CEB

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

Risk Management Disclosure Report 2023

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About the CEB

The Council of Europe Development Bank (CEB) is a multilateral development bank with an exclusively social mandate from its 43 member states. 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 a triple-A 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 was originally established 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 a legally and financially separate entity from the Council of Europe.

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

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INTRODUCTION

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 Basel Committee on Banking Supervision recommendations and its status as a multilateral development bank.

Executive Summary

The CEB Risk Management Disclosure Report provides further information on the Bank's 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 AAA credit rating, 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.

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.

In 2023, the CEB has increased its lending activity while retaining a sound risk profile and an adequate capital buffer; loans disbursed reached €3.7 billion (an increase of 5.4% compared to year-end 2022), while the volume of outstanding loans reached €21.5 billion (an increase of 8.3% compared to year-end 2022).

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.

In December 2022, the Governing Board approved an increase of the Bank's subscribed capital by a maximum of €4.25 billion, of which a maximum of €1.20 billion will be paid-in by the member states. The capital increase will become effective at the end of the calendar month in which at least 67% of the participating certificates offered have been subscribed. The subscription period runs until 30 June 2024. As at 31 December 2023, the subscription rate was 51.47%. The capital increase has become effective on 29 February 2024, after reaching the threshold of 67%.

In line with the implementation of the CEB Strategic Framework 2023-2027, Ukraine became the Bank's 43rd member state on 15 June 2023. The country's accession marks the start of a new phase of engagement in Ukraine, which is fully in line with the CEB's social mandate. For an overview of the Bank's cooperation with Ukraine over the last financial year please refer to the Report of the Governor 2023.

Social and climate actions go hand in hand: climate action must be inclusive, while social actions can in turn lead to climate-friendly outcomes. As a social development bank, the CEB addresses the social impacts of climate change and seeks to achieve climate co-benefits in social projects, notably for the most vulnerable. For more information on climate risk management, please refer to the 2023 Task Force on Climate-Related Financial Disclosure Report.

In 2023, the CEB regained its triple-A credit rating for the first time in over a decade, with the upgrades of Moody's and Fitch to Aaa/AAA, and with S&P maintaining its triple A rating– all ratings are with a "stable" outlook. Unsolicited AAA rating was also affirmed by Scope Ratings, with a "stable" outlook. All major credit rating agencies have recognised the CEB's strong financial performance, shareholder support and increased policy relevance, underpinned by the implementation of the CEB's Strategic Framework, and the launch of its seventh capital increase.

Risk highlights

- **High Asset Quality**
  - A significant portion of the Bank's loan portfolio (30% at year-end 2023) benefits from credit enhancement.
  - At year-end 2023, 89.3% of the Bank's risk portfolio was rated at Investment Grade level (at least BBB-/Baa3 equivalent rating):
    - 87.1% for the loan portfolio
    - 78.1% for the financing commitments
    - 100% for the Treasury portfolio.
  - The average rating of the loan portfolio (after credit risk mitigation) was 6.88, close to A- (7.0), compared to 6.86 at year-end 2022.
- **Strong capital adequacy**

At the end of 2023, the Capital Adequacy Ratio reached 29.0%, within the 25%-30% comfort zone targeted by CEB to achieve a full AAA rating by the major credit rating agencies, even before the capital increase.

- **Prudent leverage**

At the end of 2023, the CRR Leverage Ratio reached 9.7%, well above the regulatory floor of 3%, and the CEB's Risk Appetite Framework floor of 7%.

- **Ample liquidity**

The high levels of liquidity indicators and ratios protect the bank from the risks generated by its intrinsic characteristics of absence of collecting deposits and no access to the central bank refinancing.

Figure 1: Key risk metrics

Amounts in € million	2023	2022	Var.	Var. (%)
Loan outstanding	21 530	19 887	1 643	8.3
Financial assets	11 467	10 139	1 328	13.1
HQLA	4 202	3 751	451	12.0
RWA L&D (Loan & Stock)	9 406	8 846	560	6.3
RWA FIN	2 187	1 921	266	13.8
Own funds	8 474	8 280	195	2.4
Balance sheet	34 418	31 528	2 890	9.2
Prudential Equity	3 519	3 442	77	2.2

	2023	2022
Capital Adequacy Ratio	29.0%	30.4%
Gearing Ratio	2.54	2.41
Leverage Ratio	9.7%	10.3%
Treasury Asset Ratio	3.2	2.8
Survival Horizon	17	15
LCR	378%	554%
NSFR	136%	130%
Sensitivity EVE	-11.5%	-10.0%

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 Basel Committee on Banking Supervision (BCBS) recommendations as transposed into EU banking 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 and Appetite

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.

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 successfully 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 • Regulatory Liquidity Ratios Report (LCR & NSFR)	
Liquidity Risk	• Liquidity risk assessment • Survival Horizon, Self Sufficiency Period • Regulatory liquidity ratios (LCR&NSFR) • 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.

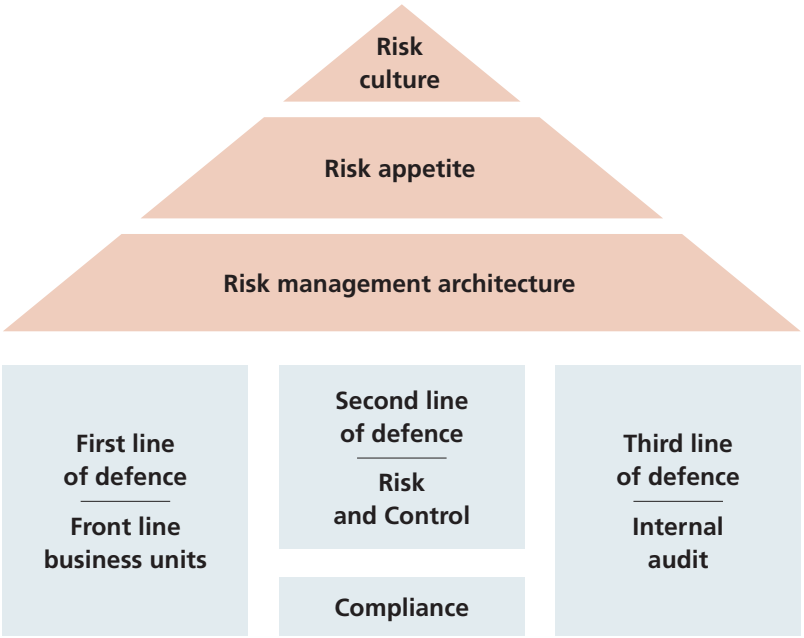
Risk governance within the CEB is established on the "three lines of defence" concept, setting out lines of responsibility and appropriate segregation of powers and duties:

The first line consists of 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.

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.

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 an MDB, is not formally subject to legislation applicable to credit institutions, it nevertheless aims to comply with relevant EU banking regulation ('CRD/CRR package') and Basel Committee on Banking Supervision (BCBS) recommendations, adapting them when necessary to its MDB business model and status.

CEB's risk policy is defined in the Risk Appetite Framework, which summarizes a set of risk indicators and ratios with their associated limits as regards credit risk (capital and leverage), liquidity risk, interest rate risk, foreign exchange risk, and market credit risk. The ratios and indicators are as follows, and are presented in this document in the relevant section.

Figure 4: Risk Appetite framework

Purposes	Indicators / Ratios
Capital	Capital Adequacy Ratio (CAR) Gearing Ratio (GR)
Leverage	Regulatory 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	Regulatory Sensitivity of the Economic Value of Equity (EVE)
Foreign Exchange Risk	Spot Net Open Position
Market Credit Risk	Minimum Internal Rating

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 and Planning

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 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 (ICAAP)

The Bank has an internal capital adequacy assessment process (ICAAP) by which it assesses the adequacy of its available equity with its internal measurement of the capital needed to cover the risks generated by its activities.

The process is based on key indicators, which are relevant for measuring capital adequacy. These key indicators are defined in 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, and other regulatory or internal metrics such as the Basel Leverage Ratio and the Gearing Ratio.

These indicators are monitored on an ongoing basis by senior management as part of CEB's governance process and are subject to scrutiny during the preparation of CEB's Strategic Framework. They are assessed on a forward-looking basis under different scenarios, including under stressed macroeconomic environments to measure CEB's resilience to adverse macroeconomic and financial environments.

As part of ICAAP, the CEB also assesses risk-based economic capital for market and credit risk. This assessment is based on internal methodologies and enables CEB to take better account of Pillar II risks that are not adequately covered by Pillar I.

As prescribed by Basel Pillar II, the CEB conducts stress tests by measuring the potential effects on capital of a set of specified changes in risk factors corresponding to exceptional but plausible macro-financial events and ensures resilience and viability under adverse macro-financial conditions.

Finally, the CEB carries out capital planning exercises to assess the soundness of its financial position and ensure that it can achieve the objectives of its Strategic Framework. The objective is to provide forward-looking projections of CEB capital adequacy ratio over time under different scenarios, including under stressed macroeconomic environments.

Capital Adequacy Ratio

The Capital Adequacy Ratio compares the Bank's Prudential Equity (E_P) to the total Risk-Weighted Assets (RWA).

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

Risk-Weighted Assets (RWA) are a bank's assets and off-balance-sheet exposures, weighted according to the type of risk. Gross amounts of exposures are converted into risk-weighted assets by applying risk weights factors, depending of the exposure type, external rating and maturities. Risk-weighted assets are calculated per activity (loans or treasury) and per type of risk. The CEB computes its risk-weighted assets based on the Pillar I standardised method, which imposes external ratings for risk weights. However, for benchmarking purposes, the Bank also adopts the "internal rating-based" (IRB) foundation approach, which allows the use of internal ratings for assigning the risk weights.

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

Figure 5: RWA by exposure class as of 31 December 2023

31.12.2023	RWA (in € million)	% of Total RWA
Credit Risk	**11 487**	**94.6**
Loans and financing commitments	9 406	77.4
Treasury	2 080	17.1
Counterparty Credit Risk (CCR)	**319**	**2.6**
Derivatives CCR (SA-CCR approach)	106	0.9
Credit Valuation Adjustment (CVA)	213	1.8
Operational Risk	**287**	**2.4**
Other	**55**	**0.5**
TOTAL	**12 148**	**100.0**

Capital Adequacy Ratio

Capital Adequacy Ratio is the Bank's Prudential Equity (EP) divided by total Risk-Weighted Assets (RWA). The Bank applies the Pillar I Standardised Approach, where RWA are calculated using risk-weight factors according to the type and the rating of the counterparty.

The Bank monitors this ratio to ensure that it holds sufficient capital to absorb unexpected losses embedded in its operations arising from credit, market, and operational risks.

Although the risk appetite framework 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% to achieve a full AAA rating by the major credit rating agencies.

The Capital Adequacy Ratio reached 29.0% at the end of December 2023, down compared to the end 2022 (30.4%) due to higher RWA arising from the increase in both loan and Finance activities.

Finally, credit risk stands for the bulk of capital consumption at 95.4% at end of December 2023, split among credit risk in the loan portfolio (77.4%) and credit risk on finance operations (18.0%).

Figure 6: Annual evolution in Capital Adequacy Ratio

Figures in € million	2023	2022
Capital Adequacy Ratio = A/B	**29.0%**	**30.4%**
A - Prudential Equity	**3 519**	**3 442**
Credit Risk Weighted Loans & Stock	9 406	8 846
Credit Risk Weighted Treasury	2 187	1 921
Other RWA*	555	539
B - Global Risk Weighted Assets	**12 148**	**11 306**

* Other assets, Operational Risk and Credit Value Adjustment

Gearing Ratio

The Gearing Ratio measures the outstanding loans divided by own-funds[1], and thus establishes a volume ceiling to the Bank's loan activity. This ratio is primarily intended to provide a benchmark with other MDBs. The historical ceiling limit of the Risk Appetite Framework is 2.5. In April 2023, the Administrative Council approved a temporary increase of the Gearing Ratio to 2.6 until June 2024 or the effectiveness of the capital increase, whichever occurs first.

After an initial high of 2.46 reached in October 2022, due to an increase in outstanding loans exceeding internal capital generation (profits), the Bank actively managed disbursements to ensure compliance with the ratio in this context. As a result, the Gearing ratio ended 2023 at 2.54.

The maximum possible loan outstanding volume is €22.0 billion (€20.7 billion at year-end 2022).

Figure 7: Annual evolution in Gearing Ratio

Figures in € million	2023	2022
Gearing Ratio = A/B	**2.54**	**2.41**
Loan outstanding (after swap)	21 527	19 958
Guarantees given	0	0
A - Total Loans & Guarantees	**21 527**	**19 958**
B - Own Funds	**8 474**	**8 280**

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

Leverage Ratio

The leverage ratio is calculated as Prudential Equity divided by the exposure value of all assets and off-balance sheet items. It provides a simple indicator (considering unweighted gross exposures) to complement the capital adequacy ratio to act as a limit to excessive leverage of the Bank. They use the same method for calculating derivative exposures (SA-CCR), and the same conversion factor of 50% for risk related off-balance sheet items (financing commitments).

The CEB's Risk Appetite Framework floor for this ratio is 7% to ensure first-rank financial fundamentals.

At end of December 2023, the leverage ratio was 9.7% (10.3% at year-end 2022).

Figure 8: Annual evolution in Leverage Ratio

Figures in € million	2023	2022
Leverage Ratio = A/B	**9.7%**	**10.3%**
A - Prudential Equity	**3 519**	**3 442**
L&D	**24 786**	**23 153**
Loans (before swap)	21 530	19 887
Commitments (50% of gross amount)	3 256	3 266
FIN	**11 469**	**10 141**
Securities	4 773	4 494
Nostro & Money Market	6 365	5 352
FX & Derivatives	331	294
B - Total Exposures	**36 255**	**33 294**

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 overview

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 2023 and 31 December 2022.

Figure 10: Overall exposure by product and rating category

	2023				2022			
In € million	**AAA/AA**	**A/BBB**	**Non-IG**	**Total**	**AAA/AA**	**A/BBB**	**Non-IG**	**Total**
Loans	4 433	14 310	2 787	21 530	4 357	12 818	2 712	19 887
Financing commitments	1 012	4 077	1 423	6 513	952	4 345	1 235	6 532
Nostro & Money Market	2 701	3 664	–	6 365	1 414	3 939	–	5 352
Securities	4 040	731	–	4 771	3 818	675	–	4 493
Swap & FX Forward	181	151	–	331	185	109	–	294
TOTAL	**12 367**	**22 933**	**4 210**	**39 510**	**10 726**	**21 885**	**3 948**	**36 559**

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 2023. "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

	In € million		
31.12.2023	Lending	Finance	Total
Sovereign	15 070	3 756	18 826
Sub-sovereign	7 846	511	8 357
Banks	3 786	6 951	10 737
Other	1 339	250	1 589
TOTAL	**28 042**	**11 467**	**39 510**

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

The figure below presents the Bank's overall credit risk exposure as at 31 December 2023 per counterparty type and per country.

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

Country	Sovereign	Sub-sovereign	Banks	Other	Total
France	1 424	1 056	1 826	583	4 890
Germany	254	1 431	1 051	602	3 339
Spain	620	1 847	831		3 298
Italy	1 782	194	387	235	2 599
Poland	1 180	435	500		2 115
Türkiye	1 776				1 776
Netherlands	700		883		1 584
Belgium	200	1 339	3		1 542
Slovak Republic	938	145	221	50	1 353
Serbia	1 321				1 321
Sweden		606	629	22	1 257
Finland	76	677	277	1	1 030
Lithuania	708	202	46	29	986
Hungary	823		10		833
Romania	763	68			831
Croatia	765				765
Ireland	579	119			698
Czech Republic	553		139		691
Portugal	619	16	2		637
Switzerland			573		573
Cyprus	356				356
Greece	270				270
Estonia	200	20		25	245

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

Country	Sovereign	Sub-sovereign	Banks	Other	Total
Slovenia	224				224
Bulgaria	177				177
Luxembourg	142				142
Montenegro	132				132
Albania	122				122
Moldova (Republic of)	114				114
North Macedonia	113				113
Bosnia and Herzegovina	95				95
Iceland		28		42	70
Norway			63		63
Kosovo	46				46
Malta			29		29
Latvia	29				29
Denmark		22			22
Andorra	14				14
Georgia	14				14
San Marino	8				8
Sub-Total I	**17 140**	**8 206**	**7 468**	**1 589**	**34 402**
Non-Member Countries					
Japan	496		750		1 246
Hong Kong			591		591
Great Britain			523		523
Canada		100	374		474
Australia	0		404		405
Singapore			360		360
United States of America			200		200
Austria	89		67		156
South Korea	81				81
New Zealand		52			52
Supranational	1 020			0	1 020
Sub-Total II	**1 686**	**152**	**3 269**		**5 107**
TOTAL	**18 826**	**8 357**	**10 737**	**1 589**	**39 510**

Loan portfolio

Credit risk profile of loan portfolio

At year-end 2023, loans outstanding reached €21.5 billion, increasing by 8.3% compared to year-end 2022.

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

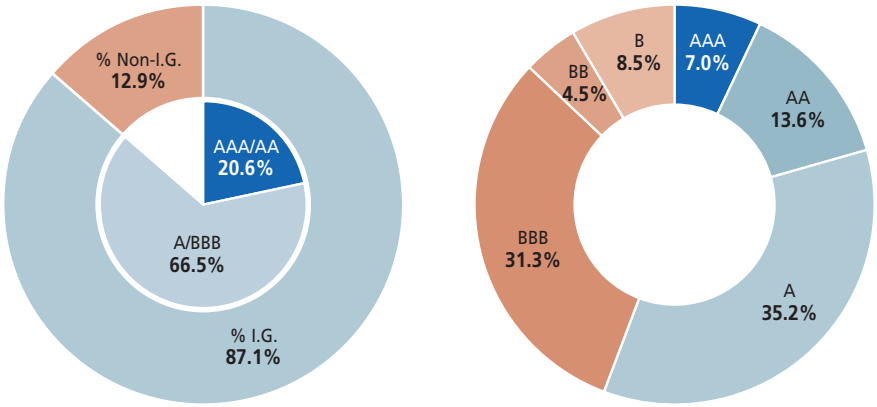
In € million	2019	2020	2021	2022	2023	/ End 2022
TOTAL	**15 427**	**17 427**	**18 916**	**19 887**	**21 530**	**8.3%**
Investment Grade	13 348	15 104	16 295	17 175	18 743	9.1%
AAA/AA	2 967	3 109	3 760	4 357	4 433	1.7%
A/BBB	10 381	11 995	12 535	12 818	14 310	11.6%
Non-I.G.	2 079	2 323	2 621	2 712	2 787	2.8%
% I.G.	*86.5*	*86.7*	*86.1*	*86.4*	*87.1*	
% Non-IG	*13.5*	*13.3*	*13.9*	*13.6*	*12.9*	

* 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 87.1% of the exposure rated Investment Grade after CRM, slightly higher than the level observed at the end of 2022 (86.4%), reaching a plateau since 2019 after the positive trend registered over the previous years (see figure 16.).

Figure 14 below shows that the single-A and BBB categories represent 66.5% of the loan portfolio. Besides, €2.0 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 17 counterparties rated BBB- (after CRM).

Figure 14: Credit risk profile of loan portfolio by rating classes



Credit enhancement and average ratings

It is worth highlighting that credit risk mitigation plays an important role in defining the risk profile of the loan portfolio and thus in improving its credit quality.

At the end of December 2023, the CEB benefited from €6.4 billion in guarantees and €109 million in collateral consisting of bonds pledged (the two main types of credit risk enhancements used by the Bank to mitigate risk in its loan activities), covering 30.2% of the loan portfolio.

In particular, the Bank manages a portfolio of loans partially covered by the European Commission InvestEU guarantee. At the end of 2023, the CEB InvestEU portfolio amounted to €214.5 million[1], and the guarantee covered by the European Commission amounted to €68.2 million. The InvestEU portfolio is set to grow to €500 million loans, with a guarantee of €159 million.

At the end of December 2023, the average rating (after CRM) is at 6.88 (6.86 at year-end 2022), close to A- (7.0), while the average rating before CRM was 6.58, i.e. slightly higher than BBB+ (6.53 at year-end 2022).

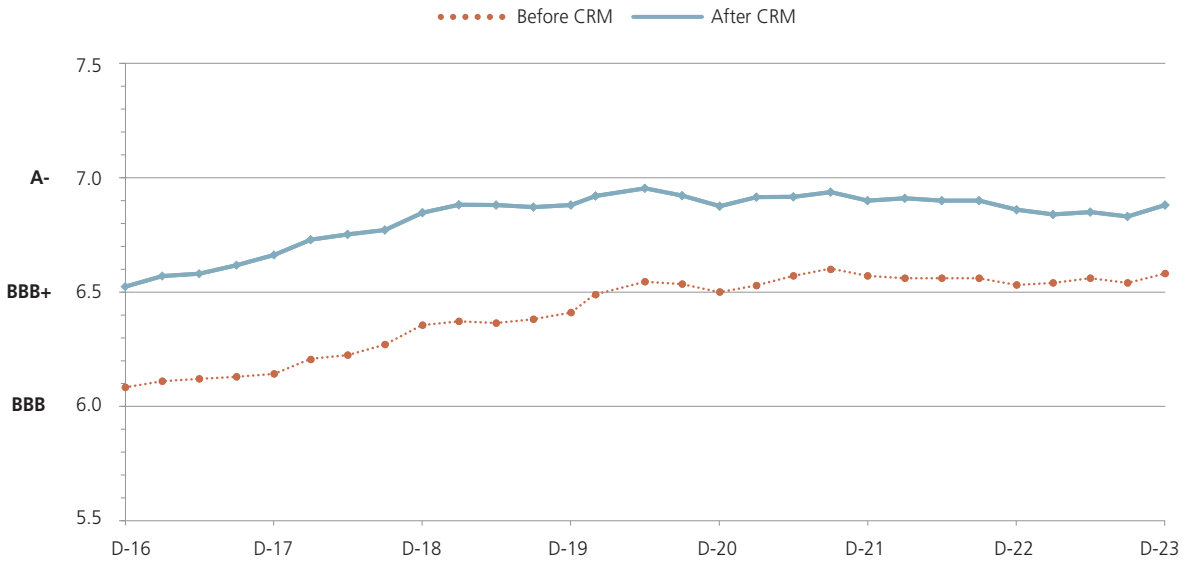
At the end of 2023, 8.4% of the portfolio shifted from Non-Investment Grade to the Investment Grade category when applying credit risk mitigation techniques, as shown in Figure 15.

Figure 15: Loan portfolio before versus after CRM by rating

In € million	Before CRM	%	After CRM	%	Change
TOTAL	**21 530**		**21 530**		
Investment Grade	16 931	78.6	18 743	87.1	8.4%
AAA/AA	3 397	15.8	4 433	20.6	4.8%
A/BBB	13 533	62.9	14 310	66.5	3.6%
Non - Investment Grade	4 599	21.4	2 787	12.9	-8.4%

Figure 16 presents the evolution of the average rating of the loan portfolio, weighted by loan amount, and also shows the historical impact of credit risk mitigation.

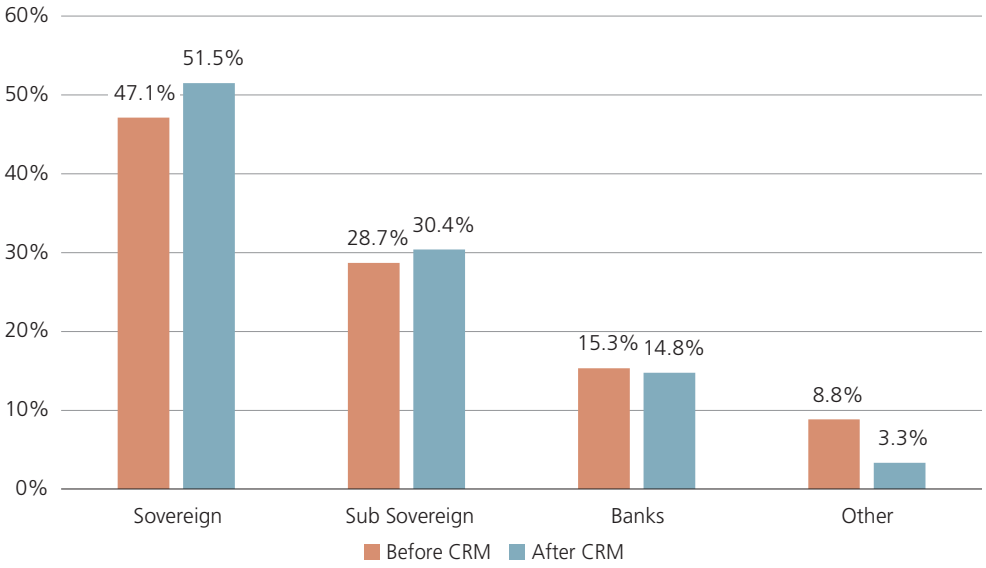
Figure 16: Average rating development of the loan portfolio



1. The amount corresponds to the outstanding loan approved and for which a Framework Loan Agreement has been signed with the counterparty.

The following Figure 17 shows the impact of the CRM between types of counterparties. Exposure after credit enhancement to sovereign counterparties (including public financial and supranational institutions) increases from 47.1% to 51.5%. Meanwhile, exposure to sub-sovereign counterparties (regional and local authorities) increases from 28.7% to 30.4%.

Figure 17: Loan portfolio before versus after CRM by type of counterparty



Loan portfolio breakdown by country and by counterparty type

Figure 18: Credit risk exposure of the loan portfolio by country and rating class

31.12.2023	In € million				%
Country	**AAA/AA**	**A/BBB**	**Non-IG**	**Total**	
Spain		2 521.7	34.7	2 556.4	11.9
France	889.7	1 440.9	29.6	2 360.2	11.0
Poland		1 838.3	1.3	1 839.7	8.5
Türkiye			1 401.2	1 401.2	6.5
Germany	1 122.7	274.9		1 397.5	6.5
Italy		1 298.3	97.4	1 395.6	6.5
Slovak Republic		1 161.3		1 161.3	5.4
Belgium	197.3	844.8		1 042.0	4.8
Netherlands	512.5	466.8	4.5	983.8	4.6
Lithuania		861.6	32.7	894.2	4.2
Hungary		733.2		733.2	3.4
Croatia		625.0		625.0	2.9
Serbia			613.2	613.2	2.8
Finland	331.0	263.6	0.6	595.3	2.8
Sweden	552.6	11.1		563.7	2.6
Ireland	442.2	13.6		455.7	2.1
Czech Republic	300.0	84.3		384.3	1.8
Romania		322.1	42.0	364.2	1.7
Cyprus		299.1		299.1	1.4
Portugal		272.9	5.0	277.9	1.3
Greece		217.5		217.5	1.0

Figure 18: Credit risk exposure of the loan portfolio by country and rating class – continued

31.12.2023	In € million				%
Country	**AAA/AA**	**A/BBB**	**Non-IG**	**Total**	
Estonia		200.0		200.0	0.9
Slovenia		189.4		189.4	0.9
Bulgaria		176.9		176.9	0.8
Albania			122.3	122.3	0.6
Montenegro			93.8	93.8	0.4
North Macedonia			87.6	87.6	0.4
Bosnia and Herzegovina			87.0	87.0	0.4
Moldova (Republic of)			66.1	66.1	0.3
Iceland		61.7		61.7	0.3
Kosovo			45.8	45.8	0.2
Malta		29.0		29.0	0.1
Latvia		20.8		20.8	0.1
Andorra		14.2		14.2	0.1
Georgia			14.0	14.0	0.1
San Marino			8.2	8.2	0.0
Sub-Total I	**4 347.8**	**14 243.0**	**2 787.0**	**21 377.8**	**99.3**
Non-member countries					
Austria		66.9		66.9	0.3
Supranational	84.9			84.9	0.4
Sub-Total II	**84.9**	**66.9**		**151.8**	**0.7**
TOTAL	**4 432.7**	**14 309.9**	**2 787.0**	**21 529.6**	
	20.6%	66.5%	12.9%		

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 81.9% of the total portfolio at the end of December 2023 (Figure 19 below).

Figure 19: Credit risk exposure of the loan portfolio by type of counterparty

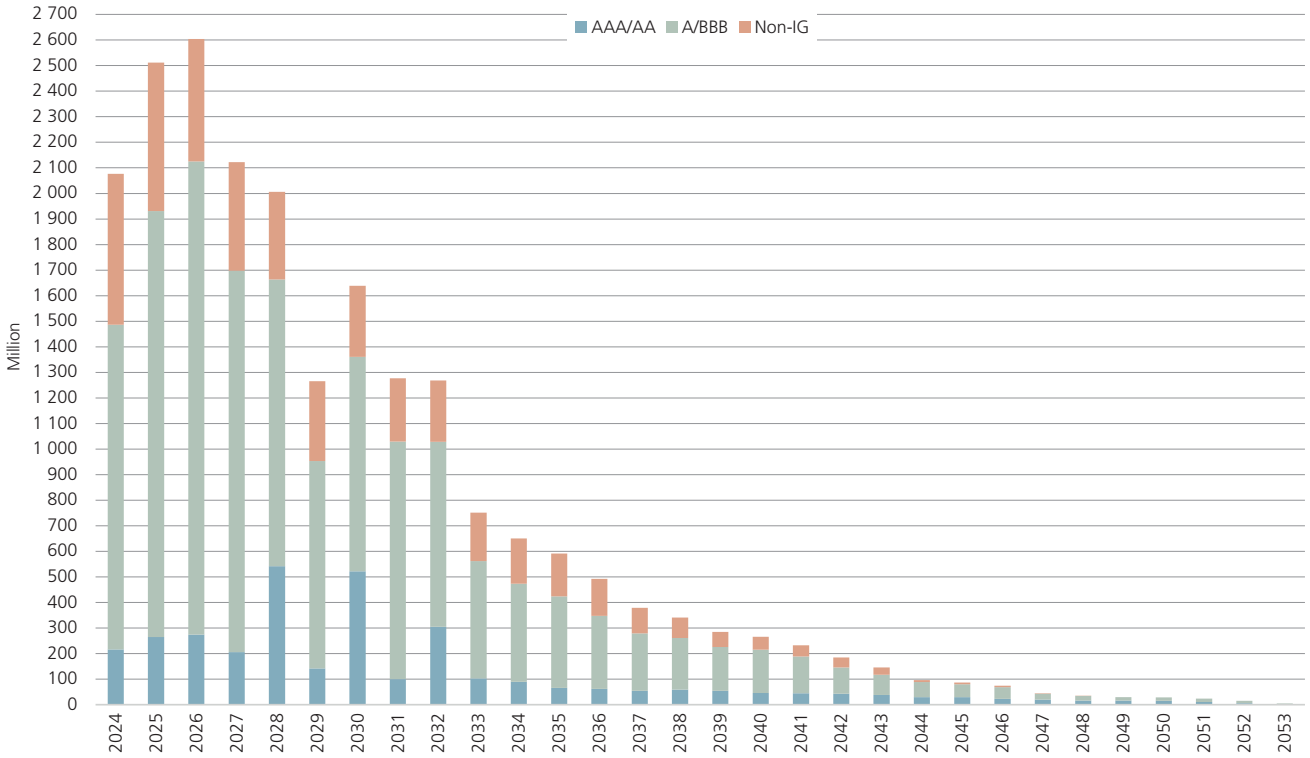
In € million	2019	2020	2021	2022	2023	/ End 2022
TOTAL	**15 427**	**17 427**	**18 916**	**19 887**	**21 530**	**8.3%**
Sovereign	7 710	9 107	9 956	10 623	11 090	4.4%
Sub-Sovereign	4 085	4 738	5 443	5 911	6 546	10.8%
Banks	3 422	3 268	3 190	2 834	3 178	12.2%
Other	210	313	327	519	715	37.6%
% Public Sector	*76.5*	*79.4*	*81.4*	*83.1*	*81.9*	

Loan portfolio 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.

The residual average life of the loan portfolio is 6.2 years at year-end 2023.

Figure 20: Loan portfolio reimbursements by rating – in € million



Stock of projects

Credit risk of the overall stock

The stock of projects encompasses all projects approved by the Administrative Council awaiting financing.

At year-end 2023, the stock of projects amounted to €9.3 billion, growing by 1.7% compared to year-end 2022.

The Investment Grade category decreased by 5.0% (€364 million) while the Non-Investment Grade category increased by 29.5% (€522 million) compared to the end of 2022.

Figure 21: Credit risk profile of the stock of projects

In € million	2019	2020	2021	2022	2023	/ End 2022
TOTAL	**8 521**	**9 514**	**8 915**	**9 093**	**9 251**	**1.7%**
Investment Grade	7 320	7 520	7 277	7 323	6 959	-5.0%
AAA/AA	2 187	1 584	1 453	1 382	1 342	-2.9%
A/BBB	5 133	5 936	5 824	5 941	5 616	-5.5%
Non-I.G.	1 201	1 994	1 638	1 770	2 292	29.5%
% Committed	*71.3*	*85.9*	*70.8*	*71.8*	*70.4*	
% Investment Grade	*85.9*	*79.0*	*81.6*	*80.5*	*75.2*	

Credit risk 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 2023, the financing commitments reached €6.5 billion, i.e. 70.4% of the total stock of projects.

The credit quality of the financing commitments, with a weighted average rating of 6.32, is lower than that of the loan portfolio (6.88). The share of Investment Grade counterparties was at 78.1%, compared to the 87.1% share of Investment Grade counterparties in the loan portfolio.

Figure 22: Credit risk profile of the financing commitments after CRM

In € million	2019	2020	2021	2022	2023	/ End 2022
TOTAL	**6 079**	**8 175**	**6 316**	**6 532**	**6 513**	**-0.3%**
Investment Grade	5 533	6 645	5 087	5 297	5 090	-3.9%
AAA/AA	1 796	1 236	1 403	952	1 012	6.3%
A/BBB	3 736	5 409	3 684	4 345	4 077	-6.2%
Non-I.G.	546	1 530	1 228	1 235	1 423	15.2%
% Investment Grade	*91.0*	*81.3*	*80.5*	*81.1*	*78.1*	

Figure 23: Financing commitments by country – in € million

Country	AAA/AA	A/BBB	Non-IG	Total
Italy		928	75	1 003
Serbia			708	708
Germany	340	259		599
Romania		441	26	467
France	143	246	11	400
Türkiye			375	375
Portugal		264	95	359
Czech Republic	200	107		307
Belgium		300		300
Poland		275		275
Spain		264		264
Ireland	125	107		232
Slovak Republic		192		192
Croatia		140		140
Netherlands		110		110
Hungary		100		100
Lithuania		78	13	91
Finland	40	50		90
Sweden	46	11		57
Cyprus		57		57
Greece		53		53
Moldova (Republic of)			48	48
Estonia		45		45
Montenegro			39	39
Slovenia		35		35
North Macedonia			25	25
Bosnia and Herzegovina			9	9

Figure 23: Financing commitments by country – in € million – continued

Country	AAA/AA	A/BBB	Non-IG	Total
Iceland		8		8
Latvia		8		8
Sub-Total members	**893**	**4 077**	**1 423**	**6 394**
Supranational	119	–	–	119
TOTAL	**1 012**	**4 077**	**1 423**	**6 513**

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 24: SDA guarantees by country – in € million

Country	2023	2022
Existing Loans	**22.9**	**19.7**
Bosnia and Herzegovina	8.6	8.3
Lithuania	6.0	3.0
Italy	3.0	3.6
Greece	1.3	0.7
Romania	1.2	1.3
Luxembourg	1.1	0.3
Georgia	0.8	1.7
North Macedonia	0.5	0.8
Ireland	0.3	–
Committed Loans	**3.1**	**8.7**
Luxembourg	1.9	2.7
Spain	1.0	–
Romania	0.3	–
Lithuania	–	3
Bosnia and Herzegovina	–	2
Greece	–	1
Uncommitted Loans	**2.0**	**9.0**
North Macedonia	2.0	–
Ireland	–	8
Spain	–	1
TOTAL	**28.0**	**37.3**

As of December 2023:

- the total endowment of the SDA was €21.3 million
- the current amount of loans outstanding was €22.9 million
- the stock of projects committed awaiting disbursement was €3.1 million
- the stock of projects uncommitted was €2.0 million.

The expected shortfall (ES), with a 99% confidence level and a one-year time horizon, reached €7.4 million at the end of 2023. The ES level is well below the threshold of 75% of the endowment (€16.0 million).

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

Finance portfolio

Global overview of credit risk

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 2023, the credit risk arising from finance operations amounted to €11.5 billion compared to €10.1 billion at year-end 2022, increasing by 13.1%.

Figure 25: Credit risk profile of finance operations

In € million	2019	2020	2021	2022	2023	/ End 2022
TOTAL	**9 174**	**8 733**	**9 524**	**10 139**	**11 467**	**13.1%**
AAA	1 197	1 203	991	1 254	1 493	19.0%
AA	4 079	3 697	4 425	4 163	5 429	30.4%
A	3 290	3 372	3 389	4 572	4 545	-0.6%
BBB/BB	607	460	721	150		-100.0%
% AAA/AA	*57.5*	*56.1*	*56.9*	*53.4*	*60.4*	
% A/BBB/BB	*42.5*	*43.9*	*43.1*	*46.6*	*39.6*	

The overall credit quality in finance operations remained sound, with exposure to counterparties rated AAA/AA representing 60.4% 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 to the increase in lower-rated counterparties for the short-term activity, namely deposits and short-term bonds.

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

Exposure to finance operations broken down by type of transaction remains concentrated in securities purchased, deposits placed with commercial banks through the interbank market, and deposits placed with central banks (Nostro).

At the end of December 2023, deposits and securities respectively accounted for 55.5% and 41.6% of the total credit exposure in finance operations.

Figure 26: Finance operations by type of transaction

In € million	2019	2020	2021	2022	2023	/ End 2022
TOTAL	**9 174**	**8 733**	**9 524**	**10 139**	**11 467**	**13.1%**
Deposits	2 849	2 629	4 146	5 352	6 365	18.9%
Securities	5 856	5 579	5 085	4 493	4 771	6.2%
Swaps & FX Forward*	465	516	294	294	331	12.7%

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.

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. The portfolio's objective is to manage day-to-day cash-flow in all different currencies. To be eligible for transactions, counterparties must have a minimum internal rating defined in the CEB's Risk Appetite Framework (refer to figure 25 above). Exposure development over time fluctuates with business activity, optimising return while maintaining an adequate credit risk profile.

At the end of December 2023, the nominal value of deposits and "Nostro" was €6.4 billion (€5.3 billion in Money Market deposits and €1.0 billion in "Nostro" accounts) compared to €5.4 billion at the end of 2022.

Figure 27: Money Market transactions by rating

In € million	2019	2020	2021	2022	2023	/ End 2022
TOTAL	**2 162**	**1 562**	**2 094**	**4 195**	**5 328**	**27.0%**
AAA				50	159	217.2%
AA	473	80		623	1 921	208.4%
A	1 689	1 482	2 044	3 522	3 248	-7.8%
BBB/BB			50			
% AAA/AA	*22*	*5*		*16*	*39*	
% A/BBB	*78*	*95*	*100*	*84*	*61*	

Figure 28: Nostro exposure by rating

In € million	2019	2020	2021	2022	2023	/ End 2022
TOTAL	**687**	**1 067**	**2 052**	**1 157**	**1 037**	**-10.4%**
AAA	269	291	280	406	306	-24.7%
AA	162	521	1 457	335	315	-5.9%
A	253	254	315	416	416	-0.1%
BBB/BB	3	2				
% AAA/AA	*63*	*76*	*85*	*64*	*60*	
% A/BBB	*37*	*24*	*15*	*36*	*40*	

Credit risk profile of the securities portfolios

The CEB manages three bond portfolios according to the initial holding intention: Amortised Cost Portfolio (ACP), Fair-value through Equity (FVOCI) portfolio, and Short-Term Liquidity (STL) portfolio.

As at 31 December 2023, the total nominal value of portfolios was €4.8 billion, increasing by 6.2% from year-end 2022: €1 781 million for ACP (37.3%), €1 840 million for FVOCI (38.6%) and €1 150 million for STL (24.1%).

Figure 29: Securities (all portfolios) breakdown by rating

In € million	2019	2020	2021	2022	2023	/ End 2022
TOTAL	**5 856**	**5 579**	**5 085**	**4 493**	**4 771**	**6.2%**
AAA	928	882	711	797	1 021	28.0%
AA	3 052	2 743	2 786	3 021	3 020	0.0%
A	1 277	1 499	919	525	731	39.1%
BBB	600	455	670	150		-100.0%
% AAA	*15.8*	*15.8*	*14.0*	*17.7*	*21.4*	
% AA	*52.1*	*49.2*	*54.8*	*67.2*	*63.3*	
% A	*21.8*	*26.9*	*18.1*	*11.7*	*15.3*	
% BBB	*10.2*	*8.2*	*13.2*	*3.3*	*0.0*	

The Amortised Cost Portfolio (ACP) includes investments with maturity up to 30 years, with the objective of collecting contractual cash flows (principal and interest) until maturity. It also aims to:

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

At the end of December 2023, the ACP reached €1 781 million in nominal value (+14.9% compared to end of 2022). The credit quality of this portfolio is extremely robust, with 97.8% of investments concentrated in the AAA/AA category.

Figure 30: Amortised Cost Portfolio by rating

In € million	2019	2020	2021	2022	2023	/ End 2022
TOTAL	**1 883**	**1 703**	**1 499**	**1 550**	**1 781**	**14.9%**
AAA	644	615	514	652	890	36.4%
AA	1 149	998	945	857	851	-0.8%
A	40	40	40	40	40	
BBB	50	50				
% AAA/AA	*95.2*	*94.7*	*97.3*	*97.4*	*97.8*	
% A/BBB	*4.8*	*5.3*	*2.7*	*2.6*	*2.2*	

The Fair Value through Equity (FVOCI) Portfolio includes investments with maturity up to 30 years, with the alternative objective of collecting contractual cash flow or of generating capital gains by selling before maturity. 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 2023, financial assets in this portfolio decreased to €1 840 million (-7.6% versus year-end 2022). The credit quality is still robust, with 94.8% of investments in AAA/AA class.

Figure 31: Fair Value through Equity Portfolio by rating

In € million	2019	2020	2021	2022	2023	/ End 2022
TOTAL	**2 007**	**1 975**	**2 000**	**1 991**	**1 840**	**-7.6%**
AAA	284	267	197	145	131	-9.9%
AA	1 635	1 595	1 730	1 846	1 615	-12.5%
A	88	113	74		95	
BBB						
% AAA/AA	*95.6*	*94.3*	*96.3*	*100.0*	*94.8*	
% A/BBB	*4.4*	*5.7*	*3.7*		*5.2*	

The **Short-Term Liquidity Portfolio (STL)** includes short-term securities with maturity up to 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, associated to the Treasury Monetary Portfolio.

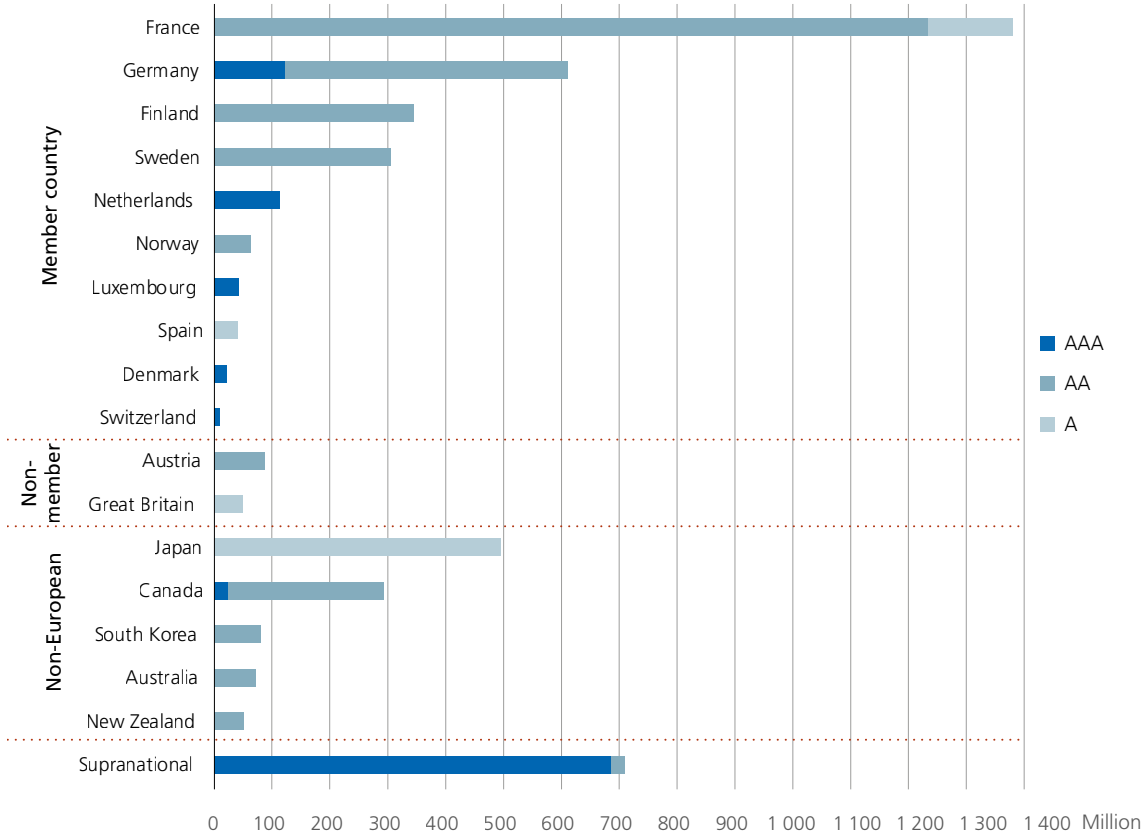
At the end of December 2023, the STL portfolio reached €1 150 million, increasing by 20.8% compared to year-end 2022. The credit quality is in line with its short-term nature and its liquidity management purposes (no AAA rating in particular).

Figure 32: Short-term portfolio by rating

In € million	2019	2020	2021	2022	2023	/ End 2022
TOTAL	**1 966**	**1 900**	**1 586**	**952**	**1 150**	**20.8%**
AAA						
AA	267	150	111	317	554	74.8%
A	1 149	1 345	805	485	596	22.8%
BBB	550	405	670	150		-100.0%
% AAA/AA	*13.6*	*7.9*	*7.0*	*33.3*	*48.2*	
% A/BBB	*86.4*	*92.1*	*93.0*	*66.7*	*51.8*	

Figure 33 presents a breakdown of all securities portfolios by country and rating of issuer.

Figure 33: Securities nominal by issuer country and by rating



The following charts (figures 34 and 35) provide an illustrative comparison of the three securities portfolios according to rating and residual life and confirm their respective objectives and features in terms of credit risk level and maturity.

Figure 34: Breakdown of ratings in each portfolio

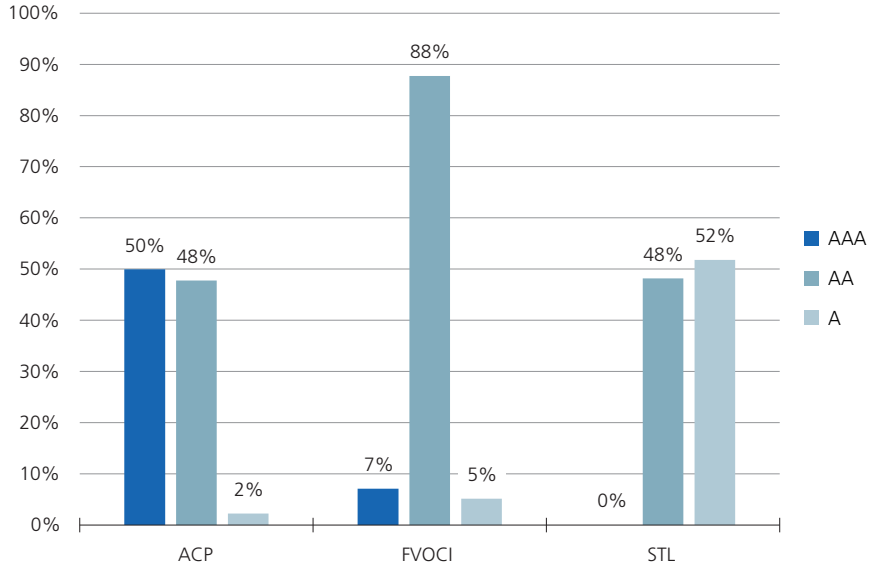
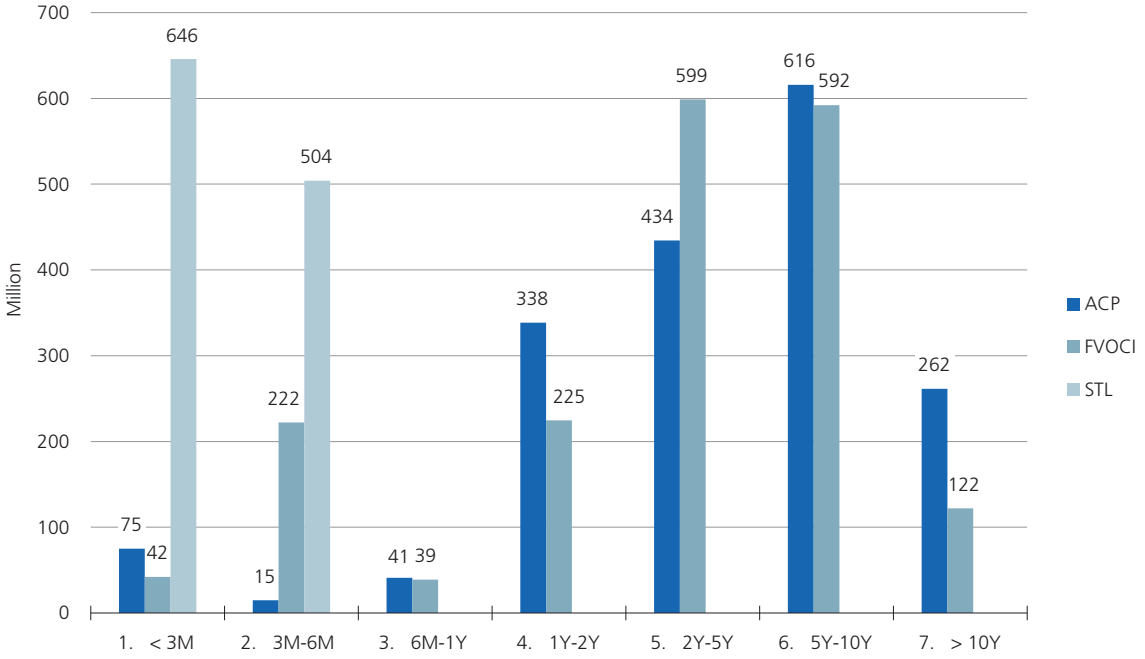


Figure 35: Outstanding of securities portfolio by residual maturity



Note: Average life span – ACP: 5.6 years; FVOCI: 4.4 years; STL: 0.2 years

Large exposures

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 2023:

- Prudential equity amounted to €3 519 million (compared to €3 442 million at year-end 2022)
- twelve counterparties or groups of counterparties were considered as Large Exposure (same as at year-end 2022)
- no counterparty or group of connected counterparties exceeded the limit of 25% of the CEB's prudential equity (same as at year-end 2022)
- the total amount outstanding to these counterparties stood at €6.2 billion, 177% of the CEB's prudential equity, well below the 800% limit (at year-end 2022: €6.1 billion, 178% of the CEB's prudential equity)
- 37.3% of this total of large exposures comes from Finance activities.

Figure 36: Large Exposures after Credit Risk Mitigation

	2023	2022
Number of counterparties in Large Exposure	12	12
Total Large Exposures in % of Equity	177%	178%
Total Large Exposures (*In € million*)	6 216	6 136
of which Loans (In € million)	*3 900*	*3 351*
of which Finance (In € million)	*2 317*	*2 785*

Figure 37: Detailed list of large exposures after CRM – in € million

	Counterparty		Exposures 2023			% of Equity	RWA	%RWA / Equity
			Direct	Indirect	Total			
1	BPCE	FR	215.3	522.2	737.5	21.0	259.5	7.4
2	AUTONOMOUS COMMUNITY OF MADRID	ES	688.2		688.2	19.6	137.6	3.9
3	SVENSKA HANDELSBANKEN	SE		628.5	628.5	17.9	125.7	3.6
4	CAISSE DES DEPOTS ET CONSIGNATIONS	FR	563.8	55.0	618.8	17.6	22.0	0.6
5	CREDIT AGRICOLE S.A.	FR	354.9	158.0	512.9	15.4	270.5	7.7
6	BANCO SANTANDER SA	ES	489.0	52.0	540.9	14.6	250.9	7.1
7	LAND NORDRHEIN-WESTFALEN	DE	400.0	92.0	492.0	14.0		0.0
8	COOPERATIEVE RABOBANK UA	NL	466.8	1.8	468.6	13.3	234.3	6.7
9	HSBC HOLDINGS PLC	GB		403.6	403.6	11.5	110.7	3.1
10	DZ BANK AG	DE		400.0	400.0	11.4	80.0	2.3
11	LA REGION WALLONNE	BE	370.9		370.9	10.5		0.0
12	SOCIETE GENERALE	FR	350.7	3.8	354.5	10.1	176.0	5.0
	TOTAL		**3 899.6**	**2 316.9**	**6 216.5**	**176.6**	**1 667.2**	

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 = Exposure At Default (EAD) x Probability of Default (PD) x Loss Given Default (LGD)

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"[2] 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 year-end 2023, the amount of provision (ECL) reached €18.7 million, down from €25.5 million at year-end 2022.

Figure 38: IFRS provisioning overview

In € million		2019	2020	2021	2022	2023	/ End 2022
	TOTAL	**14.9**	**22.7**	**14.9**	**25.47**	**18.69**	**-27.1%**
Weighted scenario ECL	Stage 1	14.9	22.7	14.9	25.32	18.56	-27.2%
	Stage 2	–	–	–	0.15	0.14	-7.8%

By product type, the main source of provision stemmed from L&D activity, representing 85.1% (loans 72.8% and committed stock 12.3%). Meanwhile, Finance activity accounted for 14.9% (see figure 39 below).

Figure 39: IFRS provisioning by product type as at 31.12.2023

In € million		Outstanding	Provision	%
TOTAL		**36 605**	**18.69**	
Loan	Stage 1	21 481	13.48	72.1
	Stage 2	49	0.14	0.7
Financing commitments	Stage 1	3 256	2.30	12.3
Bond	Stage 1	4 857	1.36	7.2
Money Market	Stage 1	5 328	0.68	3.7
Collateral Cash given	Stage 1	596	0.42	2.2
Nostro	Stage 1	1 037	0.32	1.7
Other assets	Stage 1	1	0.00	0.0

The 20 largest ECL account for 52.9% of the total provision (38.5% for sovereign counterparties, mainly Türkiye and to a lesser degree Serbia and Hungary).

2. 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.

Total outstanding (EAD) increased by 8.4% over the period while the provision decreased by -27.1%. By product type, loans represent the major changes in ECL (-€5.78 million).

Figure 40: ECL by product type as at 31.12.2023

		ECL				Outstanding			
In € million		2023	2022	Change in value	Change in %	2023	2022	Change in value	Change in %
Loan	Stage 1	13.48	19.26	-5.78	-30.0	21 481	19 802	1 679	8.5
	Stage 2	0.14	0.15	-0.01	-7.8	49	50	-1	-2.3
Financing commitments	Stage 1	2.30	3.64	-1.34	-36.8	3 256	3 266	-10	-0.3
Bond	Stage 1	1.36	1.31	0.04	3.2	4 857	4 644	213	4.6
Money Market	Stage 1	0.68	0.43	0.25	59.2	5 328	4 220	1 108	26.3
Collateral Cash given	Stage 1	0.42	0.46	-0.04	-8.2	596	638	-42	-6.6
Nostro	Stage 1	0.32	0.38	-0.06	-16.8	1 037	1 157	-120	-10.4
Other assets	Stage 1	0.002	0.002	0.0003	13.6	1	1	0	0.0
TOTAL		**18.69**	**25.63**	**-6.93**	**-27.1**	**36 605**	**33 778**	**2 827**	**8.4**

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 41: Product type stage allocation and average rating as at 31.12.2023

In € million		Provision	One Year ECL	Lifetime ECL	Outstanding	Avg. Rating Weighted by Exposure	Average PD*LGD
Loan	Stage 1	13.48	13.48	105.59	21 480.9	6.94	0.063%
	Stage 2	0.14	0.01	0.14	48.8	9.00	0.280%
Financing commitments	Stage 1	2.30	2.30	2.31	3 256.4	6.42	0.071%
Bond	Stage 1	1.36	1.36	11.23	4 857.3	9.04	0.028%
Money Market	Stage 1	0.68	0.68	0.68	5 327.8	8.04	0.013%
Collateral Cash given	Stage 1	0.42	0.42	0.42	596.0	7.79	0.070%
Nostro	Stage 1	0.32	0.32	0.32	1 036.8	8.66	0.030%
Other assets	Stage 1	0.00	0.00	0.00	1.4	6.00	0.179%
TOTAL		**18.69**	**18.57**	**120.69**	**36 605.4**	**7.40**	**0.051%**

Figure 42 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 42: Main sources of ECL change in 2023

Source of Change	Weight	Impact on provision
New deals	-156%	Increase
Matured deals	50%	Decrease
Amortisation of notional	55%	Decrease
Passage of time	81%	Decrease
PD	221%	Decrease
LGD	-6%	Increase
Internal Ratings	6%	Decrease
Macroeconomic Scenarios	-142%	Increase
Correlations	-9%	Increase
FX rate	-1%	Increase
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. 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 43: 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 risk-weighted assets after multiplying credit commitments by a Credit Conversion Factors (CCF), i.e. at 50% of exposure.

All the tables for RWA below are based on the Pillar I standardised method.

Overall RWA Exposures

As of the end of December 2023, RWA reached €12.1 billion, an increase of 7.4% compared to year-end of 2022 (€11.3 billion) due to the increase in both loans and Treasury exposures.

Figure 44 shows the breakdown of RWA by exposure class, and Figure 45 their evolution since 2019.

Figure 44: RWA by exposure class

31.12.2023	RWA (in M€)	% of Total RWA
Loans	7 873	64.8
Stock	1 534	12.6
Securities	674	5.5
Deposits	1 406	11.6
FX Forwards & Swaps SA-CCR	106	0.9
Sub-Total	**11 593**	**95.4**
Other assets	55	0.5
Operational Risk	287	2.4
CVA*	213	1.8
Sub-Total	**555**	**4.6**
TOTAL	**12 148**	**100.0**

* Credit Value Adjustment

Figure 45: Development of RWA by exposure class

In € million	2019	2020	2021	2022	2023	/ End 2022
TOTAL	**10 482**	**11 759**	**11 089**	**11 306**	**12 148**	**7.4%**
Loans	7 085	8 011	7 271	7 412	7 873	6.2%
Stock	1 397	2 325	1 294	1 434	1 534	7.0%
Treasury	1 427	875	2 012	1 921	2 187	13.8%
Other assets	57	59	57	55	55	-0.8%
Operational Risk	293	279	276	273	287	5.1%
CVA	223	210	178	211	213	0.9%

Breakdown of RWA by type of counterparty and by product

Note about the following tables: from this point on, Other assets, Operational risk, and CVA risk-weighted assets are excluded. Therefore, the total reference RWA is henceforth **€11 593 million**.

Figure 46 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 2022 and 2023.

Figure 46: Effect of CRM on risk-weighted assets

	2023			2022		
In € million	**Before**	**After**	**%**	**Before**	**After**	**%**
Sovereign*	7 053	6 564	-6.9	6 631	6 183	-6.8
Sub-sovereign**	1 479	1 194	-19.3	1 464	1 209	-17.4
Banks and Financial Institutions	4 225	3 456	-18.2	3 884	3 041	-21.7
Other	397	378	-4.6	334	334	0.0
TOTAL	**13 153**	**11 593**	**-11.9**	**12 312**	**10 767**	**-12.5**

* "Sovereign" class 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.

The following figure shows the sectoral breakdown of risk-weighted assets at end of December 2023, with the distribution between Finance activity (FIN) and Loan & Development activity (L&D).

Figure 47: Sectoral breakdown of RWA by product as of 31 December 2023

In € million	FIN			Total FIN	L&D		Total L&D	Total
Counterparty's type	**Bonds**	**Deposits**	**FX & Swaps**		**Loans**	**Stock**		
Sovereign	253	160		413	5 044	1 107	6 151	6 564
Sub-sovereign	72			72	1 013	109	1 122	1 194
Banks and Financial Institutions	291	1 246	106	1 644	1 612	200	1 813	3 456
Other	57			57	204	117	321	378
TOTAL	**674**	**1 406**	**106**	**2 187**	**7 873**	**1 534**	**9 406**	**11 593**
% of total	*5.8*	*12.1*	*0.9*	*18.9*	*67.9*	*13.2*	*81.1*	*100.0*

Breakdown of RWA by country and by product

Figure 48 below shows the geographical breakdown of risk-weighted assets as of December 2023, with the distinction between Finance activity (FIN) and Loan & Development activity (L&D), by type of product.

Figure 48: Geographical breakdown of RWA by product as of 31 December 2023

In € million	FIN			Total FIN	L&D		Total L&D	Total	%
	Deposits	Bonds	Derivatives		Loans	Stock			
Member countries	**782**	**376**	**61**	**1 219**	**7 823**	**1 523**	**9 345**	**10 565**	**91.1**
Türkiye				0	1 400	188	1 587	1 587	13.7
Italy	100			100	821	313	1 134	1 234	10.6
France	176	144	60	379	674	49	722	1 102	9.5
Serbia					613	354	967	967	8.3
Spain	133	8		141	658	41	698	839	7.2
Poland	0			0	657	49	705	705	6.1
Netherlands	60	23	1	83	338	41	380	463	4.0
Hungary					367	25	392	392	3.4
Slovak Republic					315	48	363	363	3.1
Germany	135	74	1	209	94	48	143	352	3.0
Croatia					312	35	347	347	3.0
Romania					203	123	326	326	2.8
Lithuania					211	14	225	225	1.9
Cyprus					150	14	164	164	1.4
Sweden	66	60		126	6	3	8	134	1.2
Albania					122		122	122	1.1
Greece					109	13	122	122	1.1
Switzerland	113	2		115				115	1.0
Montenegro					94	19	113	113	1.0
Portugal					62	50	112	112	1.0
North Macedonia					88	13	100	100	0.9
Bosnia and Herzegovina					87	4	91	91	0.8
Moldova (Republic of)					66	24	90	90	0.8
Bulgaria					88		88	88	0.8
Finland		54		54	20		20	74	0.6
Slovenia					62	9	70	70	0.6
Czech Republic					33	20	53	53	0.5
Estonia					40	11	51	51	0.4
Kosovo					46		46	46	0.4
Iceland					31	2	33	33	0.3
Malta					15		15	15	0.1
Georgia					14		14	14	0.1
Ireland					3	11	13	13	0.1
Norway		13		13				13	0.1
Latvia					10	2	12	12	0.1
San Marino					8		8	8	0.1
Andorra					7		7	7	0.1
Belgium					2		2	2	0.0
Denmark	0			0				0	0.0
Luxembourg	0			0				0	0.0

Figure 48: Geographical breakdown of RWA by product as of 31 December 2023 – continued

In € million	FIN			Total FIN	L&D		Total L&D	Total	%
	Deposits	Bonds	Derivatives		Loans	Stock			
Other countries	**604**	**224**	**45**	**873**	**33**		**33**	**906**	**7.8**
Japan	150	99		249				249	2.1
Great Britain	142	25	3	170				170	1.5
Hong Kong	133			133				133	1.1
Canada	11	59	25	95				95	0.8
Australia	66	14	0	81				81	0.7
Singapore	72			72				72	0.6
United States of America	29		17	46				46	0.4
Austria					33		33	33	0.3
South Korea		16		16				16	0.1
New Zealand		10		10				10	0.1
Supra	**20**	**74**		**94**	**17**	**11**	**28**	**122**	**1.1**
Supranational	20	74		94	17	11	28	122	1.1
TOTAL	**1 406**	**674**	**106**	**2 187**	**7 873**	**1 534**	**9 406**	**11 593**	**100**
	12.1%	*5.8%*	*0.9%*	***18.9%***	*67.9%*	*13.2%*	***81.1%***	*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

The CEB uses Interest Rate Swaps (IRS), Currency Interest Rate Swaps (CIRS) and Foreign Exchange (Forex) swaps to hedge market risk on its lending, investment and funding transactions.

Figure 49: Notional Derivatives outstanding by maturity and by derivative type as at 31.12.2023

In € million	< 1 year	1 to 5 Y	5 to 10 Y	> 10 years	Total
TOTAL	**7 795**	**23 208**	**12 296**	**7 194**	**50 493**
Interest Rate Swap	3 620	13 011	11 537	6 969	35 138
Currency Interest Rate Swap	2 389	10 196	760	225	13 569
FX Forward	1 786				1 786
% of Total	*15.4*	*46.0*	*24.4*	*14.2*	*100.0*

The minimum rating required for swap counterparties at the trade date must be 6.5 (BBB+).

Derivatives transactions require prior credit clearance of the counterparty by the Credit Risk Committee and the signing of an ISDA[1] Master Agreement and a Credit Support Annex (CSA) collateral agreement with the counterparty. Thus, the CEB has signed ISDA agreements and CSA with all its derivative counterparties, of which seventeen are two-way contracts that allow to adapt to market conditions and ensure the best possible funding cost. While the two-way contracts allow to mitigate the credit risk of the derivative positions in case of favourable variations in their market value, they may increase the potential liquidity needs in case of unfavourable changes. Eligible collateral identified in the CSA agreements may be cash-euro or debt securities whose market price is discounted by applying a haircut, and whose minimum rating must be 7.0 (A-). All swap transactions are valued at their net present value, and positions per counterparty are monitored daily so that additional collateral can be called according to the CSA margin call options ranging from daily to three times per month.

In accordance with CRR2-CRDV[2] regulation to assess the counterparty credit risk (CRR) on derivatives exposures, the CEB uses since 2021 the SA-CCR method considering the nettings agreements and the collateral flows.

1. International Swaps and Derivatives Association.
2. Capital Requirements Regulation (EU) No. 2019-876 / Capital Requirements Directive (UE) No. 2018-878.

At the end of December 2023:

- the Bank had received €449 million and provided €596 million as cash collaterals, covering net present values (negative and positive) of the swaps' portfolio
- the derivatives' notional amount reached €50.5 billion (€43.8 billion at year-end 2022), and their credit risk exposure (Exposure at Default - EAD) was €331 million (€294 million at year-end 2022).

Figure 50: Derivatives by type as at 31.12.2023

In € million	Nominal	EAD SA-CCR
AAA	234	8
AA	19 426	173
A	30 834	151
TOTAL	**50 493**	**331**

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. It is defined as the greatest exposure that would not trigger a call for variation margin, taking into account the mechanics of collateral exchanges in margining agreements.
- *PFE* is the Potential Future Exposure add-on; it represents the potential change in value of trades during this margin period of risk.

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 . 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 2023, the amount for CVA reached €1.56 million and DVA stood at €0.110 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 wi based on its external rating, as shown in Figure 52 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.
-Mi 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 51: 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%

At year-end 2023, the CVA capital charge reached €17.0 million (€213 million of RWA), compared to €16.9 million in 2022 (€211 million of RWA).

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, it applies no capital charge for market risk in the Capital Adequacy Ratio of its risk appetite framework.

Interest rate risk

CEB's framework for interest rate risk management and measurement

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 optional elements embedded in financial instruments.

Interest rate risk management

The CEB manages interest rate risk prudently intending to preserve its financial stability and protect its revenues and capital base. The Bank 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.

Also, the CEB is 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.

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.

Interest rate risk measurement

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 Economic Value of Equity to the supervisory interest rate shocks

The key metric for measuring interest rate risk is the **Sensitivity of the Economic Value of Equity (EVE)** to the supervisory interest rate shock scenarios. This indicator is included in the CEB's Risk Appetite Framework. It measures the sensitivity of the net present value of the static balance sheet, excluding equity, to a change in interest rates. It is calculated according to the methods established by the Basel/EU regulation and the European Banking Authority (EBA). The CEB limits the impact on EVE to the most severe interest rate shock prescribed by the EBA (out of six scenarios), in absolute terms, at 20% of CEB's prudential equity.

Figure 52: Sensitivity of the EVE to the supervisory interest rate shocks as at 31.12.2023

		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%	-11.5%
2	Parallel down	-2.0%	-2.0%	+13.4%
3	Steepener (decrease in short term rates, increase in long term rates)	-1.6%	+0.7%	-2.0%
4	Flattener (increase in short term rates, decrease in long term rates)	+2.0%	-0.4%	+0.3%
5	Short rates up	+2.5%	+0.2%	-3.3%
6	Short rates down	-2.5%	-0.2%	+3.5%

Sensitivity of the Net Interest Income to the supervisory interest rate shocks

The CEB monitors the **Sensitivity of the Net Interest Income (NII)** to changes in interest rates to ensure its income is not significantly affected downwards by changes in interest rates. This metric is calculated 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 2023, the NII sensitivity was -€20.4 million for a parallel +200bp shock of interest rates (resp. €21.7 million for a parallel -200bp shock of interest rates).

Figure 53: Sensitivity of the revenues to the supervisory interest rate shock scenarios as at 31.12.2023

		Supervisory Interest rate shock		Change in the net interest income over a one-year horizon (In € million)
		Overnight rate	10-year rate	
1	Parallel up	2.0%	2.0%	-20.4
2	Parallel down	-2.0%	-2.0%	+21.7

Market risk sensitivities of financial instruments

The Bank monitors the market risk sensitivities of the Securities Portfolios and the derivatives portfolios to measure the potential impact on capital and liquidity.

Interest rate sensitivities of the Treasury Securities Portfolios

At the end of December 2023:

- The fair value of the Amortized Cost Portfolio (ACP) recorded at amortized cost would decrease by €171.6 million for a parallel shift of interest rates of +200bp.
- The fair value of the portfolios recorded at fair value through other comprehensive income (Fair Value through Equity Portfolio (FVOCI) and Short-Term Liquidity Portfolio (STL)) would decrease by €11.3 million in the case of a parallel shift of +200bp of interest rates. These portfolios are not very sensitive to interest rates because they are mostly fair value hedged.

Credit spread sensitivities of the Treasury Securities Portfolios

Credit spread risk 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. At the end of December 2023:

- The market value of the Amortized Cost Portfolio (ACP) which is accounted for at amortized cost would decrease by €171.6 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 €133.0 million for a +200bp parallel shift of credit spreads.

Currency basis sensitivities of the derivative portfolio

At the end of 2023, due to the application of hedge accounting, the main sensitivity factor in the fair value of derivatives is the currency basis spread.

Currency basis risk is the risk that changes in the currency basis spreads[1] affect the fair value of currency swaps.

At the end of 2023, 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 +€0.9 million.

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 31/12/2023.

Figure 54: Interest rate risk amortising profile

31.12.2022 *In € million*	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	1 034						1 034
Financial assets at fair value through equity*	600	1 890	505			-88	2 909
Financial assets at amortised cost							
Loans*	5 049	13 724	824	776	1 106	-902	20 577
Advances	1 243	2 683	1 401			50	5 378
Debt securities	60	15	56	1 015	635	16	1 797
Deposits of guarantees paid	598					0	598
Other assets						2 127	2 127
Sub-total of assets	**8 585**	**18 313**	**2 787**	**1 791**	**1 740**	**1 202**	**34 418**
Liabilities							
Financial liabilities at amortised cost							
Amounts owed to credit institutions and to customers	-44	0	-1	0	0	0	-46
Debt securities in issue*	-14 909	-14 030	-38	0	0	1 084	-27 894
Deposits of guarantees received	-451						-451
Provisions	-1	-1	-5	-39	-257		-303
Other liabilities						-2 206	-2 206
Sub-total of liabilities	**-15 405**	**-14 032**	**-44**	**-40**	**-258**	**-1 122**	**-30 899**
Equity						**-3 519**	**-3 519**
Net during the period	**-6 820**	**4 281**	**2 744**	**1 751**	**1 483**	**-3 439**	
Cumulative net during the period	**-6 820**	**-2 539**	**205**	**1 956**	**3 439**		

*after hedging

1. 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.

Foreign exchange risk

CEB's framework for foreign exchange risk management and measurement

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

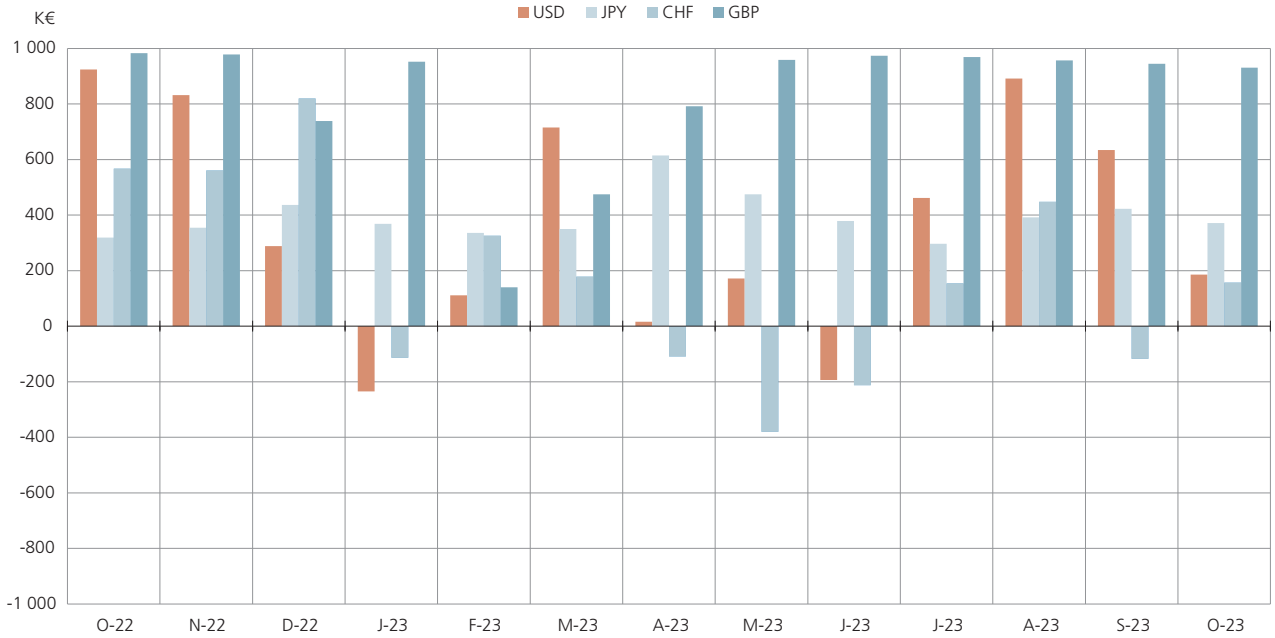
The Bank is naturally exposed to foreign exchange risk as it raises funds in the international capital markets in different currencies and provides loans or may invest funds in currencies other than the borrowing currencies. CEB's strategy is to take no currency positions and to systematically hedge assets and liabilities in euros using derivative instruments. Foreign exchange risk is managed by the Finance Directorate and monitored by the Risk & Control Directorate which provides independent oversight of all significant market risks to the CEB's Administrative Council.

The Bank measures the residual currency exposures –arising mainly from net interest cash flows in currencies— by calculating spot net open currency positions: assets minus liability per currency including both on- and off- balance sheet positions. The spot net open currency is calculated at the end of each month. The limit for the net open position per currency is €1 million. There is a five-working-day time span to cover any position exceeding the limit.

Spot net open currency position by currency

The figure below shows the foreign exchange (FX) exposure by main currency in 2023.

Figure 55: Month-end Spot Net Open Position in 2023



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. It may be significant because, unlike commercial banks, the CEB does not collect customer deposits, and does not have access to refinancing through central banks.

CEB's framework for liquidity risk management and measurement

Liquidity risk 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.

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 authorisation approved by the Administrative Council.

To ensure sufficient liquidity in stressed conditions, the Bank holds a liquidity buffer consisting of cash and portfolios of highly rated and liquid securities that can be sold or transformed into cash for liquidity needs without significant losses. The CEB refers in particular to the notion of high-quality liquid assets (HQLA) defined by the Basel and CRR regulation for the Liquidity Coverage Ratio (LCR). At the end of 2023, the amount of HQLA after haircuts amounted to €4.2 billion: 75% in bonds and 25% in Central Bank deposits (see LCR below).

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.

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.

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.

CEB's Financial and Risk Policy defines several types of liquidity indicators to be monitored, with complementary properties and objectives:

- The Risk appetite Framework includes the Survival Horizon and the Regulatory Liquidity ratios LCR and NSFR
- For follow-up purposes, the CEB also monitors the Short Term Liquidity Ratios used by rating agencies, and the static liquidity gaps, which measure potential gaps between the maturity profile of assets and liabilities.

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 liquid assets and collateral requirements on derivatives, both determined on the basis of internally developed models. The minimum risk appetite framework level of this indicator is 12 months.

For monitoring purposes and comparison with the SH metric, the CEB also calculates the self-sufficiency period (SSP), that is not part of CEB's Risk Appetite Framework. The SSP does not include the sale of non-matured liquid assets as the SH does.

Figure 56: Annual evolution of SH and SSP

	2023	2022
Survival Horizon (unit: month)	17	15
Self-sufficiency period (unit: month)	9	9

Regulatory Liquidity Ratios LCR and NSFR

Although not subject to the international regulatory framework, the Bank 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, with its regulatory minimum of 100%.

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

At the end of December 2023, LCR reached 378%, and its 12-month moving average was 415%.

Its volatility is due to the significant cyclicity and size of monetary and debt repayments, and also to the effect of capping of inflows at 75% of outflows as required by regulation. This ratio tends to evolve in a range [250%-550%] since the mapping changes in June 2021.

The very comfortable level reflects CEB's intrinsic characteristic of absence of collecting deposits and no access to the central bank for refinancing in emergency situation.

Figure 57: Annual evolution of LCR

Figures in € million after regulatory weighting	2023	2022
Liquidity Coverage Ratio - LCR = A/B	**378%**	**554%**
Central Banks Deposits	1 030	1 149
Bonds	3 171	2 602
A - High-Quality Liquid Assets (HQLA)	**4 202**	**3 751**
Outflows:	2 571	2 706
- of which Stock (financial commitments) *	1 832	1 868
- of which Debt repayment (Bond & ECP)	66	148
Inflows **:	1 459	2 030
- of which Money Market (before capping)	1 253	2 399
B - Net outflows over the next 30 days	**1 112**	**677**

* Average drawdown: 28% (2023) and 29% (2022)
** After eventual capping at 75% of outflows

Figure 58: Detailed data of the LCR at year-end 2023

31.12.2023	Gross Amount	Weight	Weighted Amount
LEVEL 1 – Central bank reserves	1 030 443 127	100%	1 030 443 127
LEVEL 1 – Securities portfolio	2 487 509 905	100%	2 487 509 905
LEVEL 2A – Securities portfolio	804 651 541	85%	683 953 810
			Total HQLA = 4 201 906 842
Deposits by financial customers	10 090 983	100%	10 090 983
Deposits by other customers	35 593 746	40%	14 237 498
Credit Facility to non-financial customers other than retail customers	3 599 572 285	10%	359 957 229
Credit Facility to regulated credit institutions	2 135 272 944	40%	854 109 178
Credit Facility to other customers	618 405 099	100%	618 405 099
Credit Facility with value date within 30 days	109 555 142	100%	109 555 142
Loan MM (incl. FW)	52 166	100%	52 166
Others Liabilities (Bond issued by CEB)	65 667 636	100%	65 667 636
Outflows from derivatives	63 336 863	100%	63 336 863
Additional outflow for adverse scenario on derivatives	475 830 000	100%	475 830 000
			Total Outflows = 2 571 241 794
Due from other financial customers (Money Market)	1 252 853 105	100%	1 252 853 105
Due from other financial customers (Nostro excl. Central Bank)	6 395 555	100%	6 395 555
Due from SOV, MDB and public sector entities	52 328 003	50%	26 164 002
Due from other financial customers (Loan Ord)	80 208 387	100%	80 208 387
Due from securities maturing within 30 days	50 617 104	100%	50 617 104
Inflows from derivatives	42 822 326	100%	42 822 326
			Total Inflows = 1 459 060 479
			Net Outflows after capping = 1 112 181 315
			Liquidity Coverage Ratio = 377.8%

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 (mainly Financial vs non-Financial counterparties, and more or less than one-year maturity).

At the end of December 2023, the NSFR reached 136% and its 12-month moving average was 137%.

This "long-term liquidity" ratio benefited from the increase in stable liquidity (debt issuing) experienced during the year.

These comfortable levels show a stable financing capacity.

Figure 59: Annual evolution of NSFR

Figures in € million after regulatory weighting	2023	2022
Net Stable Funding Ratio - NSFR (A/B)	**136%**	**130%**
Debt (bond and ECP issued)	24 858	22 606
Prudential Equity	3 519	3 442
Others	18	15
A - Available Stable Funding	**28 395**	**26 063**
Bonds	1 114	1 176
Loans to financial customers (o/w Money Market)	5 714	5 225
Loans to non-financial customers	11 838	10 979
Others	2 264	2 654
B - Required Stable Funding	**20 930**	**20 035**

Figure 60: Detailed data of the NSFR at year-end 2023 – in € million

AVAILABLE STABLE FUNDING – ASF	< 6M	6-12M	> 12M	Weight	
Regulatory Capital Tier 1			3 518.9	100%	3 518.9
Bond issued > 1Y			24 660.8	100%	24 660.8
Bond issued 6M to 1Y		394.5		50%	197.2
Bond issued < 6M	3 809.4			0%	0.0
ECP issued 6M to 1Y		0.0		50%	0.0
ECP issued < 6M	0.0			0%	0.0
Term Deposit > 1Y			0.0	100%	0.0
Demand Deposit from **non-financial** entity < 1Y		35.6		50%	17.8
Demand Deposit from **financial** entity < 6M	26 761 717			0%	0.0
All other liabilities		1 989.2		0%	0.0
Net Derivative Liabilities		161.9		0%	0.0
Non-weighed total + Average weighting		**34 580.3**		**82%**	**28 394.7**

REQUIRED STABLE FUNDING – RSF	< 6M	6-12M	> 12M	Weight	
Central Bank reserves		1 030.4		0%	0.0
Unencumbered HQLA L1 assets with RW = 0%		1 562.5		0%	0.0
Unencumbered HQLA L1 assets with RW > 0%		925.0		5%	46.3
Unencumbered HQLA L2A assets with RW = 20%		804.7		15%	120.7
Unencumbered non HQLA assets < 12M		800.3		50%	400.1
Unencumbered non HQLA assets > 12M			643.7	85%	547.2
Unencumbered loans to **financial** customers < 6M with HQLA L1 (RR)	0.0			0%	0.0
Unencumbered loans to **financial** customers < 6M	5 431.7			15%	814.8
Unencumbered loans to **financial** customers 6M to 1Y		97.6		50%	48.8
Unencumbered loans to **financial** customers > 1Y			4 850.1	100%	4 850.1
Unencumbered loans to **non-financial** customers < 1Y		176.6		50%	88.3
Unencumbered loans to **non-financial** customers > 1Y with RW < 35%			10 401.0	65%	6 760.6
Unencumbered loans to **non-financial** customers > 1Y with RW > 35%			5 869.4	85%	4 989.0
All other assets		1 825.4		100%	1 825.4
Committed credit facilities		6 462.8		5%	323.1
Net Derivative Assets + Add-on		115.4		100%	115.4
Non-weighed total + Average weighting		**40 996.6**		**51%**	**20 929.8**
					Net Stable Funding Ratio = 135.7%

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 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 calculation takes into account stressed economic and market conditions by means of credit and liquidity haircuts depending on asset class, rating, and maturity.

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 2023, these ratios are all above 100%.

Figure 61: Short-term Liquidity Ratios as at 31 December 2023

		1 Month	3 Months	6 Months	12 Months
Short-term liquidity ratios		**565%**	**249%**	**163%**	**147%**
Sources of liquidity (A)		**6 527**	**9 291**	**11 148**	**12 199**
Nostri account	100%	1 037	1 037	1 037	1 037
Money Market maturing before y months	Credit Risk	1 171	3 753	5 107	5 107
Money Market maturing after y months	0%				
Bonds maturing before y months	Credit Risk	165	726	1 457	1 536
Bonds maturing after y months	Liquidity Risk	4 035	3 460	2 743	2 666
Capital reimbursement on loans before y month	Credit Risk	120	316	804	1 854
Capital reimbursement on loans after y month	0%				
Uses of liquidity (B)		**1 155**	**3 728**	**6 828**	**8 269**
Repayment of issues (before y months)	100%	0	1 407	3 809	4 204
Disbursement of financing commitment (before y month)	100%	395	1 259	1 787	2 484
Stress test on collateral outflows		760	1 062	1 232	1 606

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 62 shows the maturity profile assets and liabilities, namely the undiscounted principal and interest cash flows of financial instruments until their maturity[1].

Figure 62: Maturity profile of financial assets and liabilities – in € million

31.12.2023	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	1 034					1 034
Financial assets at fair value through equity	116	581	787	908	761	3 152
Financial assets at amortised cost						
Loans	52	232	2 024	10 332	11 414	24 053
Advances	1 259	2 729	1 433			5 420
Debt securities	64	21	100	936	1 018	2 138
Deposits of guarantees paid	598					598
Sub-total of assets	**3 123**	**3 562**	**4 344**	**12 175**	**13 193**	**36 397**
Liabilities						
Financial liabilities at amortised cost						
Amounts owed to credit institutions and to customers	1	1	5	25	18	50
Debt securities in issue	72	1 564	3 045	18 042	7 838	30 561
Deposits of guarantees received	451					451
Social Dividend Account	36					36
Sub-total of liabilities	**559**	**1 565**	**3 050**	**18 067**	**7 856**	**31 098**
Off-balance sheet						
Financing commitments	-395	-889	-1 200	-3 544	-485	-6 513
Term financial instruments						
To be received	919	2 390	2 135	12 153	2 277	19 873
To be paid	-952	-2 287	-2 250	-12 237	-1 938	-19 665
Sub-total of off-balance sheet	**-428**	**-786**	**-1 315**	**-3 628**	**-147**	**-6 304**
TOTAL	**2 136**	**1 210**	**-22**	**-9 520**	**5 191**	**-1 005**

1. 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.

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 Approach 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 2023, the operational risk capital charge amounted to €23.0 million, compared to €21.9 million as at 31 December 2022.

CLIMATE RISK

The CEB recognises that climate risk is of significant importance. The CEB views climate-related risks as an interconnected set of risks and opportunities with the potential to impact other risk categories, such as credit risk, interest rate risk, foreign exchange risk, liquidity risk, and operational risk, rather than as a stand-alone type of risk.

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 conducts risk mapping exercises to identify and assess how climate risk drivers impact its risk profile and development opportunities. Various risk categories for CEB such as credit risk, market risk, liquidity risk, operational risk and reputational risk, are impacted in the following way:

Credit risk. Impact on credit risk due 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.

Development 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, the Bank is continuously sharpening its risk management approach based on international best practices and cooperation with peer MDBs on analysis and methodologies. Physical climate risk assessment is

included in the Bank's analysis of its direct lending operations and all the new operations from January 2024 are screened against the Paris Agreement objectives. Furthermore, the Bank has expanded climate risk scorecards to inform credit-decision making.

About 74% of the Bank's loan portfolio is exposed to sovereign and local or regional government counterparties, which overall are considered to have lower climate-related risks than other sectors due to their broad revenue sources and the capacity to generate income via policy measures.

As of 31 December 2023, after accounting for credit risk mitigation measures[1], 44.5% of the Bank's loan outstanding exposures are associated with sovereign counterparties. The climate scorecard for sovereign counterparties evaluates and scores three elements, including two climate risk categories: physical risk and transition risk, by providing specific climate scores from 1 (very high risk) to 5 (very low risk). Overall, the Bank's average weighted sovereign loan exposure to physical climate risk is considered to be low, given that most of the CEB's member countries have a high capacity to mitigate specific physical hazards. The Bank's average weighted sovereign loan exposure to transition risk and readiness level respectively are considered to be medium. The medium readiness level reflects the Bank's exposure to countries assessed based on their ability to use investments for adaptation actions.

As of 31 December 2023, 29.7% of the Bank's loan exposures belong to local or regional government (LRG) counterparties. In 2023, the Bank introduced the climate scorecard for local or regional government counterparties. The model assesses and scores two elements for climate risk categories - the physical risk and the transition risk. The Bank's overall weighted average loan LRG exposure to physical climate risk and transition risk is considered to be medium.

For more on climate risk management, please refer to the 2023 Task Force on Climate-Related Financial Disclosure Report.

1. i.e. direct government guarantees.

APPENDIX

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 2023, the CEB had 43 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, Türkiye and Ukraine.

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.

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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Member Countries

The CEB has 43 member states who are the Bank's shareholders. All countries that are members of the Council of Europe are eligible to join the CEB.

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 ★
Republic of Moldova ★
Montenegro ★
Netherlands
North Macedonia ★
Norway
Poland ★
Portugal
Romania ★
San Marino
Serbia ★
Slovak Republic ★
Slovenia ★
Spain
Sweden
Switzerland
Turkïye ★
Ukraine ★

★ Target countries

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