



BERENBERG
PARTNERSHIP SINCE 1590

RISK REPORT

Reporting date: 31.12.2023



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1. Overview

We retained our cautious, defensive risk strategy in the year under review. The deliberate focus on service-orientated business areas, which tend to be less risky, has once again proved its worth against the backdrop of persistently uncertain conditions and, in some cases, difficult markets. Our risk culture still revolves around an unchanged and extremely conservative risk appetite; this risk appetite is reviewed and defined by the Board of Management on an annual basis as part of the strategy and planning process. Typical banking risks are assumed to an appropriate extent, which safeguards the Bank's long-term ability to continue its business activities. This risk philosophy forms the basis of our extensive risk management and includes the allocation of risk limits for targeted implementation. The risk management for our branches is performed centrally at our head office in Hamburg.

The Bank enjoyed a very comfortable liquidity situation throughout 2023, which was further improved, despite already being at a very high level, as a result of the large volume of deposits. We invest our excess liabilities in a highly liquid portfolio dominated by securities of German public-sector issuers with short remaining maturities as well as in central bank deposits with the Deutsche Bundesbank.

We were not affected by the crisis at some US banks due to high deposit outflows in connection with the interest rate trend in the first quarter. Compared to the US crisis banks, Berenberg has a fundamentally different structure.

Our risk management process is characterised by its strategic focus on service-based business units, combined with the use of cutting-edge risk measurement methods which are perfectly aligned with our corporate structure. The key risk types which we analyse within the framework of our risk management processes are counterparty default, market price, operational and liquidity risk. Reputational risks are evaluated as part of the management of operational risks. Potential declines in earnings are also considered. This takes place as part of the analysis of adverse scenarios, as well as indirectly through the conservative definition of the risk-covering assets in the ICAAP (Internal Capital Adequacy Assessment Process).

Our management-oriented implementation of the regulatory requirements for risk-bearing capacity (ICAAP) has once again proved effective in the year under review. The merger of capital planning, income statement planning and risk-bearing capacity, together with the parallel consideration of a normative perspective and an economic perspective, have been firmly integrated into the standard processes of the Risk Controlling unit. This enables us to extensively safeguard the two strategic goals associated with this: "the institution's continued existence" and "protection of creditors". Both perspectives are based on the fundamental principle of the risk-bearing capacity calculation, which provides for the comparison of identified risks and available risk cover.



The normative perspective is based on regulatory requirements, particularly with respect to the institution's capital base. Various scenarios are analysed as part of our three-year integrated capital planning. On one hand, we analyse a baseline scenario, which assumes business performance under normal economic conditions. On the other hand, an adverse scenario is investigated, which assumes a severe economic downturn that will have an impact significantly beyond one year. This scenario is based on extensive macro-economic assumptions, along with assumptions for the specific institution. It is not merely simulated in isolation for individual parameters. Instead, the adverse scenario constitutes an integrated stress test, with an impact on all relevant parameters, as defined by the Minimum Requirements for Risk Management (MaRisk). It also includes control measures taken by the management to counter the crisis. The results clearly show that the Bank could comfortably navigate a scenario of such an extreme nature using its own assets and earnings power. Current decisions made by the banking supervisory authorities regarding changes in the capital requirements are analysed as required in terms of their impact on the Bank's capital situation and included in planning. All prescribed regulatory capital ratios are comfortably met.

For the economic perspective, the risk coverage potential is calculated close to fair value. HGB capital indicators in the balance sheet, together with hidden reserves and/or liabilities, are the starting point. Under our very conservative approach, budgeted profits are not credited. We quantify the potential losses suffered by our business units for the above risk types on the basis of the value-at-risk (VaR) principle, which thereby represents the upper loss ceiling for a given probability level. The risk quantification is performed using established model calculations at a high confidence level of 99.9% and with a risk assessment horizon of one year. In principle, the VaR calculations reflect potential losses on the basis of normal market conditions. To gain a more extreme perspective on the risk situation, we supplement risk evaluations with appropriate historical and hypothetical stress tests.

The risk and risk cover are compared on a regular basis, with an eye to these two different ways of assessing the Bank's overarching risk exposure. Risk-mitigating diversification effects across the various risk types are consciously ignored by conservatively aggregating the covering amounts for the various categories of risk.

Monthly and quarterly analyses, carried out in parallel, see us compare the results of various stress scenarios specific to risk types, as well as of general stress scenarios, with the available economic risk cover. The results of these analyses cannot exceed the risk capital. We also perform ad-hoc stress tests, as required, to evaluate crisis situations as they arise. In line with the approach of an inverse stress test, we define combined scenarios which would tie up all of the available risk-covering assets if they were to occur.

With an average risk utilisation of around 55% in the reporting year, by no means all of the economic capital available to the Bank was tied up by the business divisions. This highlights the commercial prudence built into the Bank's risk management process and expresses the appropriateness of the relationship between the opportunities



arising from business activities and the risks assumed regarding overall profit or loss. The Bank's overarching management only permits its business units to take on risk when it is commensurate with the potential rewards.

The figures below show the distribution of the committed economic capital across the Bank's risk categories and business units.

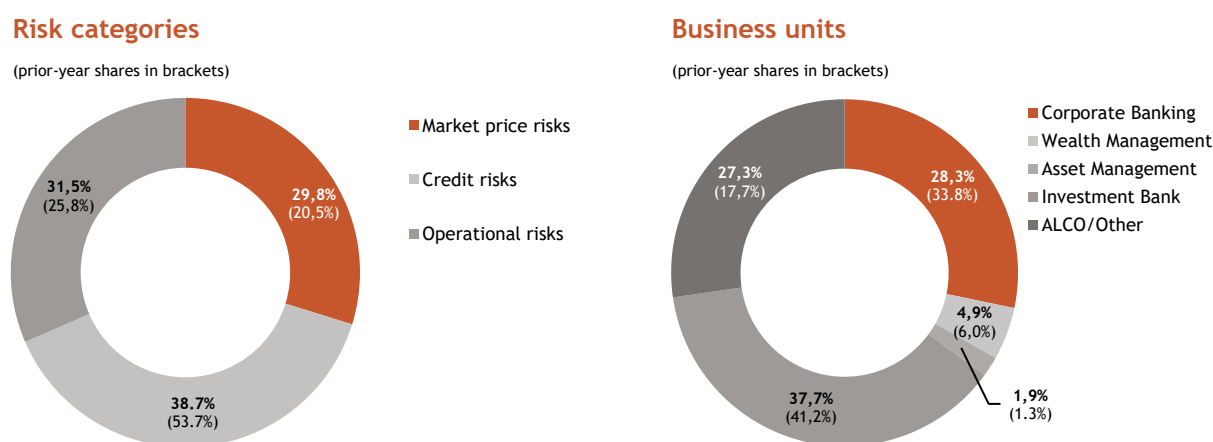


Figure 1: Economic capital commitment by business units

Figure 1: Economic capital commitment by risk categories and business units

The Board of Management bears overall responsibility for the risk management process and defines the general conditions for managing the various risk types. The Risk Controlling business unit acts independently of all front offices in organisational terms, in accordance with MaRisk, and ensures the constant and timely flow of information to the Bank's Board of Management, the audit committee and Advisory Board in close collaboration with other organisational units. Risk Controlling is responsible for developing and overseeing the systems used in overall bank and risk management. It carries out a comprehensive risk inventory at regular intervals and compares the amounts of the various risk types with the available risk cover. As part of the risk management processes, it is ensured that excessive risk concentrations exist neither within the various risk categories, nor across the risk types, in line with the strategy.

In its risk management, Berenberg uses the proven model of three lines of defence. In the first line of defence, the operational managers in the Bank's various units are risk owners with responsibility and accountability for assessing, managing and mitigating risk. This includes the implementation and monitoring of organisational hedging measures, as well as control activities anchored in the processes.



In the second line of defence, the Risk Controlling and Compliance units facilitate and monitor the implementation of effective risk management and ensure independent risk reporting to the Bank's Board of Management.

The third line of defence consists of the independent Internal Audit unit, which employs a risk-oriented approach to evaluate how effectively Berenberg controls its risks and how well the first and second lines of defence perform their tasks.

Political and economic uncertainty continued in the reporting year as a result of the ongoing war against Ukraine, which also led to significant movements in the financial and capital markets. Although the overall economic environment has deteriorated considerably since the outbreak of the war, it has now largely stabilised. Given the strategic business focus of the Bank, it is not directly affected to any significant extent by existing risk positions. The extensive sanction measures are of course consistently taken into account (mainly payment transactions and compliance). The significant market movements had a very limited impact due to our prudent market risk positioning. In the case of credit risks, there was also no recognisable need to go beyond the existing stress tests. Our Credit Risk Management is closely monitoring the development of the cases under observation. This currently relates in particular to property-related exposures, which, however, only account for a small proportion of our customer loan portfolio (<10%). There are no exposures to the SIGNA Group. There was no unusual increase in operational risks in the reporting period. The Bank's position with regard to the ICAAP is extremely robust from both a normative and an economic perspective. The crisis that arose at some US banks as a result of interest rate developments and significant deposit outflows in the first quarter fortunately did not escalate over the course of the year. We have been monitoring developments closely. Our structural organisation is not comparable with the banks affected. Although we also refinance ourselves via customer deposits, we only require a small proportion 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. The high interest rate risk of the US banks concerned also results from bonds with long, often ten-year maturities in the investment portfolio. In contrast, our average fixed-interest period is less than one year. The existing comfortable buffer in the risk coverage equity (normative and economic) is currently sufficient to absorb the potential impact of a crisis on the Bank. The existing stress tests cover the current scenario, but are supplemented and adapted as necessary depending on the situation. Current regulatory developments (CRR III, ESG, etc.) are closely monitored and their impact on the Bank as a whole is analysed.



2. Major risks

Our Credit Risk Management team uses an extensive limit system to monitor the **counterparty default risk**. The management of default risks at the overall portfolio level is supported by targeted analyses by Risk Controlling.

Market price risks arise not only from short-term positions in the trading book but also from strategic positions in the liquidity reserve; they are closely monitored by Risk Controlling.

Interest rate risks in the banking book represent a further addition to the risk profile.

Using advanced methodologies, Risk Controlling also quantifies **operational risk**, the extent of which is limited by stringent processes, the appropriate training of our employees, and a comprehensive set of rules, including contingency plans.

The Treasury unit is responsible for the management of **liquidity risk**, together with the Money Market unit. Risk Controlling is systematically integrated into the monitoring process and validates the results at regular intervals.

An overall calculation is performed on a monthly basis to track the profit and loss of the business units, in consideration of the risks taken. This also includes an analysis of volatile return components and possible changes in returns resulting from these components. Daily reports on the most important profit & loss components and scenario planning serve as an early warning system. In line with the strategy, targeted diversification is executed across business areas and markets. Risk Controlling provides management with reports that enable recipients to analyse the results and risks at various aggregation levels.

The Bank's Internal Audit department regularly examines the organisational precautions for managing, monitoring and controlling the various categories of risk, based on defined standards.

Risk Controlling and Credit Risk Management (non-market) regularly provide information to the Risk Monitoring Committee set up by the Bank's Advisory Board, which holds three scheduled meetings each year. It also meets ad hoc as required.

The principles of our risk management are laid out in a risk strategy document available to all employees.

2.1 Counterparty risks

Counterparty default risks arise, on the one hand, from the lending business involving our clients in the Corporate Banking (business clients), Wealth and Asset Management (private clients and institutional clients), and Investment Bank (strategic clients) business units. On the other hand, counterparty default risks arise from our own securities



holdings (issuer risks, spread risks), derivative transactions (counterparty risks), as well as from the investments made by our Money Market department in interbank business. Investment risks are of lesser significance to Berenberg, but existing participating interests are integrated into the risk management processes.

In our unchanged conservative credit risk strategy, we have specified volume and maturity limits for the individual segments of the credit business, in accordance with the risk appetite defined by the Bank's Board of Management. Important elements include stringent credit processes, good collateral, the use of syndication possibilities, appropriate risk premiums, and the avoidance of structural subordination, as well as the consideration of ESG risks.

As in previous years, the very high level of client deposits once again led to strong demand for investments, as only part of the existing liabilities are required in the traditional credit business. In accordance with our investment strategy, only a relatively small part of the liquidity surplus was placed in the money market, with the investments made under the following conditions:

- Trading only with selected, top-rated banks
- Deliberate targeting of development banks with guarantee obligations
- Low limits per institution (or group of institutions) with the goal of achieving the broadest possible diversification

The majority of the structural liquidity surplus from client operations is invested in bonds with the very best ratings. In this context, we continue to have high standards for the credit security and market liquidity of these investments, to keep possible price volatility to a minimum.

Our liquidity reserve (including promissory note loans) is dominated by securities from German public-sector issuers at 38% (previous year: 38%) and securities guaranteed by Germany or a German state at 62% (previous year: 61%). German and Scandinavian covered bonds were reduced upon maturity as planned and are currently no longer contained in the portfolio. There were also no positions in European government bonds at the end of the year. The average remaining term of the portfolio is 1.7 years (previous year: 1.3 years), so that there are only minor risks of spread changes in the portfolio. Due to limited investment opportunities in the preferred investment universe, a significant proportion of the liquidity surplus remained in the ECB deposit facility at €2.2 billion (previous year: €3.1 billion).

The Board of Management receives regular reports about the bank exposure. The allocated bank limits are monitored regularly in order to allow countermeasures to be initiated promptly, if required. In this context, we not only rely on the appraisals by the rating agencies when assessing the institutions, but we also support our decisions by analysing annual reports and evaluating current market data.



Counterparty default risk is managed using a wide-ranging limit system by means of which we achieve various objectives, including limiting risk concentrations. The counterparty default risk from derivatives is also included by taking replacement risks into account. We reduce counterparty default risks by practising comprehensive collateral management with our counterparties in this segment. This standard market form of ongoing collateralisation of OTC transactions is practised not only with banks, but also with a wide range of institutional clients.

Credit Risk Management is responsible for monitoring credit risk independently of our sales units. In addition to performing regular control activities, this unit provides a second opinion in addition to the front office teams, as required by the MaRisk rules, on the basis of our authority's regulations for credit decisions. These regulations restrict the scope of individual account managers to act, while ensuring that the entire Board of Management is involved in all major credit decisions. All credit exposures are subject to a constant resubmission cycle with an annual credit rating review. The specified limits are supplemented by a series of organisational measures and rules regarding collateral for credit exposures. This currently relates in particular to property-related exposures, which, however, only account for a small proportion of our customer loan portfolio (<10%). There are no exposures to the SIGNA Group (René Benko). There was no unusual increase in operational risks in the reporting period. The Bank's position with regard to the ICAAP is extremely robust from both a normative and an economic perspective.

A credit risk report that is prepared on a quarterly basis serves to inform both the Board of Management and the Advisory Board about the structure of the credit business and its related risks. Extensive analyses performed by the Risk Controlling unit support the management of credit risk at the overall portfolio level.

For the management of the overall portfolio, the historical defaults of the past financial years, which have a very modest scope at the Bank (average default rate equal to 0.2% of credit volume over the course of the year, declining volume of individual loan loss provisions since 2010), are collected and analysed. We also check the model's results with reference to default history by validating our credit risk calculations on a regular basis. The statistical loss expected for each financial year at the portfolio level ("expected loss") is derived from the data taken from our credit portfolio model and the long-term historical average for defaults. This "expected loss" of the credit exposure is integrated into the credit terms by calculating the standard risk costs.

The standard risk costs of a credit exposure are particularly influenced by the borrower's credit rating, as well as by the size of the loan and the collateral provided. A rating system for our corporate clients, available to the account managers and the back office teams on the Bank's intranet, facilitates a prompt credit analysis using the borrower's balance sheet data. In addition to the balance sheet ratios, qualitative factors relating to the borrowers are also included when determining the rating class. For exposures of a project finance nature in the property and shipping segments, we employ internally developed rating procedures that include the cash flow projections for



the assets to be financed as a key parameter. Structured financing is likewise measured using an internally developed rating tool that explicitly takes account of the debt ratio (leverage). In our portfolio of shipping loans – which is limited in magnitude compared with the overall portfolio (average share of 8% for the shipping segment over the course of the year) – we notably pay attention to short loan periods in view of the current market environment and prioritise outstanding collateral for the exposures. The same applies to our real estate loans, particularly in light of the current market trend (average share of 9% for this segment over the course of the year).

The standard risk costs arising from the rating analysis can be obtained from our IT systems in all necessary aggregation levels.

The standard risk costs which, when aggregated, give rise to the statistical expected loss at the overall bank level, merely represent a long-term default average over time around which the actual defaults fluctuate. Consequently, a potential deviation of defaults from this expected value needs to be taken into account as an additional risk component. A statistical credit portfolio model built on the CreditRisk+ methodology is used to quantify the size of an unexpected loss at the portfolio level, which flows into the analysis of the Bank's ability to bear risk (ICAAP) with the respective quantile. This close to fair value approach is currently supplemented with a comparison that serves to safeguard the approach used compared to a purely fair value approach. The Bank's economic capital serves as the Bank's risk-covering assets for unexpected credit risks. Within MaRisk parameters, our analyses of the committed economic capital are supplemented by additional stress observations, such as a substantial deterioration of the probabilities of default or a decline in collateral values, the default of individual key accounts or negative influences due to ESG developments (sustainability risks). We are developing special scoring processes so that we can manage ESG risks in the credit portfolio even more effectively in the future. Our aim is for every borrower to be categorised on the basis of suitable ESG characteristics going forward, with plans to integrate the results into our credit process and risk reporting.

The quantitative methods that we use to assess counterparty default risks are validated regularly and refined when required. However, because of the lack of an adequate number of defaulting borrowers for statistical purposes, these methods are still not recognised for regulatory purposes as an IRB approach. The Bank has made a deliberate decision to employ the standard approach (CRSA), which is defined in the relevant regulations for regulatory purposes. This includes the comprehensive method for taking into account financial collateral pursuant to CRR. Under this approach, the tied capital from counterparty default risk totalled €84.4 million on 31 December 2023 (2022: €80.8 million).



2.2 Market price risks

Market price risks for positions in the trading and banking book of the Bank result from fluctuations of the prices and volatilities in the interest, equities and currency area.

Traditional proprietary trading continues to serve only as a supplement to our service-orientated 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 distribution so that certain unusual market movements in the individual financial instruments are taken into account more cautiously. In the short-term oriented ongoing management, a confidence level of 99% and a holding period of ten trading days are assumed for these value-at-risk calculations.

In accordance with 'Utilisation of VaR limit' 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 used 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).

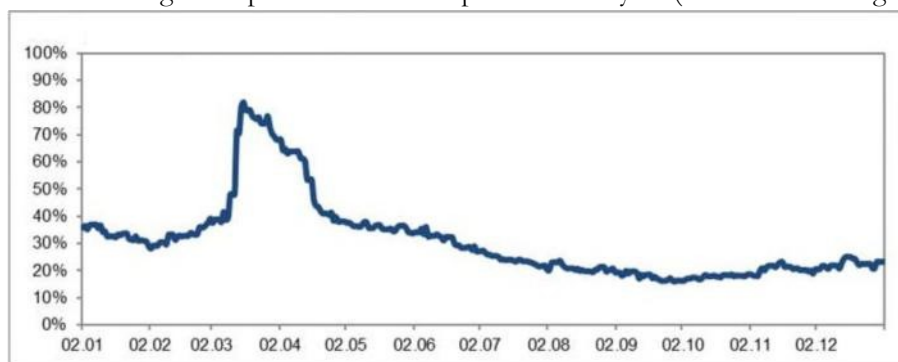


Figure 2: Limit utilisation market price risk in 2023

Figure 2 illustrates the moderate risk potential arising from our trading activities. The sudden increase in March 2023 was triggered by the liquidity crisis at some US banks (including Silicon Valley Bank and First Republic). In this context, market volatility increased dramatically virtually overnight and led to corresponding risk spikes in the liquidity reserve (mainly ALCO). Once it was determined that the crisis was not spreading, the markets quieted in subsequent months.

The Bank's trading book that is defined for regulatory purposes is dominated by traditional equity positions (cash equities). Optional products play a strategically subordinated role and are mainly offers in client trading (particularly FX Trading) in the form of back-to-back transactions, which, as closed positions, do not hold any own market price risk for the Bank. Compared with the results achieved by the trading units, a beneficial risk/reward ratio is indicated. The largest portion of the allocated value-at-risk limits relates to the Sales unit. These activities, which are allocated to the trading book to meet regulatory requirements, are not proprietary trading, strictly speaking. Rather, this segment settles orders for institutional clients.

The quality of the value-at-risk measurement is checked and analysed over time using daily back-testing, during which the forecast on the subsequent trading day is compared against the actual changes in value of the positions and analysed over time.

Figure 3: Daily back-testing market price risk in 2023 shows the progression of the daily back-testing results of the past financial year over time. In 2023, our risk model proved its worth under volatile market conditions; the conservative parametrisation is reflected in the non-existence of outliers in the period under review.

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

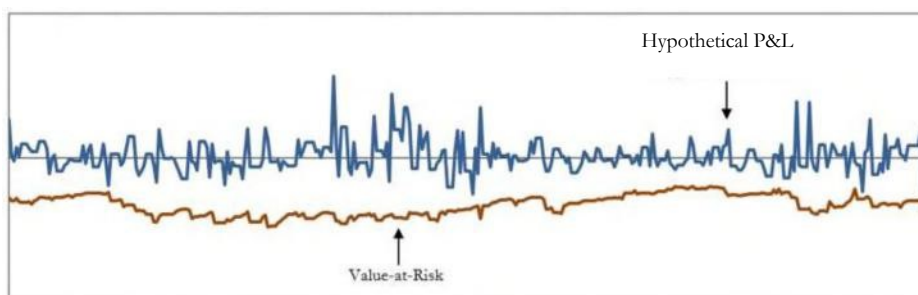


Figure 3: Daily back-testing market price risk in 2023

In contrast to the limit utilisation, which is measured with a 10-day holding period, we apply the VaR with a one-day holding period for daily back-testing. The value-at-risk for the trading portfolio had the following structure in the year under review:

Trading portfolios	VaR at the end of reporting period	During the year VaR values		
		Highest value	Lowest value	Reporting periods
	€ in k	€ in k	€ in k	€ in k
VaR	2,903 (5,403)	3,553 (17,016)	1,461 (3,755)	2,426 (6,511)

Figure 4: Trading book VaR indicators

Since the value-at-risk method only provides information about the risk content of positions under "normal" market conditions and does not take account of extreme market situations, the analyses are supplemented by daily worst-case calculations. This involves examining how current trading positions would behave in historically



extreme situations. This stress test analyses the potential effects on the current trading positions.

Additional worst-case limits that must be observed on a daily basis exist for each trading segment alongside value-at-risk limits. In the methodology applied for risk-bearing capacity (economic perspective) and in line with the requirements for depicting market risk, the current limit utilisation is compared to the risk-covering assets using a very high confidence level of 99.9% and 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 retained our market price risk model, which was further developed in 2019 and performs the calculations on the basis of a fat-tail distribution. This methodology models unusual market movements (e.g., extreme price changes in the equity markets), which results in a lower number of potential back-testing outliers.

As realised losses have a limit-reducing effect, the allocated limits imply a stop-loss limit and therefore determine the maximum loss potential per financial year. Whereas the value-at-risk values are used to analyse the 99% and 99.9% confidence level, the worst-case limit utilisation is included in the stress test. The limits for the individual trading segments are manageable in comparison to the available risk-covering assets and are approved by all Managing Directors jointly. This approach ensures that no individual trader is in a position to enter into large risk positions through his/her activity for the Bank.

Positions in the trading book are taken predominantly in liquid and linear financial instruments, for which a market price can be determined on a daily basis. Models are used only for the purpose of measuring the value of derivatives. On the one hand, derivatives may be used to hedge linear trading book positions. However, since only spot positions are entered into the proprietary trading book, the risks arising from the use of models are limited. There has been an internal ban on the proprietary trading of non-linear products (derivatives) in this area for a little while now, as proprietary trading of this nature does not align with the Bank's business model. Mechanisms are in place to review the quality of the models used on a regular basis.

The strategic positions of the liquidity reserve are managed by our Asset Liability Committee (ALCO), which includes representatives of Treasury and Risk Controlling, in addition to members of the Board of Management. The market price risk arising from positions in the liquidity reserve is measured using the same methods as the positions in the trading book. This also includes potential spread risks of the asset classes representing our portfolio.

For the proprietary investments in securities described in the section on counterparty default risks herein no increased interest rate exposure, for the most part, was accepted. The investments were largely made either in floaters or alternatively in securities with a fixed coupon, whereby interest rate risks for maturities of more than two years are usually hedged with the help of interest rate swaps.



The impact of interest rate shocks set by regulatory authorities for interest rate risks in the banking book (IRRBB) is regularly analysed using internally developed procedures. The effect of a shift in the current interest rate curve on the present value of the banking book, among other things, is considered. A possible decline in the volume of deposits is simulated by regularly reviewed maturity fictions. Equity components are not included in the analyses. The ratio of the resulting present value loss to equity capital, which according to regulatory requirements should not exceed 20%, was 8.5% at the end of the fiscal year (previous year 10.6%) 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 characteristic of this ratio reflects our investment policy, which, in line with our strategy, is characterised by short-term maturities in the lending and deposit business. The scenario loss is mainly due to the increased EUR and USD deposit business in connection with the increased interest rate level. Both lead to a relatively high positive present value, which would be lost again in the scenario of falling interest rates. The utilisation of the regulatory threshold continues to be in a comfortable range; as part of our management processes, we invest in suitable interest rate hedging instruments as needed.

Risk Controlling, which is organisationally separate from the trading desks and Executive Management, consolidates all market price risk positions in a risk report, which it then supplies on a daily basis to Executive Management.

As at 31 December 2023, the regulatory capital requirement for market price risks was €15.8 million (previous year: €11.4 million).

2.3 Operational risks

Operational risk is generally defined as the danger of incurring losses as a result of the inappropriateness or failure of internal methods, people, and systems or external events. This definition also covers legal risks. Reputational risks are also covered in terms of quality as part of the management of operational risk. What are referred to as non-financial risks are also included to a large extent as part of our OpRisk management (including IT, compliance, and legal risks). Non-financial risks are taken into consideration also implicitly through the composition of the risk-covering assets.

The management of related risks is a high priority for the Bank, given its strategic focus on the provision of services. Accordingly, we use advanced risk measurement procedures that allow for appropriate management (internal OpVaR model, scenario analyses).

Operational risks are also limited by a wide-ranging set of instructions, process definitions, and authority rules. The various unit heads have direct responsibility for compliance with, and the ongoing updating of, these rules and regulations. A department responsible for process definitions across the whole Bank provides support in this regard. The Bank's Internal Audit unit audits the conformity of business activities with these rules and regulations at regular intervals.



A major component of operational risk relates to the functionalities and security of the IT systems we use. This segment is covered by special arrangements and precautions in the various technical units. These include constant technical refinement and market data together with a firewall concept to prevent viruses and attempted intrusions from outside and back-up systems used to ensure uninterrupted business operations in the event of system failures. In consideration of the growing challenges to banks in the realm of cyber-criminality, we constantly refine the existing procedures to reflect the latest state-of-the-art, in accordance with the German Supervisory Requirements for IT in Financial Institutions (BAIT), and ensure the security of our Bank. Among other activities, we conduct behaviour-based analyses (sandbox solution) of all e-mail attachments in addition to signature-based analyses. We also perform a SIEM (“Security Information and Event Management”) analysis, which automatically analyses log sources according to constantly refined rules in order to detect and investigate any anomalies quickly. A central contingency management and business continuity management (BCM) function has been established for all areas of the Bank.

The employees of the Bank are appraised by their supervisors at regular intervals. Cooperation between the Human Resources unit and the managers ensures that the employees have the appropriate high qualifications and motivation for their position at the Bank.

Legal risk is limited by means of constant collaboration between the Legal business unit and the functional units together with the use of suitable forms and contracts, as well as the standardisation of input and settlement procedures in connection with IT operations. In addition, the Legal unit examines all concluded contracts in advance as part of a central contract management process.

A key aspect of our risk management approach for operational risk involves sensitising all employees to this type of risk. The values of our business activity are defined within the overall bank strategy. With respect to the risk culture, these values are particularly orientated to the three central points of risk appetite, risk monitoring and employee incentivisation (as per the Capital Requirements Directive IV). Risk appetite, which is defined by the Bank’s Board of Management annually as part of the strategy planning process, also forms the basis for the assignment of risk limits to the trading units. The risk monitoring functions are designed in accordance with the MaRisk principles and ensure prompt reporting, free of external influences, by Risk Controlling, Compliance and Internal Audit, which operate independently of the markets. In general, we cultivate a culture where our employees can openly discuss mistakes made. Mistakes that occur are fundamentally seen as an opportunity to further optimise our processes and risk forecasts. Thus, operational risk is identified and managed in part on the basis of internal loss incidents, which are centrally recorded and processed in the loss incident database kept centrally by the Risk Controlling unit. This practice not only requires but also fosters a transparent way of dealing with any irregularities. It is particularly important to us that every employee takes responsibility for the Bank as a whole; in



fact, individual career development is linked to these goals. Furthermore, we consistently avoid employee conflicts of interest by structuring our compensation principles accordingly and creating a discretionary variable compensation component, among other measures.

The database for systematically recording operational losses, which enables us to analyse losses incurred and draw up appropriate countermeasures, is very important in this context. The Board of Management is reported to on a regular basis using this database, regarding the extent and development of operational losses.

We applied our advanced methodology used to internally manage operational risk during the past financial year in the established way. Targeted scenario analyses are performed at regular intervals and adjusted as required. This involves asking experts from all areas of the Bank about a wide-ranging list of possible scenarios during structured workshops. Outsourcing arises in areas where it appears to be sensible given the financial scope and is overseen by our central outsourcing management team. All outsourced activities are evaluated, rated and documented. We also analyse scenarios involving potential difficulties with cooperation partners or suppliers. Furthermore, in the scenario workshops, we record the consequences of ESG criteria on the loss amounts and frequencies of the parameters underlying the model (for example, the influence of extreme weather conditions on the availability of buildings or data centres). The results enable an assessment of future operational risk potential and provide additional perspectives in this risk category.

The results of the loss incident database and the scenario analyses form the basis for calculating a value-at-risk for operational risks. For this purpose, we employ an internally developed calculating engine, the results of which are incorporated into the analysis of the Bank's ability to bear risk. The results of our VaR and expert estimates are regularly validated by reference to external data. The analyses did not identify any operational risks in excess of the allocated risk-covering assets. The scenario analyses are also used to draw up risk-reduction measures for significant risks. In addition, potential reputational risks for the Bank are listed when the expert surveys are conducted. If required, measures are discussed with a view to ensuring a constantly high level of public confidence in our organisation. At the time of implementation, we also engaged an outside institution to review the quality of the methods used to manage operational risks and the related processes. With the model established, we believe that we are well positioned to meet the regulatory requirements of Pillar II and the Supervisory Review and Evaluation Process (SREP).

Banks are required to hold adequate equity to cover the operational risks they assume. To date, methods with a different degree of accuracy have been authorised for use when quantifying the capital adequacy for this risk category. Although an efficient model is now used for internal management purposes, the Bank continues to use the less complex Basic Indicator Approach to calculate the capital required to cover operational risk. The use of models to determine capital coverage requirements is expected to be discontinued with the introduction of CRR III. For operational risks,



only a standardised approach will then be available for all institutions in regulatory Pillar I (Standardised Measurement Approach (SMA)). We have already analysed the changes associated with this and concluded that from a present perspective, relief tends to be expected (weighting factor of 12% instead of 15%).

With the Basic Indicator Approach that we used in the year under review, the average gross earnings from the last three financial years are weighted by a factor of 15%. By the end of 2023, the capital required to cover operational risk totalled €80.5 million (2022: €85.5 million).

2.4 Liquidity risks

Fortunately, the crisis that arose at some US banks as a result of interest rate developments and significant deposit outflows in the first quarter did not spread over the course of the year. We monitored developments closely. However, our structural organisation is not comparable with the banks affected. Although we also refinance ourselves via customer deposits, we only require a small proportion 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. The high interest rate risk of the US banks concerned also results from bonds with long, often ten-year maturities in the investment portfolio. In contrast, our average fixed-interest period is less than one year. Against this backdrop, we have nevertheless immediately reviewed our liquidity stress tests on an ad hoc basis. The very strict assumptions of our liquidity scenarios cover the deposit outflows that have occurred at the affected US banks. Our short-term scenario assumes an outflow of around 40% of total assets. Silicon Valley Bank (SVB) lost around 20% of its total assets in deposits on the day before the closure, while First Republic is said to have lost around 40% of its deposits within a few days. These stress cases of American regional banks emphasise that the high outflow assumptions for our deposits in the stress tests are sufficiently dimensioned and are also realistic in the event of a serious loss of confidence in the Bank.

Due to the short-term structure of our business, liquidity risks play a relatively minor role during the course of the year. There was a significant surplus of liquidity during the year due to the continued very high level of customer deposits. In line with our strategy, this surplus was invested in highly liquid, short-term bonds (primarily from German states and development banks) or invested with the German Bundesbank. Some of the securities are deposited as collateral with the German Bundesbank, which would guarantee a high refinancing framework with the European Central Bank in the event of an unexpected liquidity requirement. As of 31 December 2023, the available credit line with the German Bundesbank amounted to €1.2 billion (previous year: €1.0 billion). We expect the liquidity situation to remain extremely comfortable in the upcoming financial year.



To manage short-term liquidity, the Treasury division continuously analyses all relevant cash flows over time. Various stress tests are carried out on a daily basis. In addition to the simulation of general stress scenarios, other scenarios with extreme additional strain on individual liquidity components are considered, e.g., the short-term and almost complete loss of particularly large customer deposits. The required regulatory metrics, Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR), were also constantly maintained. In view of the Bank's liquidity position as described above, no risk coverage equity has been currently set aside in the ICAAP for liquidity risk. Only in the unlikely event of negative stress test results would we use economic capital to cover the potential cost of an increase in the cost of obtaining liquidity.

The Bank monitors the liquidity ratios prescribed by CRR on a daily basis. LCR at the end of the year was 1.8 (previous year: 1.6), well above the required minimum ratio of 1.0. The same applies to NSFR, which was 2.5 (previous year: 2.3).

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

Our business strategy, which has proved successful over many years, is regularly reviewed, together with the corresponding risk strategy during the annual planning process. This process also involves an analysis of which measures the various profit centres wish to adopt to achieve their strategic targets and how the planned activities affect the projected development of earnings and the utilisation of risk-covering assets in the ICAAP.

The risk-bearing capacity calculation, with its comparison of calculated risks and available economic capital, represents a central component for managing the risks assumed at the level of the overall Bank. A conceptual merger of capital planning, income statement planning, and risk-bearing capacity is being conducted on the basis of the current RTF guidelines. The parallel consideration of a normative and an economic perspective makes it possible to take the continued existence of the institution into consideration, in parallel with the protection of creditors. Despite the current, crisis-hit state of the economy, both perspectives saw the capacity remain very comfortable over the course of the year. This reflects the Bank's robust financial situation and capitalisation as well as its conservative strategic risk profile.

The Recovery Plan, which is required of all banks by the regulator on the basis of the German Recovery and Resolution Act (Sanierungs- und Abwicklungsgesetz) is updated at regular intervals and updated as required. Due to the size of the institution, the plan is governed by the simplified requirements, in accordance with the German Minimum Requirements for Recovery Planning (MaSanV). The key indicators (recovery indicators) adopted in this context are monitored constantly and are part of the reporting to the Board of Management. All of the defined thresholds were met in the year under review, meaning that no management measures were necessary. However, the existing options for action and management processes for potential crisis situations are suitable for countering any financial deterioration at an early stage if required.

The risks and rewards of the banking business are constantly compared to one another in our processes for overall bank management. As a scarce resource, economic capital is allocated to those segments for which the business opportunities exceed the risks taken.

The quantitative information and control systems used by the Bank as part of the risk management process supply important information for assessing risks. Combining this with the employees' huge wealth of expertise ensures a comprehensive analysis of the risk situation. Therefore, we are convinced overall that the risks taken are proportional to the attainable returns and no risks have been taken that exceed the Bank's risk-bearing capacity.



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