*	*24%*	*15%*	*36%*	

The credit risk profile of the securities portfolios

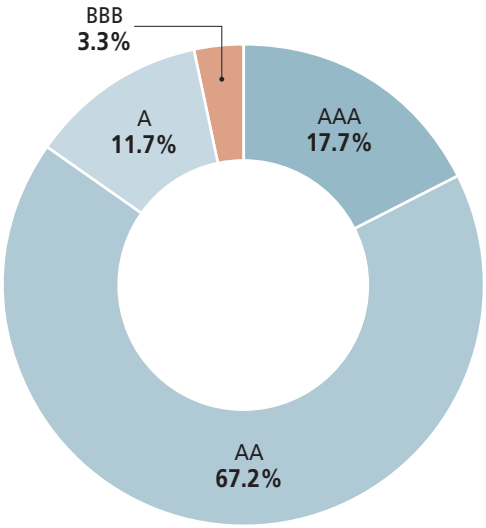
The CEB manages three bond portfolios: Amortised Cost Portfolio (ACP), Fair-value through Equity (FVOCI) portfolio, and Short-Term Liquidity (STL) portfolio. As at 31 December 2022, the total nominal value of portfolios is €4.5 billion, decreasing by -11.6% from year-end 2021: €1 550 million for ACP, €1 991 million for FVOCI and €952 million for STL.

The overall credit quality is robust: 85.0% of the exposure rated AAA/AA (17.7% in AAA and 67.2% in AA).

Figure 35: Securities (all portfolios) breakdown by rating

In € million	2018	2019	2020	2021	2022	/End 2021
TOTAL	**6 019**	**5 856**	**5 579**	**5 085**	**4 493**	**-11.6%**
AAA	1 063	928	882	711	797	12.2%
AA	3 359	3 052	2 743	2 786	3 021	8.4%
A	1 397	1 277	1 499	919	525	-42.8%
BBB	200	600	455	670	150	-77.6%
BB						
% AAA/AA	*73.5%*	*68.0%*	*65.0%*	*68.8%*	*85.0%*	
% A/BBB/BB	*26.5%*	*32.0%*	*35.0%*	*31.2%*	*15.0%*	

Figure 36: **All securities portfolios by rating at 31/12/2022**



The **Amortised Cost Portfolio (ACP)** includes investments with maturity up to 30 years. Its objective is to collect contractual cash flows until maturity, i.e. solely payments of principal and interest. The Amortised Cost Portfolio also aims to:

- establish a liquidity reserve of high-quality liquid assets as defined by Basel/EU regulation;
- enhance profitability;
- contribute to managing the Bank's interest rate risk position in line with the applicable ALM strategy.

Figure 37: Amortised Cost Portfolio by rating

In € million	2018	2019	2020	2021	2022	/End 2021
TOTAL	**2 033**	**1 883**	**1 703**	**1 499**	**1 550**	**3.4%**
AAA	679	644	615	514	652	27.0%
AA	1 264	1 149	998	945	857	-9.3%
A	40	40	40	40	40	
BBB	50	50	50			
BB						
% AAA/AA	*95.6%*	*95.2%*	*94.7%*	*97.3%*	*97.4%*	
% A/BBB/BB	*4.4%*	*4.8%*	*5.3%*	*2.7%*	*2.6%*	

At the end of December 2022, financial assets in the Amortised Cost Portfolio showed a nominal value of €1 550 million (+3.4% compared to end of 2021). The credit quality of this portfolio remained robust, with 97.4% of investments concentrated in the AAA/AA category (97.3% registered at year-end 2021).

The **Fair Value through Equity (FVOCI) Portfolio** includes investments with maturity up to 30 years. Its objective is two-fold, that is; to collect contractual cash flow and to potentially sell the securities. The Fair Value through Equity Portfolio also aims to:

- establish a liquidity reserve of high-quality liquid assets as defined by Basel/EU regulation;
- enhance profitability;
- contribute to managing the Bank's interest rate risk position in line with the applicable ALM strategy.

At the end of December 2022, financial assets in this portfolio reached €1 991 million, posting a -0.4% decrease versus year-end 2021. The credit quality is more robust, with 100% of investments AAA/AA.

Figure 38: Fair Value through Equity Portfolio by rating

In € million	2018	2019	2020	2021	2022	/End 2021
TOTAL	**1 994**	**2 007**	**1 975**	**2 000**	**1 991**	**-0.4%**
AAA	384	284	267	197	145	-26.4%
AA	1 565	1 635	1 595	1 730	1 846	6.7%
A	45	88	113	74		
BBB						
% AAA/AA	*97.8%*	*95.6%*	*94.3%*	*96.3%*	*100.0%*	
% A/BBB	*2.2%*	*4.4%*	*5.7%*	*3.7%*		

The **Short-Term Liquidity Portfolio (STL)** includes short-term securities with maturity up to one year (370 days). This portfolio is managed with the following objectives:

- strengthening the short-term liquidity position;
- optimising the return on the total short-term exposure (Treasury Monetary Portfolio and Short-Term Liquidity Portfolio).

At the end of December 2022, the STL portfolio reached €952 million, decreasing by -40.0% compared to year-end 2021. The credit quality has improved (33.3% in AAA/AA category and 51.0% single A), while remaining in line with its short-term nature and its liquidity management purposes. It is important to highlight that BBB exposure only relates to a sovereign counterparty with a maturity below six months.

Figure 39: Short-term portfolio by rating

In € million	2018	2019	2020	2021	2022	/End 2021
TOTAL	**1 992**	**1 966**	**1 900**	**1 586**	**952**	**-40.0%**
AAA						
AA	530	267	150	111	317	185.6%
A	1 313	1 149	1 345	805	485	-39.7%
BBB	150	550	405	670	150	-77.6%
% AAA/AA	*26.6%*	*13.6%*	*7.9%*	*7.0%*	*33.3%*	
% A/BBB	*73.4%*	*86.4%*	*92.1%*	*93.0%*	*66.7%*	

The figures below provide an illustrative comparison of the three securities portfolios according to broad rating class, and confirm their respective objectives in terms of maturity /credit risk level.

Figure 40: Breakdown of ratings by portfolio type

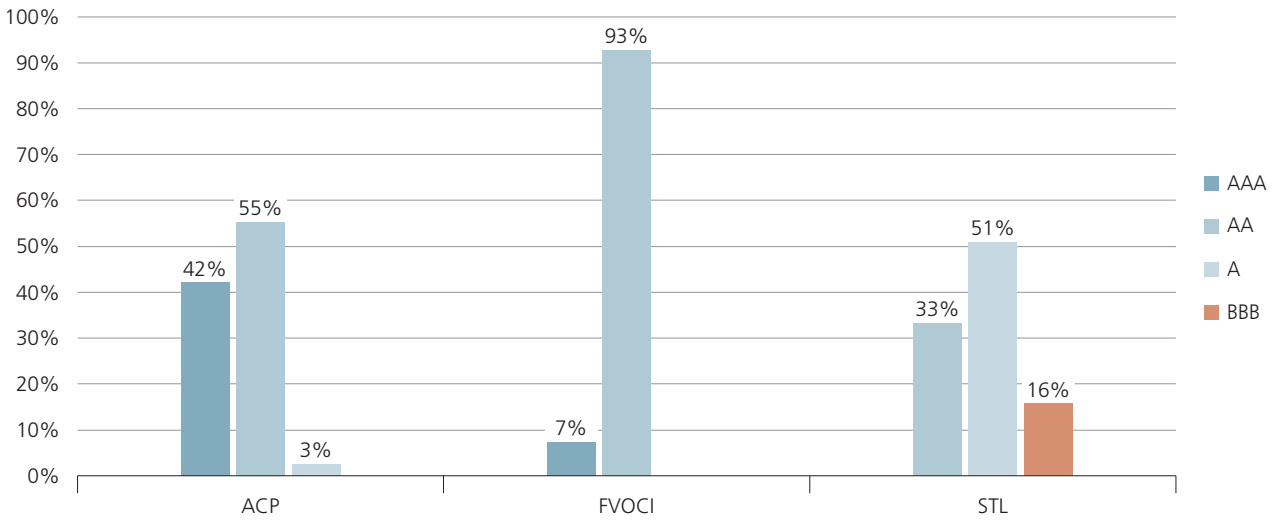
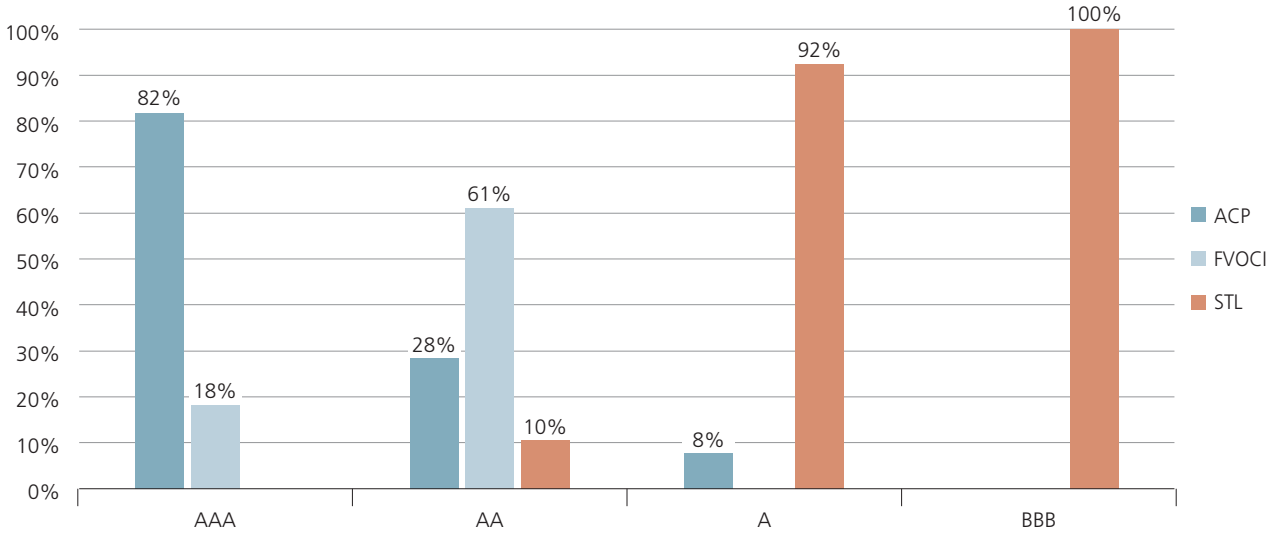
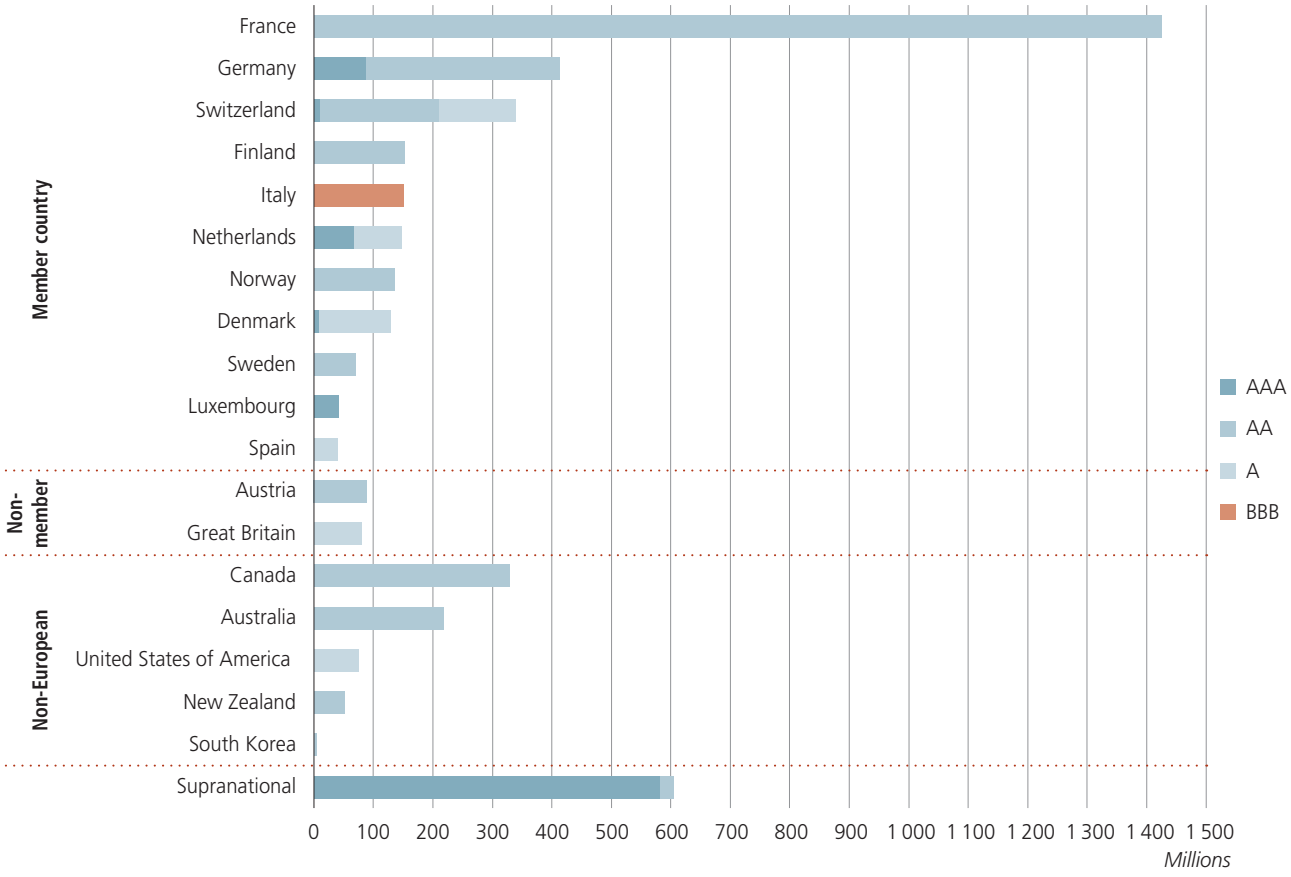


Figure 41: Breakdown of portfolio types by rating



The following figure presents a breakdown of all securities portfolios by country and issuer rating:

Figure 42: Securities nominal by issuer country and by rating



Finally, the table below provides a more detailed and consolidated view of the three portfolios, including the remaining maturity profile. The table confirms the robust credit quality of Securities investments with 85.0% (68.8% at year-end 2021) in the AAA/AA category.

Figure 43: Credit risk profile of the securities portfolios by remaining life and rating

In € million	AAA	AA	A	BBB	Total
ACP	**652**	**857**	**40**		**1 550**
Up to 1Y	56	72			128
1Y to 2Y	50	31	40		121
2Y to 5Y	208	263			471
> 5Y	339	491			830
FVOCI	**145**	**1 846**			**1 991**
Up to 1Y	15	340			355
1Y to 2Y	50	254			304
2Y to 5Y	35	521			556
> 5Y	45	733			777
STL		**317**	**485**	**150**	**952**
Up to 1Y		317	485	150	952
Total	**797**	**3 021**	**525**	**150**	**4 493**
% / total	*17.7%*	*67.2%*	*11.7%*	*3.3%*	

Large exposures

Large Exposure is defined as the overall exposure (Loans, Securities, Deposits and Derivatives) to a single counterparty or a group of connected counterparties, exceeding 10% of Prudential equity (paid-in capital, reserves, net profit).

In line with Basel Committee recommendations and EU directives, the CEB ensures that no exposure to a counterparty or group of connected counterparties exceeds the limit of 25% of prudential equity, and that the cumulative total of large exposures does not exceed 800% of prudential equity. Sovereign exposure is excluded from the large exposure calculation.

The risk concentration criteria used are as follows:

- Direct Exposure: within a group of connected counterparties by a control relationship (subsidiaries and branches), even when there is no guarantee;
- Indirect Exposure: when an entity has provided its guarantee to another, even if they are not connected by a control relationship.

As at 31 December 2022:

- Prudential Equity amounted to €3.4 billion (compared to €3.2 billion at year-end 2021);
- twelve counterparties or groups of counterparties were considered as Large Exposure (as in 2021);
- no counterparty or group of connected counterparties exceeded the limit of 25% of the CEB's prudential equity (as in 2021);
- the total amount outstanding to these counterparties stood at €6.1 billion, i.e. 178% of the CEB's prudential equity, well below the 800% limit (31 December 2021: €5.6 billion, i.e. 172% of the CEB's prudential equity);
- 45.4% of this total of Large Exposures come from Finance activities (43.1% for Money Market deposits).

Figure 44: Large exposures after credit risk mitigation

	2022	2021
Number of counterparties in Large Exposure	12	12
Total Large Exposures in % of Equity	178%	172%
Total Large Exposures (M€)	6 136	5 569
of which Loans (M€)	*3 351*	*3 995*
of which Finance (M€)	*2 785*	*1 575*

Sovereign entities (Central Governments) are not subject to the regulation on Large Exposure; therefore, they are presented below for information purposes only. Sovereigns are each considered a group (no other entity directly connected to it); only their explicit given guarantees are considered (indirect exposure).

Figure 45: Sovereign largest exposures after CRM (in € million)

	Counterparty	Exposures			% of Equity	RWA	%RWA / Equity
		Direct	Indirect	Total			
1	Türkiye	968.6	173.2	1 141.8	33.2%	1 141.8	33.2%
2	Slovak Republic	855.0	0.8	855.8	24.9%	171.2	5.0%
3	Italy	410.0	335.3	745.3	21.7%	372.6	10.8%
4	Poland	649.7	87.5	737.2	21.4%	147.4	4.3%
5	Hungary	569.0	146.6	715.5	20.8%	357.8	10.4%
6	Croatia	269.3	365.1	634.4	18.4%	317.2	9.2%
7	Lithuania	529.5	–	529.5	15.4%	105.9	3.1%
8	Serbia	518.7	–	518.7	15.1%	518.7	15.1%
9	Spain	40.0	465.0	505.0	14.7%	101.0	2.9%
10	France	418.0	–	418.0	12.1%	–	–
11	Ireland	34.2	358.1	392.3	11.4%	–	–
	Total	**5 261.9**	**1 931.5**	**7 193.5**	**209%**	**3 233.6**	

Provisioning: expected credit losses and credit impairment

The CEB makes timely recognition of, and provision for, expected credit losses (ECL) and the impairment of financial assets and commitments in accordance with IFRS 9. The estimation of ECL takes into account a broad range of information, including forward-looking macroeconomic factors.

The new IFRS 9 standard on "Impairment" moves from incurred credit loss to forward-looking expected credit loss. Expected credit loss (ECL) computation is given by the following formula:

$$ECL = EAD \cdot PD \cdot LGD$$

where: EAD stands for "Exposure at Default", PD for "Probability of Default", and LGD for "Loss Given Default".

The IFRS 9 impairment model requires recognition of an impairment amount of 12-month expected credit losses for all relevant financial instruments from their origination or acquisition day. In subsequent reporting periods, lifetime credit losses are then recognised if there has been a significant increase in a financial instrument's credit risk.

The financial assets under scope are allocated into three categories (stages) at each reporting date:

- Stage 1: Financial assets which are performing and for which no significant increase in credit risk has been identified since initial recognition. The ECL is calculated over a one-year time horizon;
- Stage 2: Financial assets which are performing but include exposures having experienced "credit deterioration"[9] since origination. The ECL is calculated over the full life of the exposure (until maturity date);
- Stage 3: Exposures in default (90 days past due). The provision is set to EAD·LGD, using a 100% PD.

It should be noted that the CEB uses internal ratings to calculate provisions.

On a forward-looking basis, the IFRS 9 standard requires different scenarios (stress tests) to be carried out based on potential macroeconomic conditions. The macroeconomic scenarios are linked to two variables: gross domestic product (GDP) and stock exchange performance in the eurozone. Three scenarios are considered, namely best, base and worst. The final provision is based on the weighted average of these scenarios with weights of 20%, 60%, and 20%, respectively.

The final step in the calculation depends on the correlations between macroeconomic factors and counterparties as well as counterparties per country/sector to implicit stressed PD and LGD used in the different scenarios.

As at end-December 2022, the amount of provision (ECL) reached €25.5 million, up from €14.9 million at the end of December 2021.

9. **Credit deterioration** is assessed by the downgrade of the internal rating to a level equal to or below 3.5 from origination to reporting date.

Figure 46: IFRS provisioning overview

In € million	2018	2019	2020	2021	2022
Weighted scenario ECL					
Stage 1	16.9	14.9	22.7	14.9	25.32
Stage 2					0.15
TOTAL	**16.9**	**14.9**	**22.7**	**14.9**	**25.47**

By product type, the main source of provision stemmed from L&D activity, representing 89.9% (loans 76.2% and committed stock 13.7%) Meanwhile, Finance activity accounted for 10.1%.

The provision broken down by type of product is mainly concentrated in L&D activity (see figure below).

Figure 47: IFRS provisioning by product type as at 31.12.2022

In € million	Stage allocation	Provision	Outstanding	% Provision
Product				
Loan	Stage1	19.26	19 802	75.6%
Loan	Stage2	0.15	50	0.6%
Financing commitments	Stage1	3.49	2 966	13.7%
Bond	Stage1	1.31	4 644	5.2%
Money Market	Stage1	0.43	4 220	1.7%
Nostro	Stage1	0.38	1 157	1.5%
Collateral Cash given	Stage1	0.46	638	1.8%
Other assets	Stage1	–	1	–
Grand Total		**25.47**	**33 478**	**100%**

The 20 largest ECL are concentrated mainly on sovereign counterparties and account for 58.3% of the total provision. The largest ECL contributors were Türkiye, Serbia, and Hungary, that is, sovereign exposure (not all counterparties in the country).

Total outstanding (EAD) increased by 5.9% over the period while the provision increased by 71.4%. By product type, loans represent the major changes in ECL (+€7.55 million).

Figure 48: ECL by product type as at 31.12.2022

In € million		ECL				Outstanding			
Product	**Stage allocation**	**31.12.2022**	**31.12.2021**	**Change**	**% Change**	**31.12.2022**	**31.12.2021**	**Change**	**% Change**
Loan	Stage 1	19.26	11.86	7.40	62%	19 802	18 916	885	5%
Loan	Stage 2	0.15	–	0.15	–	50	–	50	
Financing commitments	Stage 1	3.49	1.76	1.73	98%	2 966	3 221	-255	-8%
Bond	Stage 1	1.31	0.70	0.62	88%	4 644	5 271	-626	-12%
Money Market	Stage 1	0.43	0.36	0.07	20%	4 220	2 094	2 126	102%
Nostro	Stage 1	0.38	0.18	0.20	111%	1 157	2 052	-895	-44%
Collateral Cash given	Stage 1	0.46	0.01	0.44	391%	638	68	570	845%
Equity	Stage 1	–	0.00	0.00	155%	1	1	–	–
Grand Total		**25.47**	**14.86**	**10.61**	**71%**	**33 478**	**31 622**	**1 856**	**6%**

The table below further elaborates on the breakdown by product and provides some insight into the average rating of each product. It also adds the lifetime ECL which is a good proxy for the provision that would be required if all exposures moved to Stage 2.

Figure 49: Product type stage allocation and average rating as at 31.12.2022

In € million **Product**	**Stage allocation**	**Provision**	**One Year ECL**	**Lifetime ECL**	**Outstanding**	**Avg. Rating Weighted by Exposure**	**Average PD*LGD**
Loans	Stage 1	19.26	19.26	119.28	19 802	6.9	0.097%
	Stage 2	0.15	0.01	0.15	50	9.0	0.297%
Financing commitments	Stage 1	3.49	3.49	3.49	2 966	6.4	0.118%
Bond	Stage 1	1.31	1.31	9.79	4 644	8.9	0.028%
Money Market	Stage 1	0.43	0.43	0.43	4 220	7.6	0.010%
Nostro	Stage 1	0.38	0.38	0.38	1 157	8.8	0.033%
Collateral Cash given	Stage 1	0.46	0.46	0.46	638	7.6	0.072%
Other assets	Stage 1	–	–	–	1	6.0	0.157%
Grand Total		**25.47**	**25.34**	**133.98**	**33 478**	**7.32**	**0.076%**

Figure 50 shows the main drivers impacting the change in provisions since the end of last year with their relative weights. It can be observed that the new deals and the update of macroeconomic scenarios is the main driver of the change.

Figure 50: Product type stage allocation and average rating as at 31.12.2022

Source of Change	Weight	Impact on provision
New deals	56%	Increase
Matured deals	-13%	Decrease
Amortisation of notional	-23%	Decrease
Passage of time	-35%	Decrease
PD	35%	Increase
LGD	17%	Increase
Internal Ratings	-1%	Decrease
Macroeconomic Scenarios	55%	Increase
Correlations	8%	Increase
FX rate	0%	Decrease
Total	**100%**	

Risk-Weighted Assets

Risk-Weighted Assets (RWA) are a bank's assets and off-balance-sheet exposures, weighted according to type of risk. Gross amounts of exposures are converted into risk-weighted assets by applying risk weights factors. The Risk-Weighted Assets are calculated per activity (loans or treasury) and per type of risk.

The total of RWA is the denominator of the prudential Capital Adequacy Ratio. The CEB computes its risk-weighted assets based on the Pillar I standardised method. However, the Bank also calculates the "internal rating-based" (IRB) foundation approach for benchmarking purposes. The IRB foundation approach allows the use of internal ratings for assigning the risk weights, whereas the standardised method imposes external ratings for risk weights.

The risk weights are a function of the exposure type, exposure external rating and exposure maturity, as follows:

Figure 51: Risk weight factors for the standardised approach

Counterparty Type	AAA to AA–	A+ to A–	BBB+ to BBB–	BB+ to B–	Below B–	Non-rated
Sovereigns	0%	20%	50%	100%	150%	100%
Banks	20%	50%	50%	100%	150%	50%
Short Term	*20%*	*20%*	*20%*	*50%*	*150%*	*20%*
Corporates	20%	50%	100%	150%	150%	100%

Committed off-balance sheet exposure is also converted to RWA after multiplying credit commitments by the credit conversion factors (CCFs).

All the tables below for Risk-Weighted Assets are based on the Pillar I standardised method.

Overall Risk-Weighted Assets exposures

The following figure shows the breakdown of risk-weighted assets after CRM by exposure class under the standardised IRB approach.

Figure 52: RWA by exposure class

31.12.2022	RWA (in M€)	% of Total RWA
Loans	7 412	65.6%
Stock	1 434	12.7%
Securities	758	6.7%
Deposits	1 072	9.5%
FX Forwards & Swaps SA-CCR	91	0.8%
Sub-Total	**10 767**	**95.2%**
Other assets	55	0.5%
Operational Risk	273	2.4%
CVA*	211	1.9%
Sub-Total	**539**	**4.8%**
TOTAL	**11 306**	**100.0%**

* Credit Value Adjustment

The following figure presents the evolution of RWA by product type over time.

Figure 53: RWA evolution

In € Million	2018	2019	2020	2021	2022	/End 2021
TOTAL	**10 076**	**10 482**	**11 759**	**11 089**	**11 306**	**2.0%**
Loans	6 909	7 085	8 011	7 271	7 412	1.9%
Stock	1 411	1 397	2 325	1 294	1 434	10.8%
Treasury	1 251	1 427	875	2 012	1 921	-4.5%
Other assets	56	57	59	57	55	-3.4%
Operational Risk	291	293	279	276	273	-1.0%
CVA	160	223	210	178	211	18.3%

Breakdown of Risk-Weighted Assets by type of counterparty, product and country

As of the end of December 2022, Risk-Weighted Assets reached €11.3 billion, an increase of 2.0% compared to year-end of 2021 (€11.1 billion), due to the increase in loans and stocks exposures.

The following figures exclude "Other assets", Operational risk, and CVA risk-weighted assets.

The figure below shows the effect of credit risk mitigation (before and after CRM) on the risk-weighted assets of the overall CEB portfolio at the end of 2020, 2021 and 2022.

Figure 54: Effect of CRM on RWA

In € millionv	2020		2021		2022	
	Before	**After**	**Before**	**After**	**Before**	**After**
Sovereign	6 320	5 666	6 732	6 284	6 631	6 183
Sub-sovereign	3 891	2 583	1 317	1 065	1 464	1 209
Banks and Financial Institutions	3 466	2 501	3 755	2 932	3 884	3 041
Other	532	460	297	297	334	334
Total	**14 210**	**11 210**	**12 101**	**10 577**	**12 312**	**10 767**

The following figure shows the sectoral breakdown of risk-weighted assets at end of December 2022, with the distribution between Finance activity (FIN) and Loan & Development activity (L&D).

Figure 55: Sectoral breakdown of RWA by product as at 31.12.2022

In € million	FIN			Total FIN	L&D		Total L&D	Total
Counterparty's type	**Bonds**	**Deposits**	**FX & Swaps**		**Loans**	**Stock**		
Sovereign	230	152		382	4 898	943	5 841	6 223
Sub-sovereign	71			71	1 012	127	1 139	1 209
Banks and Financial Institutions	410	920	91	1 421	1 362	258	1 620	3 041
Other	47			47	140	106	246	293
Total	**758**	**1 072**	**91**	**1 921**	**7 412**	**1 434**	**8 845**	**10 767**
% of total	*7.0%*	*10.0%*	*0.8%*	*17.8%*	*68.8%*	*13.3%*	*82.2%*	*100.0%*

Figure 56 shows the geographical distribution, by country of residence after CRM, of RWA at year-end 2020, 2021, and 2022 (in descending order on that date).

Figure 56: Geographical distribution of RWA (in € million)

Country	2020	2021	2022
Member countries			
Türkiye	1 374	1 372	1 303
France	1 238	1 188	1 090
Italy	991	1 212	1 082
Spain	1 087	920	855
Serbia	510	633	728
Poland	688	593	713
Netherlands	215	357	448
Croatia	297	330	367
Hungary	391	377	358
Slovak Republic	376	294	302
Romania	368	342	290
Portugal	235	251	279
Greece	214	244	244
Switzerland	20	145	222
Germany	455	171	188
Lithuania	192	145	185
Cyprus	217	189	179
Albania	96	85	134
Montenegro	91	106	121
North Macedonia	125	116	109
Bulgaria	134	115	96
Bosnia and Herzegovina	90	95	94
Moldova (Republic of)	95	111	94
Slovenia	56	46	74
Kosovo	26	48	53
Czech Republic	99	61	45
Finland	597	34	37
Iceland	84	37	31
Denmark			30
Norway	13	19	27

Figure 56: Geographical distribution of risk-weighted assets (in € million) – *continued*

Country	2020	2021	2022
Malta	–	9	15
Ireland	150	115	13
Latvia	22	13	13
Sweden	5	10	12
Georgia	8	9	11
San Marino	9	10	9
Andorra	5	6	9
Belgium	288	7	5
Estonia	13	3	3
Luxembourg	–	–	–
Sub-Total I	**10 873**	**9 816**	**9 865**
Other countries			
Canada	59	59	224
Great Britain	136	354	170
Japan	14	70	138
Australia	38	39	102
Singapore	0	0	54
United States of America	43	76	50
Austria	46	47	40
Hong Kong	–	–	11
New Zealand	–	10	10
South Korea	–	1	1
Supranational	–	**105**	**102**
Sub-Total II	**337**	**761**	**902**
TOTAL	**11 210**	**10 577**	**10 767**

The figure below shows the geographical breakdown of RWA as at 31 December 2022, with the distribution between Finance activity (FIN) and Loan & Development activity (L&D), by product:

Figure 57: Geographical breakdown of RWA by product as at 31.12.2022

In € million	FIN			Total FIN	L&D		Total L&D	Total
	Deposits	Bonds	Derivatives		Loans	Stock		
Member countries	**520**	**513**	**45**	**1 077**	**7 363**	**1 425**	**8 788**	**9 865**
Türkiye					1 143	160	1 303	1 303
France	130	160	41	331	668	92	759	1 090
Italy	100	75		175	746	161	907	1 082
Spain	150	8		158	606	91	697	855
Serbia					519	209	728	728
Poland					601	113	713	713
Netherlands	12	30	3	45	328	75	403	448
Croatia					317	50	367	367
Hungary					358		358	358
Slovak Republic					265	37	302	302
Romania					200	90	290	290
Portugal					153	126	279	279
Greece					218	26	244	244
Switzerland	115	107		222				222
Germany	12	48	1	61	108	19	127	188
Lithuania					147	38	185	185
Cyprus					154	25	179	179
Albania					133	1	134	134
Montenegro					100	20	121	121
North Macedonia					97	13	109	109
Bulgaria					96		96	96
Bosnia and Herzegovina					88	6	94	94
Moldova (Republic of)					64	30	94	94
Slovenia					60	14	74	74
Kosovo					46	7	53	53
Czech Republic					40	5	45	45
Finland		15		15	22		22	37
Iceland					31		31	31
Denmark		30		30				30

Figure 57: Geographical breakdown of RWA by product as at 31.12.2022 – *continued*

In € million	FIN			Total FIN	L&D		Total L&D	Total
	Deposits	Bonds	Derivatives		Loans	Stock		
Norway		27		27				27
Malta					15		15	15
Ireland					3	11	13	13
Latvia					11	2	13	13
Sweden		12		12				12
Georgia					9	3	11	11
San Marino					9		9	9
Andorra					8	1	9	9
Belgium					5		5	5
Estonia						3	3	3
Luxembourg								–
Other countries	**540**	**174**	**46**	**760**	**35**	**5**	**40**	**800**
Canada	130	66	29	224				224
Great Britain	148	16	5	170				170
Japan	138			138				138
Australia	58	44		102				102
Singapore	54			54				54
United States of America		38	12	50				50
Austria					35	5	40	40
Hong Kong	11			11				11
New Zealand		10		10				10
South Korea		1		1				1
Supra	**13**	**71**		**84**	**14**	**4**	**18**	**102**
Supranational	13	71		84	14	4	18	102
Total	**1 072**	**758**	**91**	**1 921**	**7 412**	**1 434**	**8 845**	**10 767**
	10.0%	*7.0%*	*0.8%*	***17.8%***	*68.8%*	*13.3%*	***82.2%***	*100.0%*

Counterparty Credit Risk

Counterparty credit risk is the translation of the credit risk embedded in CEB financial transactions such as derivative contracts or (reverse) repurchase agreements. It materialises in the event that a counterparty defaults on its obligations to pay the Bank the full present value of the flows relating to a transaction or a portfolio for which the Bank is a net receiver. It is linked to the replacement cost of a derivative or portfolio in the event of counterparty default. As this cost may vary over time in line with changing market parameters, counterparty risk can be seen as a market risk in case of a counterparty default.

Counterparty Credit Risk Mitigation

Counterparty credit risk on the derivative portfolio arises in the event of a counterparty defaulting on its obligation to pay the Bank the full present value of the flows relating to the derivatives.

As part of its risk management, the CEB has implemented several counterparty risk mitigation mechanisms on derivatives.

- Derivative transactions require prior credit clearance of the counterparty by the CRC and the signing of an ISDA Master Agreement and a Credit Support Annex (CSA) collateral agreement with the counterparty. The minimum rating required for swap counterparties at the date of entering into new swap transactions must be 6.5 (BBB+) and the CEB has signed CSA collateral agreements with all of its derivative counterparties.
- The vast majority of eligible collateral is cash in euro. Derivative transactions are valued at their fair value, and positions per counterparty are netted and monitored daily so that additional collateral can be called in the vast majority of cases on a daily basis

The figure below shows the breakdown of the derivative portfolio between interest-rate swaps (IRS) and cross-currency interest-rate swaps (CIRS). The total notional amount reached €43.8 billion at the end of December 2022 (€39.4 billion at year-end 2021).

Figure 58: Derivatives by type as at 31.12.2022

In € million	< 1 year	1 to 5 Y	5 to 10 Y	> 10 years	Total
Total	**6 038**	**20 267**	**11 348**	**6 142**	**43 796**
Interest Rate Swap	1 720	11 500	10 758	5 902	29 880
Currency Interest Rate Swap	2 906	8 767	590	240	12 503
FX Forward	1 413				1 413
% of Total	*13.8%*	*46.3%*	*25.9%*	*14.0%*	*100.0%*

Counterparty Credit Risk Assessment

The CEB applies the Standardised Approach to Counterparty Credit Risk (SA-CCR) published by the Basel Committee in 2014. Indeed, Basel requires the use of this method for exposures arising from OTC derivatives, exchange-traded derivatives, and long settlement transactions.

The SA-CCR method is a "risk-sensitive methodology", that differentiates between margined and non-margined trades and recognises netting benefits. Under the SA-CCR method, the counterparty credit risk exposure, or EAD, is calculated separately for each netting set, using the following formula:

$$EAD = \alpha * (RC + PFE)$$

- $\alpha = 1.4$
- *RC* is the Replacement Cost ; it intends to capture the loss that would occur if a counterparty were to default at the present time or at a future time, assuming that the closeout and replacement of transactions occur instantaneously. However, there may be a period (the margin period of risk) between the last exchange of collateral before default and the replacement of the trades in the market.
- *PFE* is the Potential Future Exposure add-on; it represents the potential change in value of trades during this margin period of risk.

The figure below presents CEB Counterparty Credit Risk (SA-CCR) exposure and RWA by derivative type at the end of 2022.

Figure 59: Counterparty Credit Risk (SA-CCR) exposure and RWA

31.12.2022	EAD (SA-CCR)	RWA
Swap & FX Forwards	294	91

Credit Valuation Adjustment

Credit valuation adjustment

The CEB calculates a regulatory credit valuation adjustment (CVA) for each counterparty that captures the risk of incurring expected credit losses on derivatives. This adjustment amount is determined by assessing the potential credit risk exposure on each counterparty and takes into account the collateral exchanged, the effect of netting arrangements, the expected loss given default, and the risk of default of each counterparty based on available market information. The standard formula for computing CVAs is:

$$CVA_{Cpty} = \left(1 - RR_{Cpty}\right) \sum_{i=1}^{n} EPE(t_i) \cdot PD_{Cpty}(t_{i-1}, t_i) \cdot Df(t_i)$$

Where :

- *RR* is the recovery rate or percentage amount of the exposure expected not to be lost. In accordance with the current market practice, the recovery rate is assumed to be 40%.
- *EPE* (t_i) is the expected positive exposure from the Bank's view for the relevant dates in the future given by t_i with $i = 1,...n$. It takes into account the details of the CSA with the counterparty, namely the exchange of collateral.
- *PD* (t_i-1, t_i) is the probability that the counterparty defaults between $t_{(i-1)}$ and $t_{(i)}$. The PD is derived from CDS market quotes of the corresponding counterparty.
- *Df* (t_i) is the discount factor at time $t_{(i)}$.

A debit valuation adjustment (DVA) reflects the credit risk that CEB counterparties carry on the CEB. The formula is similar to the one above. CEB probability of default is estimated based on historic probabilities for entities with similar ratings.

At the end of December 2022, the amount for CVA reached €1.861 million and DVA stood at €0.104 million.

CVA capital charge

To protect banks against the risk of losses due to CVA variations, Regulation (EU) No. 575/2013 introduced a dedicated capital charge on CVA, namely the CVA Capital Charge. This charge aims at capitalising the risk of losses due to a change in the default probability of a counterparty, which is not provided for in the CVA provisions.

The CEB calculates a capital charge for credit valuation adjustment risk (CVA) under the standardised approach using the following formula.

$$K = 2.33 \cdot \sqrt{h} \cdot \sqrt{\left(\sum_i 0.5 \cdot w_i \cdot \left(M_i \cdot EAD_i^{total} - M_i^{hedge} B_i \right) - \sum_{ind} w_{ind} \cdot M_{ind} \cdot B_{ind} \right)^2 + \sum_i 0.75 \cdot w_i^2 \cdot \left(M_i \cdot EAD_i^{total} - M_i^{hedge} B_i \right)^2}$$

Where:

- h is the one-year risk horizon; $h = 1$.
- w_i is the weight applicable to counterparty 'i'. Counterparty 'i' must be mapped to one of the seven weights w_i based on its external rating, as shown in Figure 60 below. In the absence of an external rating for a counterparty, the Bank maps the internal rating of the counterparty to one of the external ratings.
- EAD_i total is the exposure at default of counterparty 'i' (summed across its netting sets), including the effect of collateral as per the existing SA-CCR rules and as applicable to the calculation of counterparty risk capital charges for that counterparty by the Bank.
- M_i is the effective maturity of the transactions with counterparty 'i'.

The weights are given in the table below, and are based on the external rating of the counterparty:

Figure 60: Weight by counterparty rating

Rating	Weight w_i
AAA	0.70%
AA	0.70%
A	0.80%
BBB	1.00%
BB	2.00%
B	3.00%
CCC	10.00%

Figure 61 provides an overview of the CVA Capital Charge at the CEB according to the standardised approach at the end of 2022.

Figure 61: Credit valuation adjustment RWA

In € million	2022	2021
Credit Valuation Adjustment (CVA) risk-weighted assets	211	178

Market Risk

Market risk is the risk of incurring losses due to adverse movements in financial markets, such as interest rates or foreign exchange rates. As the Bank has no trading activities and minimal foreign exchange rate risk, no capital charge is applied for market risk in the Capital Adequacy Ratio.

Interest rate risk in the banking book

Interest rate risk management

Interest rate risk in the banking book (IRRBB) is the current or prospective risk to the Bank's capital and revenues arising from adverse movements in interest rates due to mismatched interest rate characteristics of assets and liabilities.

In the regular course of its activities, the Bank is exposed to different sources of interest rate risk: i) gap risk, which arises from the term structure of banking book instruments; ii) basis risk, which describes the impact of relative changes in interest rates for financial instruments that are priced using different interest rate curves; iii) and option risk, which arises from option derivative positions or from optional elements embedded in financial instruments.

Interest rate exposure and compliance with exposure limits are managed by the Finance Directorate and monitored by the Risk & Control Directorate on a monthly basis. Besides, the Asset and Liability Committee (ALCO) oversees the development of the Bank's interest rate position and steers interest rate risk decisions.

The CEB manages interest rate risk in a prudent manner, aiming to preserve its financial stability and protect its revenues and capital base. It manages interest rate risk throughout the balance sheet using micro or macro hedging derivatives, converting assets and liabilities into euro-denominated variable-rate instruments. To optimise its funding cost, the Bank may also decide to maintain assets and liabilities at fixed rate in euros. The CEB is also structurally exposed to interest rate risk on its own funds, since they are not interest rate sensitive and, therefore, cannot be matched with interest rate sensitive instruments on the asset side. To manage this risk, the Bank adopts a convention for the interest rate repricing profile and duration of its equity, which is regularly reviewed in light of CEB's risk appetite and trends in financial markets. Currently, the CEB assigns a conventional target duration of six years to equity.

The Bank measures interest rate risk in line with Basel/EU/European Banking Authority (EBA) regulations, by monitoring the potential changes in the Economic Value of Equity (EVE) and net interest income (NII).

Sensitivity of the EVE to the supervisory interest rate shock scenarios

The key metric for measuring interest rate risk is the EVE sensitivity, which measures the sensitivity to a change in interest rates of the net present value of the static balance sheet. The CEB calculates the EVE sensitivity according to the methods established by the EBA, excluding equity from the calculation. The impact on EVE of the most severe

supervisory shock scenario (out of six scenarios[10]) is limited, in absolute terms, at 20% of the prudential equity. At the end of December 2022, the EVE sensitivity corresponding to the most severe supervisory interest rate shock scenario reached, -10.0% of CEB prudential equity, below the limit.

Figure 62: Sensitivity of the EVE to the supervisory interest rate shocks as at 31.12.2022

		Supervisory Interest rate shock		Change in the Economic Value of Equity (EVE) (% of Equity Tier 1)
		Overnight rate	10-year rate	
1	Parallel up	+2.0%	+2.0%	-10.0%
2	Parallel down	-2.0%	-2.0%	+11.7%
3	Steepener (decrease in short term rates, increase in long term rates)	-1.6%	+0.7%	-2.1%
4	Flattener (increase in short term rates, decrease in long term rates)	+2.0%	-0.4%	+0.6%
5	Short rates up	+2.5%	+0.2%	-2.6%
6	Short rates down	-2.5%	-0.2%	+2.7%

Interest rate sensitivities of the Treasury Securities Portfolios

The Bank monitors the interest rate risk sensitivities of the treasury securities portfolios to monitor potential impacts on capital and liquidity. At the end of December 2022:

- The market value of the Amortised Cost Portfolio (ACP) which is accounted for at amortised cost would decrease by €146.0 million for a +200 bp parallel shock of the yield curve;
- The market value of the Fair Value through Equity Portfolio (FVOCI) and Short-Term Liquidity Portfolio (STL) which are accounted for at fair value through other comprehensive income would decrease by €10.5 million for a parallel +200 bp shock in interest rates.

Credit spread sensitivities of the Treasury Securities Portfolios

Credit spread risk is closely associated with interest rate risk in the banking book. It is the risk that changes in the perceived credit quality of bond issuers result in changes in credit spreads and therefore in the market value of securities.

The Bank monitors credit spread risk of the treasury securities portfolios to monitor potential impacts on capital and liquidity. At the end of December 2022:

- The market value of the Amortised Cost Portfolio (ACP) which is accounted for at amortised cost would decrease by €146.0 million for a +200 bp parallel shift of credit spreads;
- The market value of the Fair Value through Equity Portfolio (FVOCI) and Short-Term Liquidity Portfolio (STL) which is accounted for at fair value through other comprehensive income would decrease by €128.1 million for a +200bp parallel shift of credit spreads.

10. The six supervisory shock scenarios prescribed by the EBA are: 1) a parallel shock up of +200 bps; 2) a parallel shock down of -200 bps being floored; 3) a flattening of the yield curve; 4) a steepening of the yield curve; 5) a short rate shock up; 6) a short rate shock down.

Cross-currency basis sensitivities of the derivative portfolio

Cross-currency basis risk is also closely associated with interest rate risk in the banking book. It is the risk that changes in the cross-currency basis spreads[11] may affect the fair value of cross-currency swaps.

The Bank monitors the cross-currency basis risk on derivatives to assess the potential impacts on capital and liquidity.

At the end of 2022, the sensitivity of the fair value of the derivatives portfolio to a one basis point widening of the EUR/USD cross-currency basis spread, which is the most sensitive basis spread, was +€0.8 million.

Sensitivity of the NII to the supervisory interest rate shock scenarios

The CEB monitors the sensitivity of its net interest margin (NII) to a change in interest rates to ensure its revenues are not significantly affected downwards by a change in interest rates. The CEB calculates the NII sensitivity according to the methods established by the EBA, using a one-year horizon, a constant balance sheet assumption and the two supervisory interest rate shock scenarios.

At the end of December 2022, the NII sensitivity was -€7.9 million for a parallel +200bp shock of interest rates (resp. €11.2 million for a parallel -200bp shock of interest rates).

Figure 63: Sensitivity of the NII to the supervisory interest rate shock scenarios as at 31.12.2022

		Supervisory Interest rate shock		Change in the net interest income over a one-year horizon (in M€)
		Overnight rate	10-year rate	
1	Parallel up	2.0%	2.0%	-7.9
2	Parallel down	-2.0%	-2.0%	+11.2

11. The cross currency basis spread indicates the amount by which the interest paid to borrow one currency by swapping it against another differs from the cost of directly borrowing this currency in the cash market.

Interest rate repricing gaps

The CEB monitors interest rate exposure using interest rate repricing gaps, which measure, for each future period, the potential impact of interest rate movements on earnings due to mismatched rate characteristics between assets and liabilities. The table below shows the euro interest rate repricing gap as at 31/12/2022.

Figure 64: Interest rate risk amortising profile as at 31.12.2022 (in € thousand)

31.12.2022	Up to 1 month	1 to 3 months	3 months up to 1 year	1 to 5 years	More than 5 years	Undefined	Net book value
Assets							
Cash in hand, balances with central banks	1 150 258	–	–	–	–		1 150 258
Financial assets at fair value through equity*	693 655	1 913 395	336 829	–		(148 370)	2 795 509
Financial assets at amortised cost							
Loans*	4 608 528	12 392 991	969 923	496 612	1 482 406	(1 728 099)	18 222 361
Advances	2 345 119	1 515 712	334 253	–	–	14 777	4 209 861
Debt securities	–	–	127 600	592 133	830 002	43 035	1 592 770
Deposits of guarantees paid	638 590					(457)	638 133
Other assets						2 919 243	2 919 243
Sub-total of assets	**9 436 151**	**15 822 098**	**1 768 605**	**1 088 745**	**2 312 408**	**1 100 129**	**31 528 135**
Liabilities							
Financial liabilities at amortised cost							
Amounts owed to credit institutions and to customers	(54 773)	(6 975)	(7 812)	(311)	(233)	(72)	(70 176)
Debt securities in issue*	(12 124 579)	(13 196 157)	(37 505)	(250 000)	(250 000)	1 634 475	(24 223 766)
Deposits of guarantees received	(904 640)						(904 640)
Provisions	(480)	(960)	(4 318)	(23 028)	(225 699)		(254 484)
Other liabilities						(2 632 694)	(2 632 694)
Sub-total of liabilities	**(13 084 472)**	**(13 204 092)**	**(49 634)**	**(273 339)**	**(475 932)**	**(998 291)**	**(28 085 760)**
Equity	**–**	**–**	**–**	**–**	**–**	**(3 442 375)**	**(3 442 375)**
Net during the period	**(3 648 322)**	**2 618 007**	**1 718 970**	**815 406**	**1 836 477**	**(3 340 537)**	
Cumulative net during the period	**(3 648 322)**	**(1 030 315)**	**688 655**	**1 504 061**	**3 340 537**		

*after hedging

Foreign exchange risk

Foreign Exchange Risk Management

Foreign exchange risk is defined as the potential loss of 'on- and off-balance-sheet' positions arising from unfavourable movements in foreign exchange rates.

The Bank is naturally exposed to foreign exchange risk as it raises funds in the international capital markets in different currencies and provides loans or may invest funds in currencies other than the borrowing currencies.

Foreign exchange risk is managed by the Finance Directorate and monitored by R&C which provides independent oversight of all significant market risks to the CEB's Administrative Council.

The CEB does not take any currency position and systematically hedges assets and liabilities back into euro currency. The residual risk arises from carrying interest in foreign currencies. This risk is monitored and hedged at the end of each month. The open currency position is limited to the equivalent of €1 million per currency.

The table below shows the foreign exchange (FX) exposure by currency (CCY) as at 31 December 2022.

Figure 65: Foreign exchange positions by currency as at 31.12.2022

Currency	FX position (in € thousand)
CHF	524
CZK	16
DKK	24
GBP	954
HUF	16
NOK	5
PLN	50
SEK	23
TRY	8
USD	-553
CAD	287
AUD	474
HKD	10
JPY	335
CNY	10
NZD	1

Liquidity Risk

Liquidity risk is the risk of incurring losses resulting from the inability to meet payment obligations in full and in a timely manner when they become due. It is inherent to the Bank's business and arises from maturity mismatches between assets and liabilities. The role of liquidity risk may be significant because, unlike commercial banks, the CEB does not collect customer deposits and does not have access to refinancing through central banks.

It can be classified into i) funding liquidity risk, which arises if the Bank is unable to meet its payment obligations because of an inability to obtain new funding and ii) market liquidity risk, which arises if the Bank is unable to sell or convert its liquid assets into cash without incurring significant losses.

Liquidity risk management

Liquidity risk management plays a crucial role in safeguarding the Bank's financial flexibility, especially when adverse market conditions limit access to long-term funding in the markets.

The Bank manages its liquidity risk in a prudent manner, establishing liquidity indicators at different time horizons and holding sufficient liquid assets to withstand potential periods of extreme market conditions when access to the market for new funding is not possible while continuing its regular activity.

The liquidity position and compliance with exposure limits are managed by the Finance Directorate and monitored by the Risk & Control Directorate daily. The Asset and Liability Committee (ALCO) supervises the evolution of the Bank's funding and liquidity position and addresses liquidity risk.

Diversification is also a major objective of the Bank's funding and liquidity management. The Bank strives to diversify its debt issuance programs, funding markets, and investor base to avoid excessive reliance on individual markets or funding sources. The Bank also ensures that there are no significant mismatches between the maturity profiles of assets and liabilities. This funding strategy is pursued within the annual borrowing authorization approved by the Administrative Council.

Liquidity risk is also mitigated by having a liquidity reserve composed of highly rated liquid securities whose market value and liquidity would be preserved during adverse market conditions.

Finally, the CEB has an internal Contingency Funding Plan (CFP) that sets out the strategies for addressing severe liquidity shortfalls in emergency situations, including escalation, communication and decision-making procedures.

Liquidity risk measurement

The CEB manages liquidity risk by transposing its liquidity risk tolerance into comprehensive risk indicators at different time horizons and supporting these metrics by setting adequate limits.

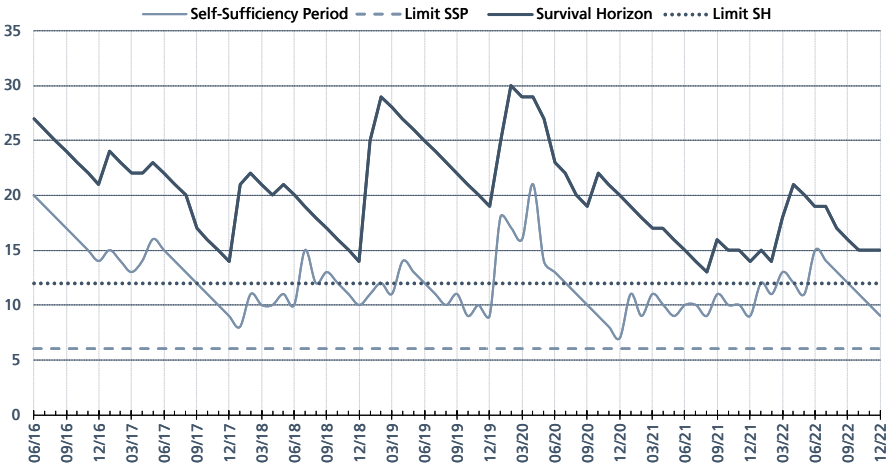
Survival horizon

The Survival Horizon (SH) is the key indicator for liquidity risk management. It measures the period of time during which the Bank can meet its payment obligations arising from ongoing business operations under a severe stress scenario, using its available liquid assets. The stress scenario includes the inability to access the market for new funding, disruptions in loan repayment, as well as stresses on the value of liquid assets and collateral requirements on derivatives, both determined on the basis of internally developed models. The lower limit for the SH is 12 months. At the end of 2022, the SH reached 15 months (14 in 2021).

Figure 66: Development of the Survival Horizon

Survival Horizon (unit : month)	**15**
Floor	*12*
Self-sufficiency period (unit : month)	**9**
Floor	*6*

Remark: The self-sufficiency period (SSP) is not a regulatory indicator but is presented with the prudential Survival Horizon (SH) indicator for comparison purposes.



For monitoring purposes, the CEB also calculates the self-sufficiency period (SSP), which is not part of CEB Risk Appetite Framework. In comparison with the SH, the SSP does not include liquid securities not yet due from the liquidity reserve. The SSP indicator reached nine months in December 2022, the same as at year-end 2021.

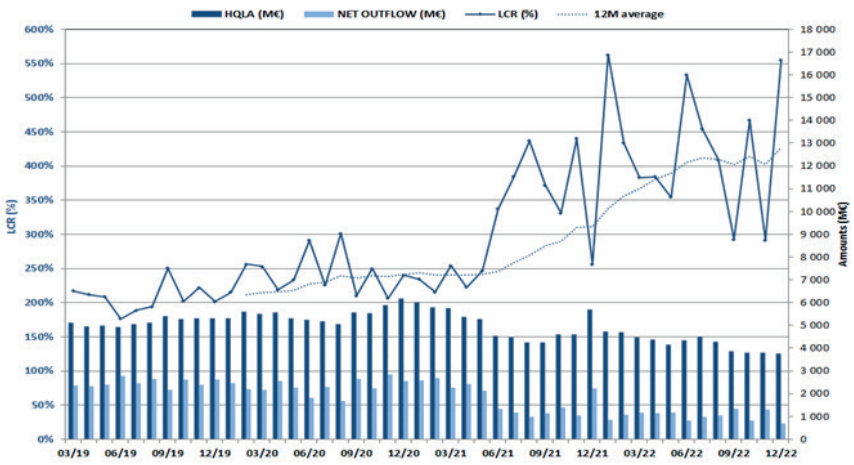
Regulatory liquidity ratios LCR and NSFR

Although not subject to the international regulatory framework, the CEB complies with the regulatory liquidity ratios prescribed by the Basel/EU regulations, namely the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR). Both ratios are included in CEB's Risk Appetite Framework.

- The Liquidity Coverage Ratio aims to ensure the Bank holds a sufficient high-quality liquid assets (HQLA) to survive a period of significant liquidity stress lasting 30 calendar days.

Figure 67: Development of LCR

Liquidity Coverage Ratio – LCR (A/B)	**554%**
Regulatory minimum =	*100%*
Central Banks Deposits	1 149
Bonds	2 602
A – High Quality Liquid Assets (HQLA)	**3 751**
Outflows	2 706
Inflows (after capping at 75% of outflows)	2 030
B – Net cash outflows over the next 30 days	**677**
Figures in € Million	



Its volatility is due to the importance and the cyclicity of monetary and debt repayments. This ratio tends to evolve in a 250% / 550% range observed since the mapping changes in June 2021.

In December 2022, LCR reached 554%, and its 12-month moving average was 426%.

These levels show a very comfortable liquidity position under this metric, despite conservative assumptions on the drawdown of financing commitments.

The table below provides the LCR at the end of December 2022.

Figure 68: Breakdown data of the LCR as at 31.12.2022

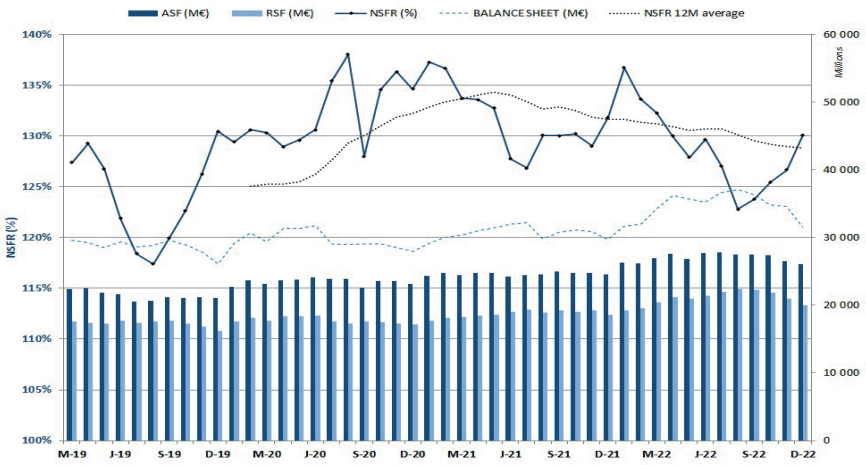
30.12.2022	Gross Amount	Weight	Weighted Amount
LEVEL 1 – Central bank reserves	1 148 973 379	100%	1 148 973 379
LEVEL 1 – Securities portfolio	2 085 493 302	100%	2 085 493 302
LEVEL 2A – Securities portfolio	607 777 200	85%	516 610 620
			Total HQLA = 3 751 077 301
Deposits by financial customers	26 761 717	100%	26 761 717
Deposits by other customers	30 008 923	40%	12 003 569
Term Deposit	–	100%	–
Credit Facility to non-financial customers other than retail customers	3 876 525 748	10%	387 652 575
Credit Facility to regulated credit institutions	1 838 044 450	40%	735 217 780
Credit Facility to other customers	745 018 441	100%	745 018 441
Credit Facility with value date within 30 days	72 801 417	100%	72 801 417
Loan MM (incl. FW)	49 050 447	100%	49 050 447
Others (FW settlement of Securities)	–	100%	–
Others Liabilities (ECP issued by CEB)	–	100%	–
Others Liabilities (Bond issued by CEB)	148 015 016	100%	148 015 016
Outflows from derivatives	53 970 460	100%	53 970 460
Additional outflow for adverse scenario on derivatives	475 830 000	100%	475 830 000
			Total Outflows = 2 706 321 422
Due from other financial customers (Money Market)	2 399 014 407	100%	2 399 014 407
Due from other financial customers (Nostro excl. Central Bank)	8 236 586	100%	8 236 586
Due from SOV, MDB and public sector entities	55 549 682	50%	27 774 841
Due from other financial customers (Loan Ord)	74 518 181	100%	74 518 181
Other inflows	–	100%	–
Other inflows	–	100%	–
Due from securities maturing within 30 days	189 980	100%	189 980
Inflows from derivatives	6 745 538	100%	6 745 538
			Total Inflows = 2 516 479 533
			Net Outflows after capping = 676 580 356
			Liquidity Coverage Ratio = 554.4%

- The Net Stable Funding Ratio compares the Bank's available stable funding (ASF) to required stable funding (RSF). Weighting factors reflect the differences between the types of positions (Financial / non-financial counterparties, and more or less than one-year maturity).

Figure 69: Development of NSFR

Net Stable Funding Ratio – NSFR (A/B)	130%
Regulatory minimum =	*100%*
Debt issued	22 606
Own Funds	3 442
Others	15
A – Available Stable Funding	**26 063**
Bonds	1 176
Loans to financial customers (o/w Money Market)	5 225
Loans to non-financial customers	10 979
Others	2 654
B – Required Stable Funding	**20 035**

Figures in € Million



At the end of December 2022, the NSFR reached 130% (compared to 132% in December 2021) and its 12-month moving average was 129%, comfortable levels showing a stable financing capacity.

The table below provides the NSFR at the end of December 2022.

Figure 70: Breakdown data of the NSFR as at 31.12.2022

AVAILABLE STABLE FUNDING – ASF	< 3M	3-6M	6-9M	9-12M	> 12M	Weight	
Regulatory Capital Tier 1					3 442 375 000	100%	3 442 375 000
Bond issued > 1Y					22 112 956 516	100%	22 112 956 516
Bond issued 6M to 1Y			985 656 910			50%	492 828 455
Bond issued < 6M	3 143 753 296					–	–
ECP issued 6M to 1Y			–			50%	–
ECP issued < 6M	–					0%	–
Term Deposit > 1Y					–	100%	–
Demand Deposit from **non-financial** entity < 1Y			30 008 923			50%	15 004 461
Demand Deposit from **financial** entity < 6M	26 761 717					–	–
All other liabilities			1 786 646 638			–	–
Net Derivative Liabilities			–			–	–
Non-weighed total + Average weighting			**31 528 159 000**			**83%**	**26 063 164 432**

REQUIRED STABLE FUNDING – RSF	< 3M	3-6M	6-9M	9-12M	> 12M	Weight	
Central Bank reserves			1 148 973 379			–	–
Unencumbered HQLA L1 assets with RW = 0%			1 215 127 868			–	–
Unencumbered HQLA L1 assets with RW > 0%			870 365 434			5%	43 518 272
Unencumbered HQLA L2A assets with RW = 20%			607 777 200			15%	91 166 580
Unencumbered non HQLA assets < 12M		1 091 895 687				50%	545 947 843
Unencumbered non HQLA assets > 12M					583 321 979	85%	495 823 683
Unencumbered loans to **financial** customers < 6M with HQLA L1 (RR)	–					10%	–
Unencumbered loans to **financial** customers < 6M	4 285 917 705					15%	642 887 656
Unencumbered loans to **financial** customers 6M to 1Y			182 429 024			50%	91 214 512
Unencumbered loans to **financial** customers > 1Y					4 491 095 717	100%	4 491 095 717
Unencumbered loans to **non-financial** customers < 1Y		188 308 111				50%	94 154 056
Unencumbered loans to **non-financial** customers > 1Y with RW 35% max					8 932 715 762	65%	5 806 265 245
Unencumbered loans to **non-financial** customers > 1Y with RW > 35%					5 974 283 616	85%	5 078 141 074
All other assets			1 955 947 517			100%	1 955 947 517
Committed credit facilities			5 932 390 057			5%	296 619 503
Net Derivative Assets + Add-on			401 919 167			100%	401 919 167
Non-weighed total + Average weighting			**37 862 468 224**			**53%**	**20 034 700 825**
							Net Stable Funding Ratio = 130.1%

Liquidity buffer

To ensure sufficient liquidity in stressed conditions, the Bank holds a liquidity buffer consisting of cash, cash equivalents and portfolios of highly rated and liquid securities that can be sold or transformed into cash for liquidity needs without significant losses.

The CEB closely monitors the asset quality of this liquidity reserve to ensure it contains a sufficient quantity of marketable securities to withstand severe stress scenarios. The CEB ensures that the reserve is mainly invested in highly-rated liquid bonds, most of which are eligible as high-quality liquid assets (HQLA) for the Basel Liquidity Coverage Ratio (LCR).

At the end of 2022, the amount of HQLA after haircuts amounted to €2.6 billion (€3.6 billion in 2021).

Liquidity ratios used by rating agencies

The CEB monitors the liquidity ratios used by rating agencies, in particular the one used by Standard & Poor's (S&P), which measures the CEB's capacity to handle net liquidity needs at a twelve-month time horizon in the event of a prolonged market disruption or economic downturn.

These ratios compare CEB sources of liquidity, including the sale of liquid assets, to its uses. The calculation takes into account stressed market and economic conditions by applying credit and liquidity haircuts based on asset class, rating, and maturity. The sources of cash include the drawdown of unrestricted cash and short-term inter-bank placements, the repayment or sale of unencumbered high-quality liquid securities, and the repayment of loans. The uses of cash include repayments of issues, disbursements on planned and/or committed loans, and stressed collateral requirements on derivatives or repos.

At the end of December 2022, these ratios are all above 100%.

Figure 71: Short-term Liquidity Ratios as at 31.12.2022

Short-term liquidity ratio		1 Month	3 Months	6 Months	12 Months
In € million		**592%**	**275%**	**165%**	**132%**
Sources of liquidity (A)		**7 398**	**9 062**	**9 831**	**10 874**
Nostri account	100%	1 157	1 157	1 157	1 157
Money Market maturing before y months	Credit Risk	2 243	3 690	3 977	3 977
Money Market maturing after y months	0%	–	–	–	–
Bonds maturing before y months	Credit Risk	94	677	1 155	1 388
Bonds maturing after y months	Liquidity Risk	3 769	3 188	2 710	2 482
Capital reimbursement on loans before y month	Credit Risk	135	350	831	1 870
Capital reimbursement on loans after y month	0%	–	–	–	–
Uses of liquidity (B)		**1 249**	**3 294**	**5 944**	**8 245**
Repayment of issues (before y months)	100%	135	1 308	3 150	4 143
Disbursement of financing commitment (before y month)	100%	454	917	1 506	2 431
Stress test on collateral outflows		**660**	**1 070**	**1 288**	**1 672**

Liquidity gaps

The CEB monitors the liquidity risk in a static approach in terms of liquidity gaps, which measure, for each future period, the potential mismatches between the maturity profile of assets and liabilities. Figure 72 shows the maturity profile assets and liabilities, namely the undiscounted principal and interest cash flows of financial instruments until their maturity[12].

12. Cash flows are presented on a net basis for interest rate swaps and on a gross basis for currency swaps and foreign exchange forward contracts. They are calculated based on the exchange rates and interest rates as at 31/12/2022.

Figure 72: Maturity profile of financial assets and liabilities as at 31.12.2022 (in € thousand)

31.12.2022	Current outstanding			Non-current outstanding		Total
	Up to 1 month	1 to 3 months	3 months up to 1 year	1 to 5 years	More than 5 years	
Assets						
Cash in hand, balances with central banks	1 150 631	–	–	–	–	1 150 631
Financial assets at fair value through equity	100 965	608 563	626 314	923 801	802 315	3 061 960
Financial assets at amortised cost						
Loans	89 186	287 080	1 887 089	9 311 004	10 357 421	21 931 780
Advances	2 358 198	1 523 050	337 497			4 218 745
Debt securities	2 908	3 883	173 002	751 587	961 940	1 893 320
Deposits of guarantees paid	638 590	–	–	–	–	638 590
Sub-total of assets	**4 340 478**	**2 422 576**	**3 023 902**	**10 986 392**	**12 121 676**	**32 895 025**
Liabilities						
Financial liabilities at amortised cost						
Amounts owed to credit institutions and to customers	654	8 139	13 334	32 366	22 174	76 665
Debt securities in issue	154 265	1 217 971	2 963 363	15 660 765	6 965 999	26 962 363
Deposits of guarantees received	904 640	–	–	–	–	904 640
Social Dividend Account	34 842					34 842
Sub-total of liabilities	**1 094 401**	**1 226 110**	**2 976 697**	**15 693 130**	**6 988 173**	**27 978 511**
Off-balance sheet						
Financing commitments	(453 801)	(463 033)	(1 514 088)	(3 281 174)	(820 294)	(6 532 390)
Term financial instruments						
To be received	1 080 979	1 797 789	2 279 182	10 660 353	1 960 796	17 779 099
To be paid	(1 123 056)	(1 602 672)	(2 325 226)	(10 805 747)	(1 546 741)	(17 403 443)
Sub-total of off-balance sheet	**(495 878)**	**(267 916)**	**(1 560 132)**	**(3 426 569)**	**(406 238)**	**(6 156 734)**
Cumulative net during the period	**2 750 199**	**928 550**	**(1 512 927)**	**(8 133 307)**	**4 727 265**	**(1 240 220)**

Operational Risk

The CEB implemented an Operational Risk Management Policy to codify its approach to identifying, measuring, controlling, and reporting operational risks. The policy lays down sound practices to ensure effective and consistent operational risk management across the CEB.

Operational risk is defined as the risk of potential loss resulting from inadequate or failed internal processes, people and systems or from external events and includes legal risk. Moreover, the CEB takes into account reputational risk linked to its activities.

Inspired by the Basel Committee on Banking Supervision principles and industry best practices, the Bank is committed to continuously assessing its operational risk and implementing the appropriate mitigating measures.

The CEB's operational risk framework is reviewed and approved by the Committee for Operational Risks and Organisation (CORO) at its semi-annual meetings. Chaired by the Governor and composed of Senior Management, CORO sets acceptable levels for the operational risks run by the CEB and ensures that directors take the necessary steps to monitor and control these risks within their respective directorates.

In close co-operation with the business lines, the Operational Risk Division (ORD) is in charge of the daily management of operational risks based on a framework comprising risk identification and evaluation according to a predefined methodology, risk mitigation measures and targeted action plans. The collection of operational risk incidents, including "near misses", is also integrated to ensure the effectiveness of the control framework and to complete the risk mapping and assessment.

ORD ensures that the permanent internal control framework is adequate in terms of design and effectiveness through the yearly control testing covering risks. Each directorate reports annually on the relevance and effectiveness of its respective permanent control environment, including on the completeness of incident declarations. The results are reported to the CORO.

To maintain a comprehensive procedure and control map, ORD is also responsible for modelling procedures in collaboration with the business lines. A dedicated intranet site provides all staff access to the procedures.

The CEB has a Business Continuity Plan (BCP) to hedge against disruptions in its business activities. The BCP comprises a crisis management plan and an underlying technical framework, including data centres, emergency dealing room, user back-up positions, telecommuting solutions, and business line-specific plans.

The risk capital charge for operational risk is part of the Bank's capital adequacy ratio, within the risk appetite framework. In the calculation of capital requirements, the CEB adopted the Basic Indicator Appoach proposed under Basel II: the Bank calculates the capital charge on the basis of the average net banking income over the previous three years. This charge is compared to prudential equity.

As at 31 December 2022, the operational risk capital charge amounted to €21.9 million, compared to €22.1 million as at 31 December 2021.

Climate Risk

The CEB recognises that, in addition to the "traditional" risks such as credit, interest rate, foreign exchange, liquidity, or operational, climate risk is of significant importance.

The CEB views climate risk not as a stand-alone risk category, but as an intersecting risk with the potential to impact each of the risk categories. Climate-related risks are divided into two major categories:

- Physical risks which are related to the physical impacts of climate change. Physical risks resulting from climate change can be event-driven (acute) or longer-term shifts (chronic) in climate patterns.
- Transition risks which are related to the transition to a lower-carbon economy. Transitioning to a lower-carbon economy may entail extensive policy, legal, technology, and market changes to address mitigation and adaptation requirements related to climate change.

The CEB has completed a mapping exercise of climate- related risks to better identify the financial implications and other risks and opportunities that the Bank may face due to climate change. Various risk categories for CEB such as credit risk, market risk, liquidity risk, operational risk and reputational risk, are impact in the following way:

- **Credit risk.** Physical and transition risks could impact the Bank's clients' source of income/revenue, expenditure/cost of capital, asset value, business continuity/economic growth, resulting in reduced ability to pay and lower creditworthiness.
- **Market risk.** Severe physical events or a disorderly transitioning to a lower-carbon economy may lead to shifts in market expectations and could result in a sudden repricing of CEB's assets, liabilities, and off-balance sheet financial instruments, which would impact CEB's capital position and earnings.
- **Liquidity risk.** Impact on liquidity from climate risks can result in increased cash outflows, decreased liquidity buffers, increased demand for CEB's lending facilities and reduced access to stable funding sources.
- **Operational risk.** Physical acute events can affect the Bank's operations directly. Physical hazards may result in the disruption of business activities and may reduce the Bank's operational ability. Delay or loss of business might cause financial loss in addition to potential repair costs.
- **Reputational risk** is the risk arising from negative perception on the part of counterparties, shareholders, investors, debt-holders, market analysts, other relevant parties that can adversely affect a bank's ability to maintain existing, or establish new, business relationships and continued access to sources of funding. Negative perception from stakeholders may arise if the CEB is perceived as not adhering to its commitment on Paris alignment.

Aside from risks identified from this high level bank-wide exercise, it was also concluded that climate change also presents several opportunities for the Bank. Opportunities for the CEB include financing of decarbonisation activities such as energy efficiency measures, as well as financing of climate adaptation measures that respond to physical climate risks, with a specific focus on addressing the needs of vulnerable groups.

In addition to assessing how climate risks impact the Bank's overall risk profile, the CEB identifies and assesses climate-related risks at the individual project level, and advances its capabilities at the counterparty level. The Bank has integrated the assessment of physical climate risk into the analysis of its direct lending operations and is developing a comprehensive approach to screen all its operations for climate-related risks. Additionally, the Bank is working on developing climate-related methodologies for counterparty assessments.

CEB's loan portfolio is materially exposed to sovereign risk. As at 31 December 2022, 46% of the Bank's loan outstanding exposure, after accounting for credit risk mitigation measures[13], pertains to sovereign counterparties. Consequently, the CEB has developed its first climate scorecard for sovereigns. The scorecard captures physical risk, transition risk and readiness for each counterparty. It provides a climate score from 1 (high risk) to 5 (low risk). The Bank demonstrates a relatively low average weighted physical climate risks score for its sovereign exposure, as the majority of member countries within the CEB possess robust capabilities to mitigate specific specific physical hazards. However, when evaluating the Bank's average weighted transition risk and readiness scores for sovereign counterparties, both are considered as medium. The medium level of transition risk exposure encompasses an evaluation that combines the proximity of countries to future Nationally Determined Contribution (NDC) targets along with their historical average CO2 emission intensity. The medium readiness level reflects the Bank's exposure to countries based on an assessment of their ability to effectively employ investments for adaptation measures.

Going forward, climate scorecards for other types of counterparties will be developed. The output from these scorecards will enable the CEB to map and benchmark its counterparties according to their climate risk exposure.

The CEB has published its first Task Force on Climate-Related Financial Disclosure Report (TCFD) in 2023.

13. Direct government guarantees.

Glossary

Called capital
Total capital paid in and to be paid in.

Financing commitment
Projects still awaiting financing and for which a framework loan agreement has been signed.

Loan disbursed
A loan that has actually been disbursed to the borrower.

Loan tranche
Loans are disbursed in tranches, depending on the progress of the project, up to the maximum amount approved by the Administrative Council.

Loans outstanding
Total amount of loans disbursed and not yet repaid.

Member States
At 31 December 2022, the CEB had 42 member states: Albania, Andorra, Belgium, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Georgia, Germany, Greece, Holy See, Hungary, Iceland, Ireland, Italy, Kosovo, Latvia, Liechtenstein, Lithuania, Luxembourg, Malta, Moldova (Republic of), Montenegro, Netherlands, North Macedonia, Norway, Poland, Portugal, Romania, San Marino, Serbia, Slovak Republic, Slovenia, Spain, Sweden, Switzerland and Türkiye. (Ukraine became the 43rd member state of the CEB on 15 June 2023.)

Own funds
Paid-in capital, reserves, net profit, amount on the Social Dividend Account and provisions for post-employment benefits.

Project approved
A project that has been submitted to the Administrative Council and approved for funding.

Social Dividend Account (SDA)
Funded mainly by the earmarked portion of the Bank's shareholder approved annual results and used to finance grants in favour of high social impact projects. These grants may take the form of interest rate subsidies, technical assistance grants, loan guarantees or grant contributions.

Subscribed capital
Participating certificates issued by the CEB and subscribed by its members.

Swap add-on
To obtain the potential future credit exposure, the swap notional amounts are multiplied by a percentage based on residual maturity and contract type.

Target Group countries

Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Czech Republic, Estonia, Georgia, Hungary, Kosovo, Latvia, Lithuania, Malta, Moldova (Republic of), Montenegro, North Macedonia, Poland, Romania, Serbia, Slovak Republic, Slovenia, Türkiye and Ukraine.

Uncalled capital

Difference between the subscribed capital and the called capital.

Acronyms and Abbreviations

AC	Administrative Council
AFS	Available for Sale
ALCO	Asset & Liability Committee
ALM	Asset & Liability Management
BBB	Best Banking Practices
BCBS	Basel Committee on Banking Supervision
BIA	Basic Indicator Approach
CAR	Capital Adequacy Ratio
CCP	Central Counterparty
CDS	Credit Default Swap
CEB	Council of Europe Development Bank
CET1	Common equity Tier 1 (Capital)
CIRS	Currency Interest Rate Swaps
CISO	The Chief Information Security Officer
CORO	Committee for Operational Risks & Organisation
CRC	Credit Risk Committee
CRM	Credit Risk Mitigation
CRU	Credit Risk Unit
CSA	Credit Support Annex
CV	Countervalue
CVA	Credit Valuation Adjustment
DF	Discount factor
DVA	Debit Valuation Adjustment
EAD	Exposure at Default
ECAP	Economic Capital
ECL	Expected Credit Loss
ECPs	European Commercial Paper
EP	Prudential Equity
EPE	Expected positive exposure
ES	Earnings Sensitivity
EVS	Economic Value of Equity Sensitivity
FIN	Finance Directorate
FO	Front Office
FRP	Financial & Risk Policy
FRPG	Financial & Risk Policy Guidelines
FRPH	Financial & Risk Policy Handbook
FX	Foreign exchange
GDP	Gross Domestic Product
GMC	General Management Committee
GR	Gearing Ratio
GRE	Government-related entity
HQLA	High-Quality Liquid Assets
HTM	Held to Maturity
ICAAP	Internal Capital Adequacy Assessment Process
IFAC	International Federation of Accountants
IFRS	International Financial Reporting Standard
ILAAP	Internal Liquidity Adequacy Assessment Process
IR	Interest Rate
IRB	Internal Ratings based approach
IRRBB	Interest rate risk in the Banking Book
IRS	Interest Rate Swaps
ISDA	International Swaps and Derivatives Association
L&D	Loans & Social Development Directorate
LCR	Liquidity Coverage Ratio
LGD	Loss Given Default
LRGs	Local and Regional Governments
MDB	Multilateral Development Bank
MR	Market Risk
MRC	Market Risk and Capital Management Unit
MTM	Marked to Market
NII	Net Interest Income
NPV	Net Present Value
NSFR	Net Stable Funding Ratio
OBS	Off-balance sheet
OCCO	Office of the Chief Compliance Officer
OCI	Other Comprehensive Income
OTC	Over-The-Counter
P&L	Profit and Loss account
PD	Probability of Default
PFE	Potential future exposure
R&C	Risk & Control Directorate
RAF	Risk appetite framework
RC	Replacement cost
REPO	Repurchase Agreement Transaction
RR	Recovery rate
RWA	Risk-weighted Assets
S&PC	Settlements, Payments & Collateral
SA-CCR	Standardised approach for counterparty credit risk
SDA	Social Dividend Account
SH	Survival Horizon
SSP	Self-Sufficiency Period
STD	Standardised approach
STLR	Short-Term Liquidity Ratios
TAR	Treasury Assets Ratio
TDE	Target Duration of Equity
TM	Treasury monetary portfolio
UL	Unexpected Loss

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