BERENBERG

PARTNERSHIP SINCE 1590

# RISK REPORT

Reporting date: 31 December 2024

BERENBERG
PARTNERSHIP SINCE 1590

# Table of Contents

# 1. Overview

## 1.1 Summary of the risk situation

The Bank's risk situation was stable in the financial year despite the continuing international political and economic uncertainties. The defensive risk strategy in conjunction with the established business model once again proved its worth against this backdrop. Based on a comprehensive evaluation of the loan portfolio, the risk provisioning is adequately recognised. Market price risks have increased in connection with our business model (customer-induced proprietary trading) and the favourable business development in the second half of the year and are subject to our comprehensive management and monitoring processes. The level of interest rate risk (IRRBB), which remained stable on average over the year and tended to fall slightly, has developed in line with the interest rate environment and the continued high level of deposits, which is associated with correspondingly pleasing interest income. No unusual developments can be recognised in operational risks, which we manage using an advanced approach. Our liquidity, which is characterised by high customer liabilities, remained at a very comfortable level over the course of the year in line with our expectations, which is also reflected in the key performance indicators (LCR, NSFR). Our structural asset/liability structure has not changed. The economic risk cover increased over the course of the year in line with the pleasing earnings performance. However, the BaFin requirement that supplementary capital components (subordinated capital) and additional Tier 1 capital (AT1) are not recognised as risk cover potential in the economic perspective, which has been in force since 2023, has led to a lower level compared to previous years. This resulted in higher utilisation rates at times, which nevertheless remained at a comfortable level of around 72% on average. The regulatory perspective was also characterised by a temporary increase in risks, particularly in the second half of the year, while own funds remained stable. Against this backdrop and in order to maintain adequate buffers for risk-taking, further additional core capital was raised at the end of the year (AT1 capital). Our simulations of the regulatory CRR III effects from 2025 onwards do not result in a significant increase in risk in the short term. This is due, among other things, to the postponement of the entry into force of the FRTB methodology for market price risks. Overall, the risk figures do not show any unexpected changes. However, the usual fluctuations within the framework of our business model (credit fund business, customer-induced proprietary trading in the equities segment) are evident. Our existing range of risk management measures in conjunction with the established risk management processes have proven their worth under the given framework conditions. All key performance indicators are within an appropriate range. This also applies in particular to risk-bearing capacity.

## 1.2 General conditions

Our cautious, defensive risk strategy was maintained in the reporting year. The deliberate focus on service-orientated business areas that tend to be less risky is of particular importance against the backdrop of sometimes uncertain framework conditions. An unchanged conservative risk appetite is at the heart of our risk culture and was reviewed and confirmed by the Executive Board as part of the annual strategy and planning process. Typical banking risks such as credit and market price risks are taken to an appropriate extent to ensure the long-term continuation of business activities. This risk philosophy forms the basis for our comprehensive risk management and includes the specification of risk limits for targeted implementation. The risk management of our branches is centralised at our head office in Hamburg.

The Bank's *liquidity position* was more than comfortable throughout 2024 and remained stable at a very high level characterised by diversified customer deposits. The reasons for the high level of our deposits, which generate pleasing margins on the income side, continue to be the extensive USD deposits from the Shipping segment, a stable customer base in Wealth Management and the general growth of the operating business. The changes over the course of the year were in line with the usual volume fluctuations and in line with our expectations. We invest our structural surplus of liabilities in a highly liquid portfolio, which is dominated by securities from German public-sector issuers with short residual maturities, as well as in central bank balances at the Deutsche Bundesbank. We hold some of the bonds in our interest book in the investment portfolio in order to ensure consistency with the fixed-interest current accounts also held there. At the end of the year, a partial volume of our valuation units totalling EUR 1.3 billion was also allocated to the investment portfolio (items with remaining terms of more than three years).

Against the backdrop of our strategic focus on service-oriented business areas, our risk management is characterised by the use of modern risk measurement methods and monitoring processes that are optimally aligned with the structure of the company. Based on a comprehensive risk inventory, counterparty default risks, market price risks, operational risks and liquidity risks are regularly analysed as key risk types. Reputational, event and investment risks are assessed as part of operational risk management. Potential declines in earnings are also taken into account. This is done, among other things, by analysing adverse scenarios and indirectly through conservative planning and definition of the available risk cover in the risk-bearing capacity (ICAAP = Internal Capital Adequacy Assessment Process). In addition, a potential decline in portfolio commissions, which are deducted from the accumulated profits, is taken into account, as this could result in economic burdens from fixed administrative costs (operational-strategic risk of the portfolio business). In addition, there is a limit reserve of currently 10% of the risk coverage potential (RDP) - i.e. only 90% is available for risk-taking. In addition, various stress combinations are formed as part of the ICAAP framework and a reduction in the cover pool is also simulated ("protection of balance sheet equity").

Our management-oriented implementation of the regulatory requirements for the ICAAP once again proved to be effective in this reporting year and is constantly being developed further. In 2024, the focal points included an update and further development of the stress tests based on validation activities, the increasing consideration of ESG aspects (including explicit inclusion in the risk inventory, climate-related stress tests) and the regular review of the conservatism of the approaches in the economic perspective ("conservatism check"). The merging of capital planning, income statement planning and risk-bearing capacity as well as the parallel consideration of normative and economic perspectives are firmly integrated into the standard processes of the Risk & Finance division. This enables us to comprehensively ensure the two associated strategic objectives of "continuation of the institution" and "protection of creditors". Both perspectives are based on the fundamental principle of the risk-bearing capacity calculation, which involves comparing the risks identified with the available risk cover.

The *normative perspective* is based on the regulatory requirements, particularly with regard to the institution's capitalisation. Different scenarios are analysed as part of the three-year integrated capital planning. On the one hand, we analyse a baseline scenario that includes business performance under normal economic conditions. On the other hand, an adverse scenario is analysed, which assumes a severe economic downturn that lasts well beyond one year. This scenario is based on extensive macroeconomic and bank-specific assumptions. The scenario is not only simulated in isolation for individual parameters. Rather, the adverse scenario represents an integrated stress test within the meaning of the Minimum Requirements for Risk Management (MaRisk) with effects on all relevant control parameters. It also includes management measures to counteract the crisis. Our results continue to show that the bank could comfortably withstand such extreme scenarios from its own assets and earnings power. Current decisions by the banking supervisory authorities on changes to capital requirements are analysed if relevant with regard to their impact on the bank's capital situation and included in the planning. The regulatory capital ratios are complied with.

For the *economic perspective*, the risk coverage potential is determined on a present value basis. The starting point is the balance sheet capital figures in accordance with the German Commercial Code (HGB), supplemented by hidden reserves and/or liabilities. In our very conservative approach, planned profits are generally not taken into account. For the aforementioned risk categories, we quantify the loss potential of the business divisions on the basis of the value-at-risk (VaR) principle. The VaR specifies the upper loss limit for a defined probability level. Risk quantification is carried out using established present value model calculations at a high confidence level of 99.9% and with a risk observation horizon of one year. The value-at-risk methods reflect the loss potential under normal market conditions. In order to view the risk situation from a more extreme perspective, we supplement the risk assessments with suitable historical and hypothetical *stress tests*.

The regular comparison between risk and risk cover funds is based on these two different approaches to the Bank's overall risk position. Risk-reducing diversification effects across the various risk types are deliberately neglected by conservatively adding the capitalisation amounts for the risk categories.

As part of parallel monthly and quarterly analyses, we compare the results of various risk type-specific and overarching stress scenarios with the available economic risk cover. The results should not exceed the cover funds. We also carry out event-driven stress tests as required in order to assess current crisis situations. In the sense of an inverse stress test, combined scenarios are calculated which, if they were to materialise, would result in a complete commitment of the available risk cover funds.

With an increased average risk utilisation of 72% (previous year: 55%), not all of the economic capital available to the Bank was tied up by the business divisions in the reporting year. In line with our strategies with regard to the overall result, this illustrates the appropriate opportunities of the business activities in relation to the risks taken.

The charts below show the distribution of economic capital commitment across the risk categories and the Bank's business divisions.

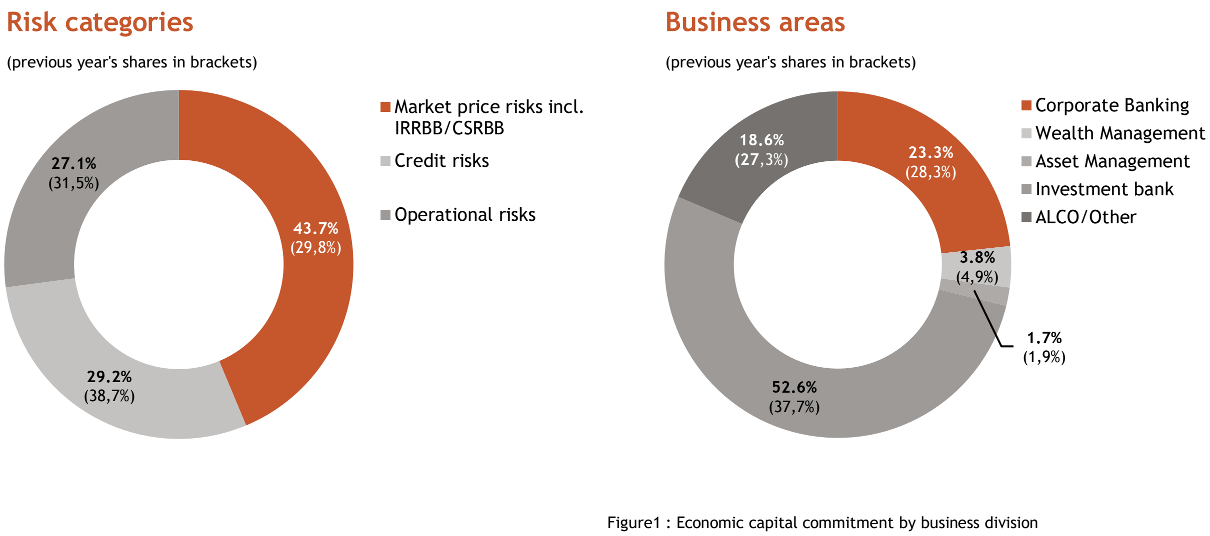


**Figure 1: Economic capital commitment by risk category and business division**

The Executive Board bears overall responsibility for risk management and defines the framework conditions for managing the various types of risk. In accordance with MaRisk, the Risk & Finance division operates independently of all market divisions in terms of organisational structure and ensures a constant and timely flow of information to the Executive Board and the Board of Directors of the Bank in close cooperation with other organisational units. Risk Controlling is responsible for developing and supporting the systems for overall bank and risk management. The Risk & Finance unit integrates the Risk & Regulatory Reporting (Pillar I and II risk view), Controlling & Accounting (internal and external/commercial P&L view), ESG, Projects & Governance (incl. validation of risk models), Accounts & Disclosure and the Data Protection and Information Security units. The targeted linking of business performance figures from Controlling and the commercial law results from Accounting with the economic and normative risk indicators enables us to achieve a comprehensive overall bank perspective when assessing risks and to make these available to the Executive Board as part of the reporting process. The division regularly carries out a comprehensive risk inventory and compares the risk amounts of the various risk types with the available risk coverage potential. In line with the strategy, the risk management processes ensure that there are no excessive concentrations of risk either within the various risk categories or across risk types.

Berenberg uses the proven model of three lines of defence in risk management. As the *first* line of defence, the operational management of the Bank's various divisions is responsible and accountable as risk owners for assessing, managing and reducing risks. This includes the implementation and monitoring of organisational security measures as well as control activities anchored in the processes. As part of the second line of defence, the Risk & Finance and Compliance units facilitate and monitor the implementation of effective risk management and ensure independent risk reporting to the company's management. As the third line of defence, the independent internal audit department uses a risk-oriented approach to assess how effectively the company manages its risks and how the first and second lines of defence fulfil their tasks.

Due to geopolitical conflicts, economic uncertainties continued in the reporting year, which also repeatedly lead to significant movements on the financial and capital markets. The Bank is not directly affected to any significant extent by existing risk positions in view of the strategic business area. All existing sanction measures are of course consistently taken into account (mainly payment transactions and compliance). No need to go beyond the existing stress tests has been identified for credit risks. Our Credit Risk Management (back office) closely monitors the development of observation cases. By definition, this includes "significant deterioration in risk", e.g. due to foreseeable but not yet materialised covenant breaches or potentially insufficient cash flows over the next 12 months. This currently relates in particular to property-related exposures, which, at less than 10%, only make up a small proportion of our customer loan portfolio, as well as individual cases in the Structured Finance segment. There are no exposures to the insolvent property developers that have become known (including SIGNA Group, Gröner Group). There was no unusual increase in operational risks in the reporting period. The Bank's position with regard to the ICAAP is robust from both a normative and an economic perspective. Although we also refinance ourselves via customer deposits, we only require a small portion of these for refinancing due to our business model (limited credit volume, among other things). In addition, unlike many other banks, we do not engage in extended maturity transformation; our average fixed interest rate is less than one year. The existing buffers in the risk cover funds (normative and economic) are currently sufficient to absorb potential additional crisis effects on the bank. The existing stress tests cover the current scenario, but are supplemented and adjusted as necessary depending on the situation. Current regulatory developments (CRR III, ESG, etc.) are closely monitored and the impact on the Bank as a whole is analysed. The 8th MaRisk amendment has been implemented.

## 2. Significant risks

As part of our *risk inventory*, risks as defined by MaRisk are regularly identified and categorised in terms of their materiality. MaRisk requires suitable indicators for the early identification of risks, which can be based on quantitative and/or qualitative risk characteristics depending on the type of risk. Information from other monitoring units (compliance, service provider management, information security, data protection, etc.) is included in the risk inventory to identify risks. The derivation of material risks in the course of the risk inventory is carried out using a standardised analysis process including comprehensible documentation. In the first step, a catalogue of possible main and sub-risk types is considered in terms of their relevance to the institution (relevant/not relevant). In the next step, each relevant sub-risk type is analysed with regard to the impact of ESG aspects. This is followed by a materiality classification on a scale already established at Berenberg for other risk assessments (OpRisk self-assessment, information security, business continuity management, service provider management). This contains 6 defined gradations. The materiality classification is divided into two considerations: firstly, the impact on the net assets and results of operations and secondly, the impact on the liquidity situation. Where possible, quantitative key figures are compared with predefined financial thresholds. If this is not possible, a qualitative expert judgement is made.

Our Credit Risk Management monitors the **counterparty default risks** entered into using a comprehensive limit system. The management of default risks at overall portfolio level is supported by targeted analyses from Risk & Finance. **Market price risks** arise both from short-term positions in the trading book and from strategic positions in the liquidity reserve and are closely monitored by Risk Controlling. **Interest rate risks and credit spread risks** in the banking book round off the risk profile. Risk Controlling also ensures that **operational risks** are quantified using advanced methodological procedures, the extent of which is limited by stringent processes, the appropriate qualifications of our employees and a comprehensive set of rules including emergency planning. The Treasury division is responsible for managing **liquidity risks** together with Money Market. Risk & Finance is systematically involved in monitoring and regularly validates the results.

The success of the business divisions is monitored on the basis of a monthly overall calculation, taking into account the risks taken. In this context, volatile income components and possible resulting changes in earnings are also analysed. Daily reports on the most important income statement items and scenario planning serve as an early warning system. Targeted diversification across business areas and markets is carried out in line with strategy. Risk Controlling provides management with a reporting system that enables report recipients to analyse results and risks at various aggregation levels.

The Bank's Internal Audit department regularly reviews the organisational arrangements for managing, monitoring and controlling the various risk categories based on defined guidelines. Risk & Finance and Credit Risk Management regularly inform the Risk Monitoring Committee appointed by the Bank's Board of Directors, which meets three times a year and on an ad hoc basis as required.

Our risk management guidelines are set out in writing in a risk strategy that is accessible to all employees

## 2.1 Counterparty default risks

Counterparty default risks arise on the one hand from the lending business with our customers in the Corporate Banking (corporate customers), Wealth and Asset Management (private and institutional customers) and Investment Bank (strategic customers) divisions. On the other hand, counterparty default risks result from our own securities holdings (issuer risks), derivative transactions (counterparty risks) and from our money market investments in the interbank business. Investment risks are of secondary importance for Berenberg, but are integrated into the risk management processes. In our unchanged conservative credit risk strategy, we have set volume and maturity limits for the individual segments of the lending business in line with the risk appetite defined by the Executive Board. Stringent credit processes, existing collateralisation, the use of syndication options, appropriate risk premiums and the fundamental avoidance of structural subordination as well as the consideration of ESG risks are key components. Individual cases that deviate from these guidelines may be undertaken in consideration of the risk/return ratio, but must be documented accordingly and approved by the Executive Board.

As in previous years, the very high level of customer deposits led to a high investment requirement, as only a portion of the available liabilities is required in the traditional lending business. In line with our investment strategy, only a relatively small proportion of the surplus liquidity was placed on the money market, with these investments being made under the following premises:

- Trade only with selected banks with high credit ratings
- Targeted approach of development banks with guarantor liability
- Low limits per institution (or group of institutions) with the aim of achieving the broadest possible diversification

The structural liquidity surplus from the customer business is predominantly invested in bonds with the highest credit ratings. We continue to place high demands on the credit security and market liquidity of these investments in order to minimise potential price volatility. Our liquidity reserve (including promissory note loans) and fixed assets are dominated in nominal value by German public-sector issuers at 45% (previous year: 38%) and securities guaranteed by Germany or a German federal state at 55% (previous year: 62%). The average remaining term of the portfolio is 2.4 years (previous year: 1.9 years), meaning that there is a correspondingly moderate risk of spread changes in the portfolio. Due to improved investment opportunities in the preferred investment universe, a lower proportion of the liquidity surplus remained in the ECB deposit facility at EUR 0.8 billion (previous year: EUR 2.2 billion).

The management is informed about the bank exposure through regular reports. The allocated bank limits are regularly reviewed so that further measures can be initiated promptly if necessary. When assessing banks, we not only rely on the assessments of rating agencies, but also underpin our decisions by analysing annual reports and evaluating current market information.

Counterparty default risks are managed with the help of a comprehensive limit system, which we use to limit risk concentrations, among other things. The counterparty default risk from derivatives is also included by taking replacement risks into account. We achieve a reduction in counterparty default risks in this segment through comprehensive collateral management with our counterparties. This standard market form of ongoing collateralisation of OTC transactions is practised not only with banks, but also with a broad base of institutional clients. The Credit Risk Management department is responsible for monitoring credit risks independently of our sales units. In addition to carrying out regular monitoring activities, this unit also votes on credit decisions on the basis of our authorisation regulations in addition to the front office in accordance with MaRisk. The defined authorisation system limits the scope of action of individual account managers and involves the entire management in all key credit decisions. All credit exposures are subject to a continuous resubmission process with an annual review of creditworthiness. The limits are supplemented by a large number of organisational measures and regulations on the collateralisation of credit commitments.

Our Credit Risk Management closely monitors the development of the cases under observation. This also applies to exposures relating to property, although at around 8% these only make up a small proportion of our customer loan portfolio, as well as individual cases in the Structured Finance segment. There are no exposures to the SIGNA Group (René Benko) and the Gröner Group, which is also insolvent

In addition to the Executive Board, the Board of Directors is also informed about the structure of the lending business and the associated risks via a quarterly credit portfolio report as part of quarterly reporting. In addition, the Executive Board receives monthly overviews with the key structural features and changes. Additional analyses by the Risk & Finance department support the management of credit risk at overall portfolio level as required.

In connection with the management of the overall portfolio, historical credit defaults from previous financial years are also collected and analysed. By regularly validating our credit risk calculations, we also check the model results against this default history. The statistically expected credit loss per financial year at portfolio level is derived on the basis of the data from our credit portfolio model and the long-term historical average of credit defaults. This expected loss is taken into account in the loan conditions by calculating standard risk costs. In addition to the loan amount and the loan collateralisation, the standard risk costs of a loan commitment are influenced in particular by the borrower's rating. A rating system for corporate customers available to the relationship managers and the back office on the Bank's intranet enables a prompt creditworthiness analysis to be carried out using the borrower's balance sheet data. In addition to balance sheet ratios, qualitative factors of the borrower are also taken into account when determining the rating class. For exposures with a project financing character in the property and shipping segments, we use rating procedures developed in-house that include cash flow projections of the assets to be financed as a key influencing factor. Structured finance is also assessed using a specially developed rating tool that explicitly takes leverage into account. In our portfolio of ship financing, which is limited in size compared to the overall portfolio (average share of 7% for the Shipping segment over the course of the year), we pay attention to short loan terms and attach great importance to excellent collateralisation of the exposures. The same applies to real estate, particularly in light of current market developments (average share of 8% for the Real Estate segment over the course of the year).

The standard risk costs resulting from the creditworthiness analyses are available in our IT systems at all required aggregation levels. The standard risk costs, which add up to the statistically expected loss at overall bank level, merely represent a long-term average of credit defaults over time, around which the actual defaults fluctuate. A potential deviation of defaults from this expected value must therefore be taken into account as an additional risk component. A statistical credit portfolio model based on the CreditRisk+ methodology is used to quantify the amount of the unexpected credit default ("unexpected loss") at portfolio level, which is included in the risk-bearing capacity calculation (ICAAP) with the defined quantile. This approach, which is close to the present value, is supplemented by a regular comparison, which includes ensuring the conservatism of the approaches used at the level of risk-bearing capacity. The Bank's economic capital serves as risk cover for unexpected credit risks. In accordance with MaRisk, our analyses of the commitment of economic capital are supplemented by suitable stress considerations such as a significant deterioration in the probabilities of default, the loss of collateral values, the default of individual major customers or negative influences from ESG developments (sustainability risks). In order to manage ESG risks in the loan portfolio even more effectively in future, we have developed special scoring procedures. In the target scenario, each borrower will be categorised on the basis of suitable ESG characteristics. We plan to integrate the results into our credit processes and risk reporting.

The quantitative methods we use to assess counterparty default risks are regularly validated and further developed as required. However, due to the lack of a sufficiently large number of defaulted borrowers for statistical purposes, among other things, it is still not possible to recognise these methods as an IRB approach for regulatory purposes. The Bank has made a conscious decision to use the regulatory standardised approach (CRSA) for regulatory purposes. This includes the comprehensive method for recognising financial collateral in accordance with CRR. As at 31 December 2024, this resulted in a capital commitment from counterparty default risks of EUR 80.1 million (previous year: EUR 84.4 million).

In the annual financial statements, the NPL ratio increased to 6.1% as a result of the credit assessment. This is the first time that it has exceeded the threshold of 5.0% stipulated in MaRisk. Further requirements for the risk management of this sub-portfolio would arise if this threshold were exceeded for two consecutive quarters. This essentially comprises the creation of a specific NPL strategy (including an implementation plan and options for action), intensive ongoing monitoring using defined key performance indicators (KPIs) and risk reporting.

## 2.2 Market price risks

Market price risks for positions in the Bank's trading and banking book result from fluctuations in prices and volatilities in interest rates, equities and currencies.

Traditional proprietary trading continues to serve merely as a supplement to our service-oriented business activities and takes place within very tightly defined limits. Market price risks from proprietary trading positions are managed using an efficient risk measurement system. Value-at-risk figures are calculated daily using a Monte Carlo simulation for all positions involving market price risks. The model is based on an enhanced methodology that uses a fat-tail approach to map the edges of the value change distributions so that certain unusual market movements in the individual financial instruments are taken into account more cautiously. A confidence level of 99% and a holding period for financial instruments of ten trading days are assumed for these value-at-risk calculations in the short-term oriented ongoing management.

In accordance with regulatory standards, an extremely conservative parameterisation with a confidence level of 99.9% and a longer holding period corresponding to the risk horizon of one year (250 days) is also carried out as part of the economic risk-bearing capacity. The risk factors considered for the ICAAP perspective are discount factors in the interest rate area, equity time series or equity indices in the equity area and exchange rates in the foreign currency area with a historical observation period of five years. Value-at-risk is calculated using equally weighted historical observations.

The following overview shows the percentage distribution of value-at-risk limit utilisation for the trading book positions over the past financial year (short-term management).

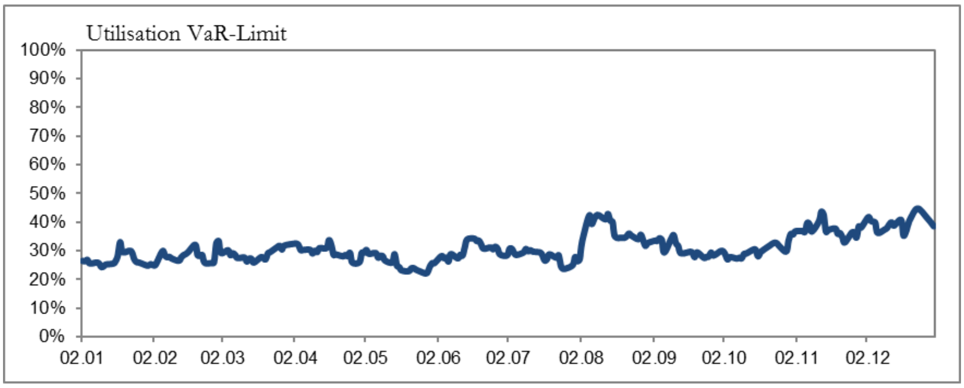


**Figure2 : Limit utilisation market price risk 2024**

Figure 2 illustrates the moderate risk potential from our trading activities. The Bank's regulatory trading book is dominated by traditional equity positions (cash equities). Optional products play a strategically subordinate role and are mainly offered in customer trading (primarily FX trading) in the form of back-to-back transactions, which as closed positions do not involve any market price risk for the bank. Compared with the results achieved in the trading areas, the risk/reward ratio is favourable. The largest share of the allocated value-at-risk limit is attributable to the sales area. These activities, which are allocated to the trading book due to regulatory requirements, are not proprietary business in the narrower sense. Rather, orders for institutional customers are processed in this segment.

The quality of the value-at-risk risk measurement is checked and analysed over time by means of daily backtesting, in which the forecast on the following trading day is compared with the actual changes in the value of the positions.

Figure 3 shows the daily backtesting results of the past financial year over time. Our risk model proved its worth in 2024 under volatile market conditions; the conservative parameterisation reviewed in the financial year as part of the regular validations is also reflected in the absence of outliers in the period under review.

## Comparison of the daily value-at-risk with the hypothetical P&L

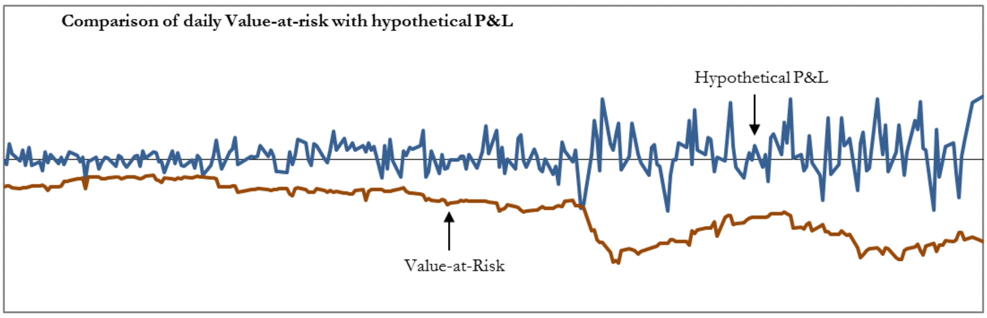


**Figure3 : Daily backtesting market price risk 2024**

In contrast to limit utilisation, which is measured with a 10-day holding period, we use VaR with a 1-day holding period for daily backtesting. The value-at-risk of the trading portfolios had the following structure in the reporting year:

| Trading portfolios | VaR at end of reporting period | VaR values during the year | | |
|---|---|---|---|---|
| | | High | Low | Average |
| | € '000 | € '000 | € '000 | € '000 |
| Aggregated VaR | **7.310 (2.903)** | **10.150 (3.553)** | **1.585 (1.461)** | **4.950 (2.426)** |

(for 1-day holding period, year-ago figures in brackets)

**Figure4 : VaR key figures trading book**

As the value-at-risk methodology only provides a statement about the risk content of positions in "normal" market developments and does not take extreme market situations into account, the analyses are supplemented by daily worst-case calculations. This involves analysing how current trading positions would behave in historically extreme situations. This stress testing analyses the potential impact on current trading positions.

In addition to value-at-risk limits, there are additional worst-case limits for each trading segment that must be adhered to on a daily basis. In the methodology used for risk-bearing capacity (economic perspective), the current limit utilisation is compared with the risk cover amount at a very high confidence level of 99.9% and with a longer holding period of 250 days, which corresponds to the current regulatory standard, in accordance with the requirements for the presentation of market price risks. We have retained our market price risk model, which performs the calculations on the basis of a fat-tail distribution. This method is also used to map unusual market movements (e.g. extreme price changes on the stock markets), which reduces the number of potential backtesting outliers.

As realised losses have a limit-shortening effect, the allocated limits imply a stop-loss limit and thus determine the maximum loss potential per financial year. While the value-at-risk values are used to analyse the 99 % and 99.9 % confidence levels, the worst-case utilisation is included in the stress analysis. The limits for the individual trading segments are appropriate in comparison with the available risk cover and are approved by the Executive Board. This ensures that no individual trader is in a position to enter into high risk positions as a result of their activities for the Bank.

Trading book positions are primarily entered into in liquid and linear financial instruments for which a market price can be determined daily. Models are only used in exceptional cases and for the valuation of derivatives. Derivatives can be concluded primarily to hedge linear trading book positions. For some time now, there has been an internal proprietary trading ban on non-linear products (derivatives) in this area, as such proprietary trading is not part of the Bank's business model. Exceptions to this rule must be authorised by the management on a case-by-case basis. Mechanisms are in place to regularly review the quality of existing models.

The strategic positions in the liquidity reserve are managed by our Asset Liability Committee (ALCO), which is made up of members of the Executive Board and representatives of the Treasury and Risk & Finance departments, among others. The market price risks from positions in the liquidity reserve are assessed using the same procedures as the positions in the trading book. This also includes potential spread change risks of the asset classes representing our portfolio.

For the own investments in securities described in the section on counterparty default risks, no increased interest rate risks were entered into for the most part. The investments were largely made either in floaters or alternatively in securities with a fixed coupon, whereby interest rate risks are generally hedged using interest rate swaps for maturities of more than two years.

**Interest rate risks and credit spread risks in the banking book (IRRBB, CSRBB)** are an integral part of our risk reporting. Both present value effects and periodic effects on net interest income are determined at . The impact of the regulatory interest rate shock for interest rate risks in the banking book is regularly analysed using internally developed methods. The impact of a shift in the current yield curve on the present value of the banking book, among other things, is analysed. A possible decline in the volume of deposits is simulated using regularly reviewed maturity assumptions. Equity components are not included in the analyses. The ratio of the resulting present value loss to equity, which should not exceed 20% in accordance with regulatory requirements, was 8.4% at the end of the financial year (previous year: 8.5%) and results from a scenario of sharply falling interest rates. Rising interest rates, on the other hand, would lead to a positive change in present value. The development of this key figure reflects our investment policy, which is characterised by short-term maturities in the lending and deposit business in line with our strategy. The still high volume of non-interest-bearing deposits, the subordinated loans issued and the pension obligations continue to be the main drivers of the present value loss in the IRRBB calculation. The ratio in relation to core capital defined by the supervisory authority as an additional early warning threshold, which results from predefined early warning scenarios, reached -9.73% (-9.64%) and is therefore also within the internal and external early warning threshold of -15%. The NII effects calculated on the basis of the same scenarios lead to EUR -9.6 million or -3.15% in relation to core capital for the -200BP scenario. This also complies with the regulatory threshold (-5.0%).

Credit spread risks (CSRBB) are generally treated in the same way as IRRBB. All positions with a sensitivity to market-wide credit and liquidity spreads are included. On the other hand, positions without corresponding sensitivity can be disregarded. Against the background of our strategy and individual business structure, loans and liability items are not included, as there is no intention to sell them in the sense of securitisations or portfolio transactions on the market and no other impact on the bank's result can be derived. Syndications planned as part of the management of our credit funds are to be distinguished from this, as they are carried out without margin-implied or credit spread-induced pricing (pari passu risk transfer at nominal value). The lending business accounts for a very small proportion of assets (currently 16%), is characterised by the individual needs of our customers and has a very low duration (average remaining term of 3.1 years). The CSRBB's focus therefore remains on the tradable assets (securities and promissory note loans) in the liquidity reserve. In accordance with our refinancing strategy, this portfolio serves to compensate for higher deposit outflows. In contrast to the regulatory scenarios for IRRBB, the calculations are based on an internally defined historical scenario (i.e. essentially a widening of spreads for public-sector borrowers) in accordance with the regulatory requirements. The resulting present value effects are in the order of EUR -34.8 million. In contrast, the NII view shows an increase in earnings EUR 1.5 million, as the widening of spreads would lead to higher earnings if our transactions were reinvested.

Utilisation of the regulatory thresholds remains in a comfortable range, and we invest in suitable interest rate hedging instruments as part of our management processes where necessary.

The Risk & Finance division, which is organisationally separated from the trading divisions up to management level, collates all market price risk positions in a risk report and ensures that the management is kept informed on a daily basis.

As at 31 December 2024, the regulatory capital requirement for market price risks was € 30.7 million (previous year: € 15.8 million).

### 2.3 Operational risks

Operational risk is generally defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition also includes legal risks. Reputational risks are recognised qualitatively as part of the management of operational risks. So-called non-financial risks are also largely included in our operational risk management (including IT, compliance, outsourcing, modelling, event and legal risks). In addition, the composition of the risk cover funds implicitly takes them into account.

Due to the company's strategic focus on the service business, managing the associated risks is a high priority for us. Accordingly, we use advanced risk measurement methods that enable appropriate management (internal OpVaR model, scenario analyses). Operational risks are also limited by a comprehensive set of rules in the form of instructions, process descriptions and authorisation regulations. The various division heads are directly responsible for observing and continuously updating the rules and regulations. A unit responsible for process descriptions for the entire bank provides support. The regularity of business transactions is regularly audited by the internal audit department. A key component of operational risk relates to the functionality and security of the IT systems we use. This segment is taken into account through special regulations and precautions in the various technical areas. In addition to continuous technical development and market information, there is a firewall concept against viruses and attempts to spy on us from outside as well as back-up systems to ensure uninterrupted business operations in the event of system failures. Although the risk of cyber attacks is generally of great importance, no security incidents causing damage have occurred to date. Exercises on this and other emergency scenarios at are carried out regularly and, if necessary, with the crisis team (sometimes with external support). Against the backdrop of the challenges posed by cybercrime for banks, we are constantly developing existing procedures in order to remain at the cutting edge of technology in terms of the supervisory requirements (BAIT, DORA) and to ensure the security of our organisation. Among other things, we use both signature-based and behaviour-based analyses to check email attachments (sandbox solution). We also operate a SIEM ("Security Information and Event Management"), which automatically analyses existing log sources according to constantly evolving rules in order to detect and investigate any anomalies in a timely manner. A centralised emergency management and business continuity management (BCM) system has been established for all areas of the company.

The Bank's employees are regularly assessed by their line managers. In cooperation with the Human Resources department and managers, it is ensured that employees are highly qualified and motivated for their jobs. Legal risks are limited through constant cooperation between the legal department and the specialist departments, through appropriate form and contract design and through the standardisation of input and billing procedures in connection with IT. In addition, all contracts concluded are subject to prior review by the legal department as part of centralised contract management. Raising employee awareness of this risk category plays a central role in the management of operational risks. The values of our business activities are defined within the overall bank strategy, which are based on the three central points of risk appetite, risk monitoring and employee incentivisation (as defined by the Capital Requirements Directive IV), particularly with regard to risk culture. The risk appetite is defined annually by the Executive Board as part of the strategy planning process and also forms the basis for the allocation of risk limits to the trading divisions. The organisation of the risk monitoring functions follows the principles of MaRisk and ensures that the market-independent Risk & Finance, Compliance and Internal Audit departments report to the Executive Board promptly and independently of external influences. With regard to our employees, an open error culture is generally given high priority. Errors that occur are always seen as an opportunity to further optimise our processes and risk forecasts. In addition to other components, operational risk is determined and managed on the basis of internal loss events, which are recorded and processed centrally in our loss event database in the Risk & Finance department. This not only requires but also promotes a transparent approach to any irregularities that may occur. We pay particular attention to the assumption of overall bank responsibility by each employee and link individual personnel development to these goals. Furthermore, the creation of conflicts of interest for our employees should be consistently avoided, for example through the structure of our remuneration principles and the existence of discretionary variable remuneration.

The database for the systematic recording of operational loss events, which enables us to analyse losses that have occurred and derive the necessary measures, is of great importance in this context. Based on this database, the management is regularly informed about the extent and development of operational losses.

In the past financial year, we continued to apply our established advanced methodology for the internal management of operational risks. The targeted scenario analyses were carried out on a regular basis and adjusted where necessary. In this context, a separate additional operational risk scenario has been defined for event risks, among other things. The analysis process involves consulting experts from all areas of the Bank on a comprehensive catalogue of possible scenarios in structured workshops. Outsourcing issues arise where they appear necessary in terms of profitability and are the responsibility of our centralised outsourcing management. Outsourcing is assessed, categorised and subsequently documented. Scenario analyses are also used to evaluate scenarios that deal with potential difficulties faced by cooperation partners or suppliers. In the scenario workshops, we also assess the impact of ESG criteria on the loss amounts and frequencies of the parameters on which the model is based (e.g. influence of extreme weather conditions on the availability of buildings or data centres, possible fines following climate-related legal action ("conduct risk")). The results make it possible to estimate future operational risk potential and provide a further perspective on this risk category. Depending on the results of the risk inventory, investment risks are also taken into account either in the look-through principle or in the form of operational risks in Pillar II. The results of the loss database and the scenario analyses form the basis for determining a value-at-risk for operational risks. We use an independently developed calculation engine for this purpose, the results of which are incorporated into the risk-bearing capacity analysis. The results of our VaR and expert estimates are regularly validated using external data. Operational risks in excess of the allocated risk cover were not identified as part of the analyses. The scenario analyses are also used to derive measures to reduce significant risks. Potential reputational risks for the company are also catalogued during the expert surveys. If necessary, measures are discussed in order to ensure a high level of public trust in our organisation at all times. We also had the quality of the methodology for managing operational risks and the associated processes reviewed externally at the time of introduction. With the established model, we believe we are well positioned to fulfil the regulatory requirements of Pillar II and the Supervisory Review and Evaluation Process (SREP).

Banks must back the operational risks they assume with equity. To date, methods with varying degrees of accuracy have been authorised to quantify the capital backing for this risk category. Although a powerful model is used for internal management, we continue to use the less complex basic indicator approach to determine capital adequacy for operational risk. As expected, the use of models for capital adequacy purposes is to be abolished with the introduction of CRR III. Only a standardised approach for all institutions will then be available for operational risks in regulatory Pillar I (Standardised Measurement Approach - SMA). We have already analysed the associated changes with the result that, from today's perspective, the burden is likely to be reduced (weighting factor 12% instead of 15%).

In the basic indicator approach we used in the reporting year, the average gross income from the three previous financial years is weighted with a factor of 15%. At the end of 2024, capital adequacy for operational risks totalled EUR 80.4 million (previous year: EUR 80.5 million).

## 2.4 Liquidity risks

Berenberg can refinance itself entirely from client deposits. There were no open liquidity positions at any time during the reporting year.

Due to our business model (limited credit volume, among other things), we only require a small portion of the liquidity from customer deposits for refinancing, with the vast majority serving as a reserve. In contrast to many other banks, we do not engage in extended maturity transformation. Our average fixed-interest period is less than one year

Due to the short-term structure of our business, liquidity risks play a relatively minor role in the over-year segment. There was a significant surplus of liquidity during the year due to the continued very high level of customer deposits. The high level of our deposits, which generate pleasing margins on the income side, continues to be due to the extensive USD deposits from the Shipping segment, a stable customer base in Wealth Management and the general growth of the operating business. In line with strategy, the surplus liquidity was invested in highly liquid bonds (primarily from German federal states and development banks) with short or medium maturities or invested with the Bundesbank. Some of the securities are deposited as collateral with the Deutsche Bundesbank, which would guarantee a high refinancing framework with the European Central Bank in the event of unexpected liquidity requirements. As at 31 December 2024, the available credit line with the Bundesbank amounted to EUR 1.1 billion (previous year: EUR 1.2 billion). We expect the liquidity situation to remain extremely comfortable in the new financial year.

To manage short-term liquidity, the Treasury unit continuously analyses all relevant cash flows over time. Various intensive stress tests are carried out on a daily basis, all of which show a high level of remaining liquidity as at the reporting date. The ESG stress test, which was added this year, assumes deposit outflows and higher utilisation of open credit lines for customer segments particularly affected by climate-related transition risks. The inverse liquidity stress test, which was also added this year, illustrates which developments would have to occur in order to fully utilise our free liquidity. The very strict assumptions of our liquidity scenarios also cover deposit outflows that have occurred in historical crisis scenarios at other banks. Our short-term scenario assumes an extraordinary outflow of just under 40% of total assets. In the stress scenario of our liquidity development report, there is a comfortable "survival horizon" of 3.5 years in mathematical terms, i.e. without the implementation of management measures.

The requirements of the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) defined by the regulator were also comfortably met at all times. Due to the Bank's liquidity situation as described above, no risk cover funds are currently allocated for liquidity risks in the ICAAP. Only in the unlikely event of negative stress test results would we allocate economic capital to cover the potential costs of an increase in the cost of procuring liquidity.

The bank monitors the liquidity ratios prescribed by the CRR on a daily basis. At the end of the year, the LCR stood at 1.8 (previous year: 1.8), well above the required minimum ratio of 1.0. The same applies to the NSFR, which stood at 2.9 (previous year: 2.5).

The risk of insufficient market liquidity of individual trading products as defined in MaRisk is implicitly monitored via market price risk controlling.

# 3. Overall bank management

## 3.1 Control framework

Our business strategy, which has proven itself over many years, is regularly reviewed together with the corresponding risk strategy during the annual planning process. As part of this process, we also analyse which measures the various profit centres intend to use to achieve their strategic goals and how the planned activities will affect the forecast development of the earnings situation and the utilisation of the risk cover funds in the ICAAP.

The risk-bearing capacity calculation, which compares the risks identified with the available risk cover, is a key component for managing the risks assumed at overall bank level. Based on the current RBC guidelines, capital planning, income statement planning and risk-bearing capacity are conceptually merged. The parallel consideration of a normative and an economic perspective enables both the continuation of the institution and the protection of creditors to be taken into account in parallel. Despite the existing uncertainties in the economic environment, utilisation was very comfortable in both perspectives over the course of the year, reflecting both the robust economic situation and capitalisation as well as the bank's conservative strategic risk profile.

The recovery plan required of all banks by the supervisory authorities on the basis of the German Recovery and Resolution Act (Sanierungs- und Abwicklungsgesetz) is updated on a regular basis and as required. Due to the size of the institution, the plan is based on the simplified requirements of the Minimum Requirements for Recovery Planning (MaSanV). The key figures defined in this context (reorganisation indicators) are monitored on an ongoing basis and form part of the reporting to the Executive Board. The existing options for action and management processes for potential crisis situations are suitable for counteracting financial deterioration at an early stage if necessary. As part of the assessment of Berenberg's resolvability, BaFin has drawn up a resolution plan in accordance with simplified requirements, which provides for liquidation as part of regular insolvency proceedings.

In our overall bank management processes, the opportunities are constantly compared with the risks of the banking business. Economic capital is allocated as a scarce resource to those business areas where the economic opportunities exceed the risks taken.

The quantitative information and control systems used by the Bank as part of the risk management process provide important information for assessing risks. Combined with the employees' wealth of experience, this ensures that the risk situation is analysed comprehensively. Overall, we are therefore convinced that the risks taken are in an appropriate relationship to the achievable income and that no risks have been taken that exceed the Bank's risk-bearing capacity.

## 3.2 ESG in risk management

The increasing importance of the influence of environmental changes, social standards and corporate governance requirements has also manifested itself in banking regulation. Summarised under the term "ESG" (Environmental, Social, Governance), dealing with these risks is a high priority for Berenberg. As explained in the sections on the individual risk types, the criteria of ESG risks are taken into account as part of the established risk measurement procedures. Various aspects of climate and governance risks, for example, are taken into account when determining market, credit and operational risks.

Climate and environmental risks implicitly take into account physical risks, i.e. risks that may arise as a result of increasing flooding, storms, droughts, etc. Transitory risks also affect market and credit risks in particular. Transitory risks also affect market and counterparty risks in particular. Transitory risks are the potential financial losses that may arise directly or indirectly as a result of the adjustment process towards a lower-carbon and more environmentally sustainable economy. The focus here is on technical progress, the political and legal framework conditions and changes in market sentiment.

In the area of counterparty default risks, our credit analysts take several parameters into account, e.g. whether the borrower's business model may be adversely affected by climate risks (flooding or other natural events) in the future. The overall assessment also includes an assessment of whether regulatory, legal or social standard changes could have a direct or indirect impact on business activities (reputational risks). An additional stress test on the sector-specific impact of climate risks on our credit portfolio is carried out regularly. It goes without saying that great attention is also paid to governance issues (e.g. in the area of KYC processes).

In the area of market price risks, we also use our volatility-dependent value-at-risk calculations to consider the market assessment already contained in the market prices, which naturally also takes ESG aspects into account. For example, the share price of a security generally reacts sensitively to social or environmental aspects of the issuer (e.g. social standards such as occupational health and safety and child labour or non-compliance with climate targets, etc.). In addition, we closely monitor corresponding studies and the development of new methods for taking sustainability parameters into account in market price risk measurement in order to be able to make adjustments to the respective state-of-the-art if necessary. Two climate-related stress tests based on the NGFS scenarios and ECB parameters were already introduced at the end of 2023 to assess the impact of various development paths on our portfolio. Ongoing further development is planned for this, which will also incorporate simulation models from external service providers.

In the area of operational risks, we also assess the impact of ESG criteria on the loss amounts and frequencies of the parameters on which the model is based (e.g. influence of extreme weather conditions on the availability of buildings or data centres) as part of our regular scenario workshops. With the current MaRisk amendment, the topic was once again integrated more bindingly into the regulatory environment by the supervisory authority. The aspects placed there were implemented on time. We use selected standardised assessment procedures such as ESG ratings for our securities portfolio in our risk reporting. ESG scoring procedures are also used for the lending business. Where necessary, we utilise further development opportunities for our portfolio management and monitoring (own investments, loans, service providers). We will continue the ongoing further development of consideration in the ICAAP and as part of scenario-based stress tests in 2024. Against this backdrop, we consider ESG risks to be adequately taken into account in our risk management, but we are monitoring developments in this area very closely and are successively making further additions.

The consideration of sustainability risks in the risk inventory provides for the explicit inclusion of such risks as well as plausible scenarios over an appropriately long observation period. ESG aspects are understood as risk drivers and their influence on the existing risk types is presented accordingly.

Both the consideration of ESG risks in the risk strategy and sustainable management generally have a high priority at Berenberg and are already part of our strategy papers. As part of existing investment strategies in the Wealth and Asset Management and Corporate Banking divisions, the treatment of ESG criteria is regulated by, among other things, establishing standards for investment decisions from a governance perspective.

Sustainability aspects are also incorporated into the management of the bank's operational risk. For example, attention is paid to social issues such as compliance with labour law standards, occupational safety and health protection. Furthermore, emphasis is placed on appropriate remuneration and diversity within the company. International requirements, such as the Modern Slavery Act or the Supply Chain Duty of Care Act (LksG), are also taken into account. Accordingly, the human rights risks associated with business activities and supply chains are disclosed annually and how these risks are minimised. The topic of governance is fulfilled in the best possible way through our Code of Conduct and measures to prevent corruption, enable whistleblowing, guarantee employee rights and comply with data protection . A special "Sustainability Governance" function, which reports directly to the Executive Board, recognises the high priority placed on sustainability within the company.

The Wealth and Asset Management division has a dedicated ESG Office, which supports the front office in the best possible integration of ESG aspects. The sustainability objectives associated with the ESG Office are diverse and depend on the mandate or client. The objectives are targeted with the help of exclusion criteria, which are regulated in separate documents, as well as guidelines for exercising voting rights and engagement guidelines.

The UN Principles for Responsible Investment (UN PRI), which are supported by the United Nations, were signed back in August 2018. This underlines the strategic importance for the Bank. The aim of our sustainability activities is to make targeted use of the opportunities arising from the realignment and to fulfil the customer requirements of (especially institutional) investors in the best possible way. Our commitments and orientations are also reflected in the sustainability report.

As described, ESG aspects are taken into account in the existing, material risk types and are part of the Bank's strategies (including the OpRisk strategy). Given that ESG risks are already taken into account in all material considerations in the status quo, there are no direct restrictions on our business activities in connection with current supervisory considerations and regulations.

Our analyses and internal risk reporting now include presentations of the Bank's portfolio A holdings on the basis of ESG ratings, i.e. a corresponding classification and risk assessment. In future, the loan portfolio is also to be analysed analogously with regard to ESG aspects using an ESG scoring system that has already been developed. The Risk & Finance department is responsible for monitoring and quantifying ESG risks. As with the other risk types, it also advises the Executive Board on the management of ESG risks. The Risk Monitoring Committee is informed about the treatment of ESG risks on a regular basis. The implicit and explicit consideration of ESG risks in the design of the stress tests is continuously developed.

The bank's central outsourcing management already considers ESG-relevant aspects such as country, social responsibility, data protection governance, etc. in the status quo when evaluating planned outsourcing and thus ensures that these aspects are taken into account.

BERENBERG

PARTNERSHIP SINCE 1590

Joh. Berenberg, Gossler & Co. KG
Neuer Jungfernstieg 20
20354 Hamburg
Telefon +49 40 350 60-0
Telefax +49 40 350 60-900
www.berenberg.de