2025

Risk Report

BERENBERG

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Summary of the Risk Situation / Overall Assessment

The Bank's risk profile during the financial year continued to be shaped by a volatile market environment against the backdrop of ongoing geopolitical and macroeconomic uncertainty. We maintained our prudent, conservative and long-term oriented risk strategy. Our deliberate focus on predominantly service-oriented business activities with comparatively lower risk has once again proven effective under dynamic market conditions.

Based on our assessment of the loan portfolio and the significant additional provisions and write-downs recognised during the reporting year, credit risk provisions are considered appropriate. Market risk fluctuated more noticeably in line with our business model, which is characterised by client-driven proprietary trading, and the high level of business activity, and therefore remained a particular focus of our risk management and monitoring processes.

Interest rate risk in the banking book (IRRBB), which declined moderately towards the end of the year, developed in line with the interest rate environment and the continued high level of customer deposits, while continuing to support a strong net interest result. No unusual developments were observed in operational risk, which we manage using an advanced risk management approach.

Our strong liquidity position, driven by a high level of customer deposits, remained at a very comfortable level throughout 2025 and developed in line with our expectations. This is also reflected in the key liquidity management ratios, namely the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR). Our structural asset-liability profile remained largely unchanged.

Economic risk-bearing capacity increased during the reporting year in line with the Bank's earnings performance. However, the BaFin requirement introduced in 2023 that Tier 2 capital and Additional Tier 1 (AT1) capital may no longer be recognised as economic risk-bearing capacity resulted in a lower level of available risk-bearing capacity compared with previous years. Combined with changing risk positions in a volatile market environment, this led to temporarily higher utilisation levels. On average, however, utilisation remained at an appropriate level of approximately 78% (previous year: 72%). Appropriate monitoring and management measures have been established within our risk management framework to address these developments.

From a regulatory perspective, the Bank also experienced temporarily higher risk levels despite an increase in regulatory capital. In order to maintain adequate buffers for risk-taking, Common Equity Tier 1 capital was increased by EUR 10.0 million in the first quarter following the approval of the 2024 annual financial statements through an allocation to retained earnings. In addition, a further EUR 10 million of Tier 2 capital was raised, increasing this capital component to EUR 50.0 million.

As expected, the implementation of CRR III did not result in any material increase in overall risk. This was due, among other factors, to the postponement of the implementation of the Fundamental Review of the Trading Book (FRTB) framework for market risk.

Overall, the Bank's risk metrics did not show any unexpected developments. The fluctuations observed during the year were consistent with the Bank's business model, particularly in relation to the private credit fund business and client-driven proprietary equity trading. Our established risk management framework, together with the related monitoring and control processes, proved effective under the prevailing conditions, while remaining subject to continuous enhancement. Throughout the reporting year, all key risk indicators remained within appropriate limits despite temporary periods of increased volatility. This applies in particular to the Bank's risk-bearing capacity.

Current Situation

The Bank's overall risk profile, including its liquidity position, remained within the defined limits and thresholds during the first half of 2026, including after taking into account the changed circumstances since mid-June. However, the liquidity situation has changed as a result of the external impact of the measures imposed by the banking supervisory authority. Following the related media coverage, customer deposits (EUR and USD) declined to a noticeable but, given our very comfortable starting liquidity position, manageable extent. This outflow was fully covered by existing balances held with the Deutsche Bundesbank, and no sales of securities from the liquidity reserve were required. Liquidity is now managed with an even greater degree of oversight. Therefore, the existing liquidity reserve of approximately EUR 3.6 billion remains available to absorb potential further outflows and could, if required, be converted into liquidity at short notice through Deutsche Bundesbank refinancing operations. Alternatively, securities could be sold in the market if necessary, although this has not been required to date. Given the high credit quality and short maturities of the securities portfolio, we would not expect any material price discounts in such a scenario. In addition, significant amounts of liquidity will be generated from bond maturities during the second half of the year and will therefore be available to meet any potential outflows. The current Liquidity Coverage Ratio (LCR) stands at 178%, while the Net Stable Funding Ratio (NSFR) is 230% (regulatory minimum requirement in each case: 100%). Intensive client engagement has helped to mitigate more significant outflows, and our client relationship managers will continue to maintain close dialogue with our largest depositors.

Regulatory Capital Adequacy

The Bank's regulatory capital ratios had already improved by the end of June. Proprietary equity positions have been reduced, resulting in a corresponding decline in market risk. Lending activities continue to develop in line with plan and no expansion of the loan portfolio is envisaged. With regard to operational risk under the CRR, no material short-term changes are expected under the Standardised Measurement Approach (SMA).

Economic Risk-Bearing Capacity

Average utilisation of economic risk-bearing capacity amounted to 78% during the year. At the reporting date, utilisation at the individual institution level stood at 70.1%. This figure reflects all adjustments resulting from the audit of the annual financial statements, which reduced the available risk-bearing capacity while increasing market risk. Average utilisation during the first five months of 2026 amounted to 88%. By 30 June 2026, this level had already benefited from the positive earnings performance and, in particular, from the reduction in proprietary equity positions.

Operating Environment

A conservative risk appetite is a core element of our risk culture and was reviewed and fundamentally reaffirmed as part of the Bank's annual strategy and planning process. In individual cases, the Management Board may approve transactions involving higher risks, provided these are covered by the Bank's risk-bearing capacity and established governance processes. As part of implementing the measures ordered by BaFin, it has now once again been ensured that typical banking risks, such as credit and market risk, are assumed only to an appropriate extent that supports the Bank's long-term business continuity. Maintaining our consistently strong liquidity position, together with the monitoring and management of operational risks, complements our overall Bank management approach. This risk philosophy forms the basis of our comprehensive risk management framework and includes the definition of risk limits to ensure effective risk control. Risk management for all of our branches is coordinated centrally from our headquarters in Hamburg.

The Bank's liquidity position remained at a very comfortable level throughout 2025, in line with our business model and the resulting balance sheet structure, and continued to be supported by a diversified customer deposit base. The high level of deposits, which continued to generate attractive margin contributions, was primarily driven by substantial USD deposits from the Shipping business, a solid client base in Wealth Management and the continued growth of our operating business. Developments during the year were in line with our expectations. We invest the structural surplus of liabilities in a highly liquid portfolio dominated by securities issued by German public-sector issuers with short residual maturities, as well as in central bank deposits held with the Deutsche Bundesbank. A portion of the bonds and hedging relationships within our banking book is classified as non-current financial assets (EUR 1.7 billion) in order to maintain consistency with the fixed-rate current accounts that are likewise recognised within non-current assets.

Against the backdrop of our strategic focus on service-oriented business activities, our risk management framework is characterised by the use of modern risk measurement methodologies and monitoring processes tailored to the Bank's business model. Risk management at Group level represents the primary management perspective and appropriately incorporates all relevant subsidiaries and investments. To address the deficiencies in corporate governance identified during the special investigation, a dedicated remediation programme has been established. As part of this programme, and based on a comprehensive risk inventory that also includes a separate assessment of ESG-related aspects, credit risk, market risk, operational risk and liquidity risk are regularly analysed as the Bank's principal risk categories. Reputational risk, event risk and investment risk are assessed within the framework for operational risk management. Potential reductions in earnings are likewise taken into account, including through the analysis of adverse scenarios and the conservative planning and definition of the available risk coverage potential within the Internal Capital Adequacy Assessment Process (ICAAP). On the one hand, potential declines in fee income reduce the available risk coverage potential (RCP) recognised for ICAAP purposes. On the other hand, the Management Board has established a limit reserve currently amounting to 10% of the available risk coverage potential, meaning that only 90% is available for risk-taking. Where appropriate, the Management Board may temporarily release this reserve for risk-taking by establishing a temporary special limit. During the 2025 financial year, such a special limit was utilised for one month during the first quarter as a result of temporarily increased market risk, with appropriate risk management measures implemented accordingly. In addition, a number of temporary volume-related special limits at individual exposure level were approved by the Management Board within the existing large exposure approval framework. Furthermore, the ICAAP framework incorporates a range of combined stress scenarios, including scenarios that simulate a significant reduction in available risk coverage potential in order to ensure the protection of balance sheet equity.

Our implementation of the regulatory ICAAP requirements once again proved effective as a management tool during the reporting year and continues to be developed further. Key areas of focus in 2025 included capital planning, the risk inventory process and the further enhancement of stress testing, including the integration of ESG aspects. The regular review of the conservatism of the assumptions applied in the economic perspective forms an established part of our quality assurance processes. The integration of capital planning, profit and loss planning and risk-bearing capacity, together with the parallel assessment of both the normative and economic perspectives, has become an integral component of the standard processes within the Risk & Finance division. This enables us to ensure the achievement of the two associated strategic objectives, namely the continuity of the institution and the protection of creditors. Both perspectives are based on the fundamental principle of the risk-bearing capacity framework, under which identified risks are compared with the available risk coverage potential at both Bank and Group level.

The normative perspective is based on the regulatory capital requirements applicable to the Bank. As part of the integrated three-year capital planning process, various scenarios are analysed. These include a baseline scenario, reflecting business development under normal economic conditions, and an adverse scenario, assuming a severe economic downturn extending well beyond one year. The adverse scenario is based on extensive macroeconomic and institution-specific assumptions and is not limited to isolated parameter shocks. Instead, in accordance with the Minimum Requirements for Risk Management (MaRisk), it represents an integrated stress test affecting all relevant management metrics. It also incorporates appropriate management actions designed to mitigate the effects of the crisis. Our analyses continue to demonstrate that the Bank would be capable of withstanding even such extreme scenarios through its own capital resources and earnings capacity. Decisions by the banking supervisory authorities regarding changes to regulatory capital requirements are assessed, where relevant, for their potential impact on the Bank's capital position and incorporated into the planning process. All regulatory capital ratios are currently met and are expected to remain fully compliant throughout the planning horizon.

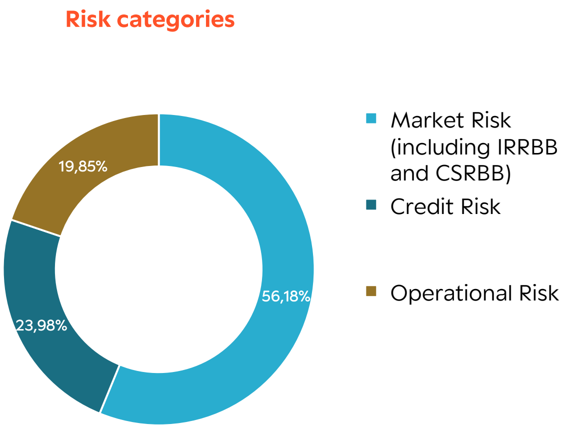
Under the economic perspective, the available risk coverage potential is determined on a present value basis. The starting point comprises the accounting capital recognised under the German Commercial Code (HGB), adjusted for hidden reserves and hidden charges. Planned profits are generally not recognised within our methodology. For each of the principal risk categories, we quantify potential losses using the Value-at-Risk (VaR) methodology. VaR measures the maximum expected loss at a defined confidence level. Risk is quantified using established present value models with a confidence level of 99.9% and a one-year risk horizon. The VaR methodology reflects potential losses under normal market conditions. To assess the Bank's risk profile under more severe circumstances, these risk measurements are supplemented by appropriate historical and hypothetical stress tests.

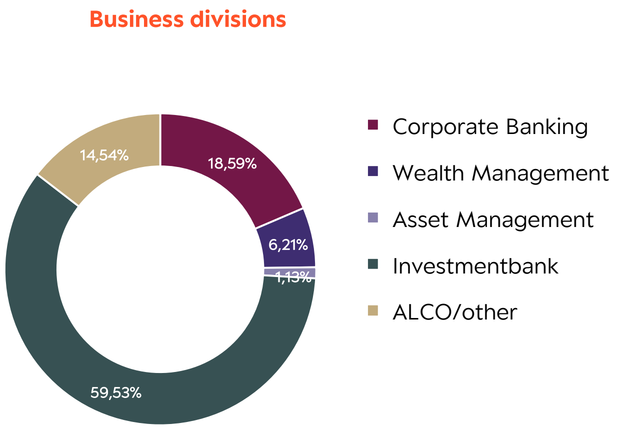
The regular comparison of risks with the available risk coverage potential is based on these two complementary perspectives of the Bank's overall risk position. Diversification effects across the various risk categories are deliberately disregarded by conservatively aggregating the capital requirements for each individual risk category. As part of monthly and quarterly analyses, the results of both risk-specific and cross-risk stress scenarios are compared with the available economic risk coverage potential in order to identify potential vulnerabilities. In acute crisis situations, event-driven stress tests are performed whenever required. In addition, combined scenarios are calculated to determine the circumstances under which the available risk coverage potential would be fully exhausted (reverse stress testing).

During the reporting year, average utilisation of economic capital amounted to 78% (previous year: 72%), meaning that the Bank's available economic capital was not fully utilised by the business divisions. Consistent with our strategy, this demonstrates that the opportunities generated by our business activities remain appropriate in relation to the risks assumed.

The following charts illustrate the allocation of economic capital across the individual risk categories and the Group's business divisions.

Figure 1: Economic Capital Allocation by Risk Category and Business Division





The Management Board bears overall responsibility for risk management and defines the framework governing the management of the various risk categories. The Risk & Finance division, which forms part of the central Bank Management function, is organisationally independent of all front-office units in accordance with the MaRisk requirements and, in close cooperation with other organisational units, ensures the continuous and timely flow of information to the Management Board and the Supervisory Board of the Bank as part of its risk controlling function. It is responsible for the development and maintenance of the systems used for overall Bank management and risk management. The central Bank Management function was established during 2025 and, in addition to Risk & Finance, comprises the Bank's other control and back-office functions. At the beginning of 2026, a further unit, Product Management, was established to consolidate product and project resources. In doing so, we are consistently continuing our approach of integrating all risk management and controlling functions with Bank-wide administrative units in order to ensure the most effective interaction between management systems while maintaining efficient processes. By specifically linking management accounting performance indicators from Controlling and statutory financial results from Accounting with both economic and normative risk metrics, we are able to establish a comprehensive Bank-wide view when assessing risks and to provide this information to the Management Board through the regular management reporting process. Within the central Bank Management function, a comprehensive risk inventory is carried out on a regular basis, and the quantified risks across the various risk categories are compared with the available risk coverage potential. As part of the risk management process, it is ensured, in line with the Bank's strategy, that no unintended risk concentrations arise either within individual risk categories or across different risk types. In addition to implementing the measures resulting from various special reviews conducted by Internal Audit, a comprehensive independent project was established to address the identified governance breaches and control weaknesses. This project analyses all relevant process chains, data quality and organisational structures and implements the necessary enhancements and improvements.

Berenberg applies the established Three Lines of Defence model within its risk management framework. Under the first line of defence, operational management within the various business areas, as the owners of risk, is responsible and accountable for identifying, assessing, managing and mitigating risks. This includes the implementation and monitoring of organisational safeguards as well as the control activities embedded within business processes. As part of the second line of defence, the Risk & Finance and Group Compliance functions support and oversee the implementation of an effective risk management framework and ensure independent risk reporting to the Management Board. As the third line of defence, the independent Internal Audit function applies a risk-based approach to assess the effectiveness with which the Bank manages its risks and how effectively the first and second lines of defence fulfil their respective responsibilities. The governance breaches referred to above continue to be addressed as part of the dedicated remediation project.

The continuing and newly intensified geopolitical conflicts shaped the reporting year and gave rise to economic uncertainty, which was also reflected in the financial and capital markets. Owing to the Bank's strategic business focus, no direct impact arose from existing risk positions. All sanctions measures are, of course, implemented consistently, particularly in the areas of payment transactions and Compliance. With regard to credit risk, no need has arisen for measures extending beyond the existing stress-testing framework. Our Credit Risk Management function (Market Follow-up) continues to monitor closely those exposures placed under observation. During the first half of the year, the non-performing loan (NPL) ratio temporarily exceeded the 5% threshold defined under MaRisk, but had already been reduced below this level again during the third quarter. Exposures related to real estate continue to account for only a small proportion of our customer loan portfolio, at approximately 6%. No unusual increase in operational risk was observed during the reporting period. The Bank's ICAAP framework remains resilient from both the normative and the economic perspective. Owing to our business model, including our comparatively limited lending activities, only a small proportion of customer deposits is required for refinancing purposes.

Furthermore, unlike many other banks, we do not engage in significant maturity transformation. Our average interest rate fixation period remains below one year. From today's perspective, the available buffers within the Bank's risk coverage potential, both from the normative and the economic perspective, are sufficient to absorb any potential additional effects of future crisis scenarios. The existing stress-testing framework adequately covers current scenarios and is supplemented and adjusted whenever necessary to reflect changing circumstances. Regulatory developments continue to be monitored closely, and their potential impact on the Bank as a whole is analysed on an ongoing basis.

Material Risks

The identification of material risks as part of the risk inventory is based on a standardised analytical process, which we continue to refine on an ongoing basis. As a first step, a catalogue of potential primary and sub-risk categories is assessed with regard to its relevance to the Bank's specific business model. This assessment also includes an ESG-specific catalogue of criteria, which is used to evaluate all risks with respect to their ESG relevance. In the next step, risks are classified according to a materiality scale that has already been established at Berenberg for other risk assessments (Operational Risk Self-Assessment, Information Security, Business Continuity Management and Third-Party Risk Management). This scale comprises six defined levels. In addition to the potential impact on the Bank's financial position and financial performance, possible effects on liquidity are also analysed. Wherever possible, quantitative metrics are assessed against predefined financial thresholds; otherwise, a qualitative expert assessment is performed. As part of the risk management process, credit risk, market risk, operational risk and liquidity risk are assessed as material risk categories, including for all relevant investments. Reputational risk is assessed within the operational risk management framework. Potential reductions in earnings are likewise taken into consideration through adverse scenarios, a conservative definition of the available risk coverage potential and profit and loss adjustments reflecting potential reductions in recurring business.

An organisationally independent Credit Risk Management function, separate from the client-facing business units, monitors the credit risks assumed by the Bank using an appropriate system of limits. The management of credit risk at overall portfolio level is supported by targeted analyses performed by the Risk & Finance function. Market risk arises both from short-term trading book positions and from the strategic positions held within the liquidity reserve and is closely monitored by the risk controlling function. Interest rate risk in the banking book (IRRBB) further complements the Bank's overall risk profile. Risk & Finance also ensures the quantification of operational risk using advanced methodological approaches. The level of operational risk is mitigated through robust processes, the appropriate qualifications of our employees and a comprehensive framework of policies, including business continuity and contingency planning. The Treasury function, together with the Money Market Trading unit, is responsible for managing liquidity risk. Ongoing monitoring is carried out in cooperation with Risk & Finance, while regular validation is performed by an independent unit within the central Bank Management function.

The performance of the individual business divisions is monitored on a monthly basis through an integrated profitability analysis that takes the risks assumed into account. Within this framework, volatile earnings components and their potential impact on financial performance are also analysed. Daily reporting on the key profit and loss positions, together with scenario planning, serves as an early warning system. Consistent with the Bank's strategy, risks are deliberately diversified across business activities and markets. Risk & Finance provides management with comprehensive reporting that enables recipients to analyse both results and risks at different levels of aggregation. Internal Audit regularly reviews, on the basis of established policies and procedures, the organisational arrangements for managing, monitoring and controlling the various risk categories. Risk & Finance and Credit Risk Management report regularly to the

Risk Oversight Committee established by the Bank's Supervisory Board, which meets three times a year on a scheduled basis and, where necessary, on an ad hoc basis. The principles governing our risk management framework are documented in a written Risk Strategy, which is accessible to all employees.

Credit Risk

Credit risk arises primarily from our lending activities with clients in the Corporate Banking (corporate clients), Wealth and Asset Management (private and institutional clients) and Investment Bank (strategic clients) business divisions. In addition, credit risk results from our proprietary securities holdings (issuer risk), derivative transactions (counterparty risk) and money market placements in the interbank market. Investment risk is fully integrated into our risk management processes. Consistent with our unchanged conservative credit risk strategy, under which lending is conducted as a complementary business activity, we have established exposure and maturity limits for the individual business segments in line with the risk appetite defined by the Management Board. Robust credit processes, appropriate collateralisation, the use of syndication opportunities, adequate risk premiums, the general avoidance of structural subordination and the consideration of ESG risks are key elements of our approach. Individual exceptions to these principles may be approved where justified by an appropriate risk-return profile; however, such cases must be documented accordingly and approved by the Management Board.

As in previous years, the consistently high level of customer deposits resulted in a substantial investment requirement, as only part of the available liabilities is required to support our traditional lending business. In line with our investment strategy, only a comparatively small proportion of this liquidity surplus was placed in the money market. Such placements are made exclusively with selected banks of high credit quality, with a particular focus on promotional banks benefiting from statutory guarantees, and are subject to low limits per institution (or banking group) in order to achieve the broadest possible diversification. The structural liquidity surplus generated from customer business is invested predominantly in bonds of the highest credit quality. We continue to apply stringent standards regarding both credit quality and market liquidity in order to minimise potential price volatility. Within our liquidity reserve (including promissory note loans) and our investment portfolio, securities issued by German public-sector issuers account for 53% (previous year: 45%) of nominal holdings, while securities guaranteed by the Federal Republic of Germany or one of the German federal states account for the remaining 47% (previous year: 55%). The average residual maturity of the portfolio is 1.9 years (previous year: 2.4 years), resulting in correspondingly moderate credit spread risk within the portfolio. A virtually unchanged amount of EUR 0.8 billion (previous year: EUR 0.8 billion) of the liquidity surplus is held in the ECB deposit facility.

The Management Board receives regular reports on the Bank's exposure to banking counterparties. Allocated bank limits are reviewed on a regular basis to enable additional measures to be implemented promptly where required. In assessing counterparties, we do not rely solely on external credit ratings but complement these assessments through our own analysis of annual reports and the evaluation of current market information.

Credit risk is managed through a comprehensive limit system, which also serves to restrict risk concentrations. Counterparty credit risk arising from derivatives is incorporated by taking replacement cost risk into account. Credit risk in this area is mitigated through comprehensive collateral management arrangements with our counterparties. This market-standard approach to the ongoing collateralisation of OTC transactions is applied not only with banks but also with a broad range of institutional clients. Independent monitoring of credit risk is carried out by the Credit Risk Management function, which operates separately from the client-facing business units. The defined delegation of authority limits the discretion of individual relationship managers and ensures that the Management Board is involved in all material lending decisions. All credit exposures are subject to an ongoing review process, including at least an annual reassessment of the borrower's creditworthiness. The established credit limits are supplemented by a wide range of organisational controls and collateral requirements applicable to lending transactions.

Our Credit Risk Management function closely monitors the development of watchlist cases. During the first half of the year, the non-performing loan (NPL) ratio temporarily exceeded the 5% threshold defined under MaRisk, primarily as a result of the individual effect described above, but had already fallen back below this threshold during the third quarter. Exposures related to real estate continue to represent only a small proportion of our customer loan portfolio, accounting for approximately 6%.

A comprehensive Credit Portfolio Report is prepared on a quarterly basis and forms part of the quarterly reporting provided to both the Management Board and the Supervisory Board, covering the structure of the lending portfolio and the associated risks. In addition, the Management Board receives monthly reports on the key structural characteristics of the portfolio and significant developments. Where required, further analyses performed by the Risk & Finance function support the management of credit risk at overall portfolio level.

As part of overall portfolio management, historical credit losses from previous financial years are systematically collected and analysed. Regular validations of our credit risk calculations also assess model performance against this historical default experience. The statistically expected annual portfolio loss (Expected Loss) is derived from the data generated by our credit portfolio model together with the long-term historical average of credit losses. This Expected Loss is incorporated into loan pricing through the calculation of standard risk costs. In addition to the loan amount and collateral provided, the standard risk costs associated with a lending exposure are determined primarily by the borrower's credit rating. An internal corporate rating system available to both relationship managers and the Credit Risk Management function enables timely assessments of borrowers' credit quality based on financial statement data. In addition to financial metrics, qualitative factors and, in future, ESG-related aspects are also incorporated into the determination of rating grades. For project finance exposures in the real estate and shipping sectors, we apply internally developed rating models that place particular emphasis on projected cash flows generated by the financed assets. Structured finance transactions are assessed using a proprietary rating tool that explicitly incorporates leverage. Within our shipping finance portfolio, which represents a comparatively small part of the overall portfolio (average share of 7% during the year), we continue to focus on short loan maturities and excellent collateralisation. The same conservative approach applies to our real estate portfolio, particularly in light of prevailing market developments (average share of 6% during the year).

The standard risk costs resulting from these credit assessments are available within our IT systems at all relevant levels of aggregation. Taken together, these standard risk costs represent the statistically expected loss for the Bank as a whole over the long term, around which actual credit losses may fluctuate. Accordingly, an additional risk component is required to reflect the potential deviation of actual losses from this expected value. Using a statistical credit portfolio model based on the CreditRisk+ methodology, we quantify the Unexpected Loss at portfolio level, which is incorporated into the ICAAP risk-bearing capacity calculation at the specified confidence level. This present value approach is complemented by regular reviews to ensure that the methodologies applied remain appropriately conservative for risk-bearing capacity purposes. The Bank's economic capital serves as the risk coverage potential for unexpected credit losses. In accordance with MaRisk, our analyses of economic capital allocation are supplemented by appropriate stress scenarios, including significant increases in default probabilities, declines in collateral values, the default of individual large borrowers and adverse ESG-related developments (sustainability risks).

The quantitative methodologies applied to assess credit risk are validated regularly and further refined where necessary. However, primarily because the number of defaulted borrowers is insufficient for statistical purposes, these methodologies cannot currently be recognised by the supervisory authorities as an Internal Ratings-Based (IRB) Approach. Following the introduction of CRR III, we have therefore consciously continued to apply the Standardised Approach (SA-CR) for regulatory capital purposes, including the comprehensive method for recognising financial collateral under the CRR. As at 31 December 2025, this resulted in a regulatory capital requirement for credit risk of EUR 88.3 million (previous year: EUR 80.1 million). After taking into account the retrospective adjustment of the prior-year figures, the comparable amount is EUR 87.8 million.

The gross NPL ratio, which had increased to 6.1% in the previous year's financial statements, declined again during 2025 and stood at 4.2% at year-end following individual loan loss provisions and direct write-offs. It therefore remained below the 5.0% threshold specified under MaRisk. The net NPL ratio, after taking individual loan loss provisions into account, amounted to 2.8%. As a result, the additional risk management requirements applicable to this sub-portfolio have become less significant, although they continue to be fully implemented. Further repayments relating to a real estate exposure, for which a new development project is expected to commence in the near term, were received during the first quarter of 2026, leading to a further significant improvement in these ratios. Irrespective of this, the portfolio continues to be subject to intensive ongoing monitoring based on defined key performance indicators (KPIs) and remains fully integrated into the Bank's risk reporting.

Market risk

Market risk for positions held in both the trading book and the banking book arises from fluctuations in prices and volatilities relating to interest rates, equities and foreign exchange.

Proprietary trading continues to serve solely as a complement to our service-oriented business activities and is conducted within predefined risk limits. Market risk arising from proprietary trading positions is managed using an appropriate risk measurement framework. For all positions exposed to market risk, Value-at-Risk (VaR) metrics are calculated daily using a Monte Carlo simulation. The model is based on an enhanced methodology that captures the tails of return distributions using a fat-tail approach, thereby providing a more conservative representation of certain unusual market movements in the individual financial instruments. For day-to-day risk management, these VaR calculations are performed using a 99% confidence level and a 10-business-day holding period.

In line with regulatory standards, a more conservative parameterisation is also applied within the economic risk-bearing capacity (ICAAP) framework, using a 99.9% confidence level and a longer holding period of 250 days, corresponding to the one-year risk horizon. For ICAAP purposes, the risk factors considered comprise discount factors for interest rate risk, equity time series and equity indices for equity risk, and exchange rates for foreign exchange risk, based on a historical observation period of five years. The VaR calculations are performed using equally weighted historical observations.

The following table shows the percentage utilisation of the Value-at-Risk limits for trading book positions during the reporting year (short-term risk management).

Figure 2: Market Risk Limit Utilisation in 2025

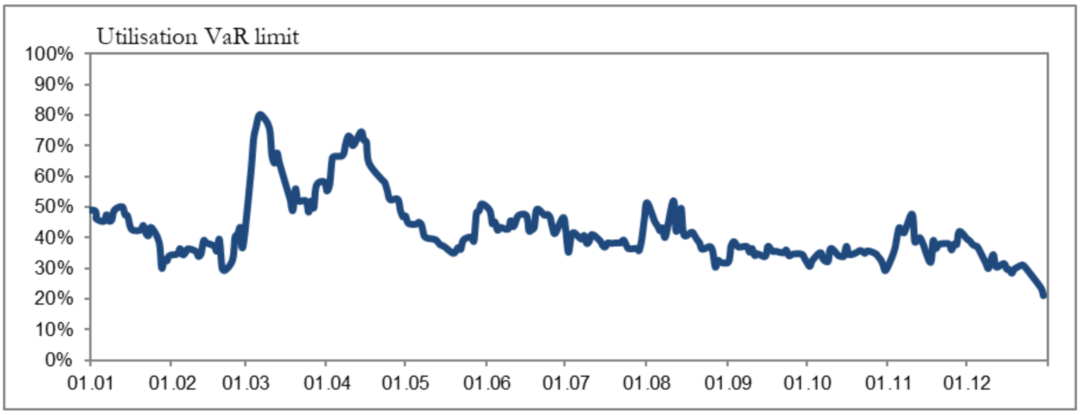
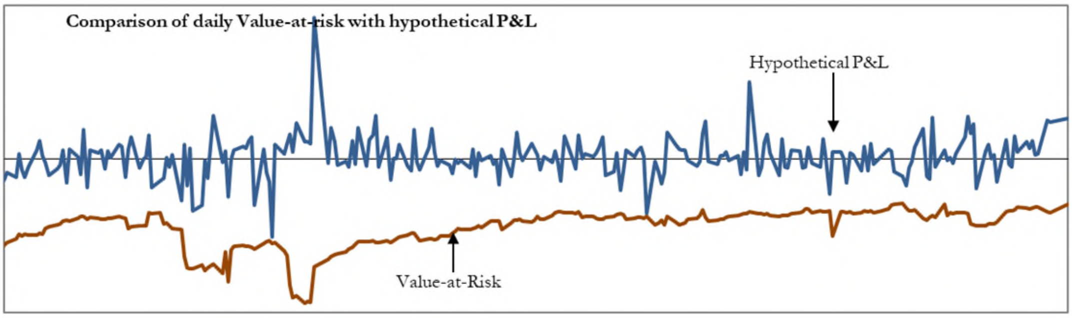


Figure 2 illustrates the moderate level of market risk arising from our trading activities. The Bank's regulatory trading book continues to be dominated by traditional cash equity positions. Derivative products play only a minor strategic role and are offered primarily in the context of client business, particularly FX trading, in the form of back-to-back transactions, which, as matched positions, do not present proprietary market risk for the Bank. Compared with the results generated by the trading businesses, this reflects a favourable risk-return profile. The largest share of the allocated Value-at-Risk (VaR) limits relates to the Sales business. Activities within this area, which are classified as trading book positions for regulatory purposes, do not constitute proprietary trading in the strict sense. Rather, they primarily comprise the execution of transactions on behalf of institutional clients.

The quality of the VaR methodology is verified through daily backtesting, in which the forecast for the following trading day is compared with the actual changes in the value of the respective positions and analysed over time.

Figure 3 presents the daily backtesting results for the reporting year. Our risk model once again proved robust under the volatile market conditions experienced during 2025. The conservative parameterisation confirmed during the regular model validation process conducted during the reporting year is also reflected in the absence of backtesting exceptions throughout the observation period.

Figure 3: Daily Market Risk Backtesting Results for 2025



In contrast to limit utilisation, which is measured using a 10-day holding period, our daily backtesting is performed using Value-at-Risk (VaR) based on a one-day holding period. The Value-at-Risk of the trading portfolio exhibited the following composition during the reporting year:

Figure 4: Value-at-Risk Metrics for the Trading Book

Trading portfolios	VaR at end of reporting period	VaR values during the year		
		High	Low	Average
	€ '000	€ '000	€ '000	€ '000
Aggregated VaR	**7.202 (7.310)**	**23.367 (10.150)**	**7.140 (1.585)**	**11.026 (4.950)**

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

As the Value-at-Risk (VaR) methodology only provides an indication of the risk inherent in positions under normal market conditions and does not capture extreme market events, these analyses are supplemented by daily worst-case calculations. These assess how current trading positions would have performed under historical stress events. The stress-testing framework therefore analyses the potential impact of historical extreme market scenarios on the Bank's current trading positions.

In addition to Value-at-Risk limits, each trading segment is subject to dedicated worst-case limits, which must be complied with on a daily basis. Within the methodology used for the Bank's economic risk-bearing capacity (economic perspective), the current utilisation of limits is compared with the available risk coverage potential, applying a highly conservative 99.9% confidence level and a 250-day holding period, in line with the prevailing regulatory standard for the measurement of market risk. We have continued to apply our market risk model, which is based on a fat-tail distribution. This methodology also captures exceptional market movements, such as extreme price changes in equity markets, thereby reducing the number of potential backtesting exceptions.

As realised losses reduce the available limits, the allocated limits effectively represent a stop-loss threshold and therefore determine the maximum potential loss for each financial year. While the Value-at-Risk figures are used for the analyses based on the 99% and 99.9% confidence levels, the stress analysis additionally incorporates the utilisation of the worst-case limits. The limits allocated to the individual trading segments are appropriate in relation to the available risk coverage potential and are approved by the Management Board. This ensures that no individual trader is able to establish material risk positions on behalf of the Bank.

Trading book positions are held predominantly in liquid, linear financial instruments for which observable market prices are available on a daily basis. Valuation models are used only in exceptional cases and primarily for derivative instruments. Derivatives may be entered into principally for the purpose of hedging linear trading book positions. The Bank has maintained an internal prohibition on proprietary trading in non-linear products (derivatives) for a considerable period, as such activities are not consistent with its business model. Any exceptions require case-by-case approval by the Management Board. Appropriate mechanisms are in place to ensure that the quality of the valuation models used is reviewed on a regular basis.

The strategic positions held within the liquidity reserve and the investment portfolio are managed by our Asset Liability Committee (ALCO), which comprises members of the Management Board together with representatives from Treasury and the central Bank Management function, among others. Market risk arising from these positions is measured using the same methodologies as those applied to trading book positions. This also includes the assessment of potential credit spread risk associated with the asset classes represented in the portfolio.

For the proprietary securities investments described in the section on Credit Risk, the Bank has generally not assumed elevated interest rate risk. Investments are made primarily either in floating-rate instruments or in fixed-rate securities, whereby interest rate risk on instruments with maturities exceeding two years is generally hedged using interest rate swaps.

Interest Rate Risk in the Banking Book (IRRBB) and Credit Spread Risk in the Banking Book (CSRBB) form an integral part of our risk reporting framework. Both the present value effects and the periodic impact on net interest income are measured. The effects of the interest rate shock scenarios defined under the applicable national supervisory requirements (MaRisk and related circulars) as well as the relevant European regulatory framework (EBA Guidelines and Delegated Regulations) are analysed regularly using internally developed methodologies. These analyses assess the impact of a range of shifts in the current yield curve on both the present value of the banking book and periodic net interest income. Potential declines in deposit volumes are simulated using regularly reviewed behavioural maturity assumptions. Equity is excluded from these analyses. At the end of the financial year, the ratio of the present value loss resulting from a 200-basis-point shock to regulatory own funds, which under regulatory requirements should not exceed -20%, amounted to -6.8% (previous year: -8.4%) and resulted from a scenario of sharply declining interest rates. Rising interest rates, by contrast, would result in a positive change in present value. The parallel shift applied under the Supervisory Outlier Tests produces very similar results. These metrics reflect our investment policy, which, in line with our strategy, is characterised by short maturities on both the asset and liability sides of the balance sheet. The continuing high volume of non-interest-bearing deposits, the subordinated liabilities issued by the Bank and its pension obligations remain the principal drivers of the present value loss under the IRRBB calculations. The additional early warning indicator defined by the supervisory authorities, expressed as a ratio to Common Equity Tier 1 capital and derived from the prescribed supervisory early warning scenarios, amounted to -7.9% (previous year: -9.7%) and therefore remained comfortably within both the internal and external early warning threshold of -15%. The corresponding net interest income (NII) effects calculated under the same scenarios amount to EUR -8.0 million, or -2.5% of Common Equity Tier 1 capital, under the parallel shift scenario, thereby remaining well within the applicable regulatory threshold of -5.0%.

Credit Spread Risk in the Banking Book (CSRBB) is managed broadly in the same manner as IRRBB. The analysis includes all positions that are sensitive to market-wide credit and liquidity spreads, while positions without such sensitivity are excluded. In view of the Bank's strategy and business model, loans and customer deposits are not included, as there is neither any intention to dispose of these exposures through securitisations or portfolio transactions nor any other basis for assuming an impact on the Bank's financial performance. Planned syndications carried out in connection with the management of our credit funds are considered separately, as these are executed without spread-implied or credit spread-driven pricing and involve a "pari-passu" transfer of risk at nominal value. Traditional lending accounts for only a comparatively small proportion of total assets (17%), is driven by the individual financing requirements of our clients and has a very short average duration (2.5 years). Consequently, the principal focus of the CSRBB analysis is on the marketable assets held within the liquidity reserve and investment portfolio (securities and promissory note loans), together with the Bank's outstanding AT1 instruments and subordinated liabilities. Unlike the regulatory scenarios prescribed for IRRBB, the CSRBB calculations are based, in accordance with supervisory requirements, on an internally defined historical stress scenario, which primarily assumes a widening of credit spreads for public-sector issuers. This results in a present value effect of EUR -12.3 million. From a net interest income (NII) perspective, however, the scenario would increase earnings by EUR 1.9 million, as the wider spreads would generate higher income upon reinvestment of maturing assets.

Utilisation of the relevant supervisory thresholds continues to remain at a comfortable level. As part of our ongoing risk management processes, we invest in appropriate interest rate hedging instruments whenever necessary.

As at 31 December 2025, the regulatory capital requirement for market risk reported to the Deutsche Bundesbank amounted to EUR 25.7 million (previous year: EUR 30.7 million). Taking into account the subsequent adjustments made to securities and derivative positions during the preparation of the annual financial statements, the corresponding amount was EUR 41.9 million.

Operational Risk

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 risk. Reputational risk is captured qualitatively within the operational risk management framework. A large proportion of so-called non-financial risks are likewise addressed through our operational risk management, including IT risk, compliance risk, outsourcing risk, model risk, event risk and legal risk. In addition, these risks are implicitly reflected through the composition of the Bank's available risk coverage potential.

Given the Bank's strategic focus on service-oriented business activities, the management of the associated risks remains a high priority. Accordingly, we employ advanced methodologies that enable effective risk management, including our internally developed Operational Value-at-Risk (OpVaR) model and scenario analyses. Operational risks are further mitigated through a comprehensive framework of policies, procedural guidelines and delegated authorities. Responsibility for compliance with, and the continuous updating of, these policies rests directly with the heads of the respective business areas, supported by a dedicated function responsible for maintaining Bank-wide process documentation. The regularity and propriety of business processes are subject to ongoing review by the Bank's Internal Audit function. As part of the implementation of the Digital Operational Resilience Act (DORA), all internal policies and processes were updated to reflect the requirements of the regulation, and the DORA implementation programme was successfully completed. To ensure continuous organisational improvement, a follow-up programme has been established to implement further process enhancements and incorporate future regulatory clarifications, including additional Q&As where applicable.

A key component of operational risk relates to the functionality and security of the Bank's IT systems. This area is addressed through dedicated safeguards across the various technical environments. In addition to the continuous development of our IT infrastructure and ongoing monitoring of technological developments, we operate firewall protection against malware and external cyber-attacks, as well as backup systems that ensure uninterrupted business operations in the event of system failures. Among other measures, we employ not only signature-based detection but also behavioural analysis of email attachments through a sandbox solution. We also operate a Security Information and Event Management (SIEM) system, which continuously analyses available log data using an evolving set of automated rules in order to detect and investigate potential anomalies at an early stage. A centralised Business Continuity Management (BCM) framework has been established across all business areas.

Against the backdrop of the DORA regulation, which became applicable in January 2025, one reportable IT incident occurred during the first quarter of 2025 as a result of a software defect affecting a network switch. The incident was reportable primarily because it met the DORA criteria relating to the duration of the disruption and its economic impact. The root cause was identified and resolved, and the affected systems have since operated reliably. Although cyber threats continue to represent a significant risk, no security incidents resulting in financial loss have occurred to date. Crisis management exercises covering cyber incidents and other emergency scenarios are conducted regularly and whenever required, in some cases with external support. During the second quarter, the Bank also simulated the failure of its market risk model provider (MSCI data interface). The established contingency procedures operated as intended and were completed within an appropriate timeframe.

Employees are regularly assessed by their respective line managers. In cooperation with the Human Resources function and management, the Bank ensures that employees possess the high level of qualification and motivation appropriate to their respective roles. Legal risks are mitigated through close cooperation between the Legal department and the business units, the use of appropriate standard documentation and contractual arrangements, and the standardisation of IT-supported processing and settlement procedures. In addition, all executed contracts are subject to prior review by the Legal department within the Bank's central contract management process. Employee awareness also plays a key role in the management of operational risk. The Bank's overall strategy defines the values underpinning our business activities, particularly with regard to risk culture, which is based on the three core principles of risk appetite, risk oversight and employee incentives. Risk appetite is defined annually by the Management Board as part of the strategic planning process and also serves as the basis for allocating risk limits to the trading businesses. The design of the Bank's risk oversight functions complies with the principles of MaRisk and ensures timely, independent reporting to the Management Board through the market-independent functions Risk & Finance, Compliance and Internal Audit. The Bank places great importance on maintaining an open culture in dealing with errors. Operational incidents are consistently viewed as opportunities to further improve processes and risk forecasting. Accordingly, operational risk is measured and managed, among other components, using internally recorded loss events, which are centrally captured and analysed within the Risk & Finance function. This approach not only requires but actively encourages transparent reporting of operational incidents. Particular emphasis is placed on encouraging every employee to assume responsibility for the Bank as a whole, and individual career development is aligned with these objectives. In addition, the creation of conflicts of interest is consistently avoided, including through the design of the Bank's remuneration principles and the application of discretionary variable compensation.

The central loss event database, which systematically captures operational loss events, plays a key role in enabling the Bank to analyse incidents and derive appropriate remedial actions. Based on this database, the Management Board receives regular reporting on both the level and development of operational losses. No unusual developments in operational loss events were observed during the reporting year, with loss levels remaining within the historical range of fluctuation.

During the reporting year, we continued to apply our established advanced methodology for the internal management of operational risk without modification. Targeted scenario analyses were performed as scheduled and updated where necessary. In this context, a dedicated operational risk scenario for event risk has been introduced. The analysis process includes structured workshops involving experts from all areas of the Bank, who assess a comprehensive catalogue of potential risk scenarios. Outsourcing arrangements are entered into where justified on economic grounds and are managed through the Bank's central outsourcing management framework. Each outsourcing arrangement is assessed, classified and documented accordingly. The scenario analyses also evaluate risks arising from potential difficulties affecting external service providers and business partners. In addition, the workshops assess the impact of ESG factors on both the severity and frequency of operational losses within the model parameters, for example the effects of extreme weather events on the availability of buildings or data centres, or potential fines resulting from climate-related litigation (conduct risk). The results provide an assessment of future operational risk potential and offer an additional perspective on this risk category. The ESG-related components of our economic operational risk are quantified and incorporated into the Bank's risk reporting, with the individual ESG risk drivers presented according to their respective contributions to Unexpected Loss. The largest contribution arises not from Environmental or Social factors but primarily from Governance aspects, including typical compliance issues such as breaches of embargo or sanctions regulations, legal risks and fraudulent activities.

Investment risk is also reflected within Pillar II, either on a look-through basis or as part of operational risk, depending on the outcome of the Bank's risk inventory. The operational loss database and the scenario analyses together form the basis for calculating the Value-at-Risk for operational risk. This calculation is performed using an internally developed modelling engine, the results of which are incorporated into the Bank's risk-bearing capacity assessment. The outputs of both the VaR model and expert assessments are regularly validated using external data. No operational risks exceeding the allocated risk coverage potential were identified during the reporting year. The scenario analyses are also used to derive measures for mitigating significant operational risks. During the expert workshops, potential reputational risks are likewise identified and documented, and where appropriate, measures are discussed to ensure continued public confidence in the Bank. The methodology for managing operational risk and the associated processes were independently reviewed by external experts when first introduced. We believe that the established framework provides a sound basis for meeting the regulatory requirements of Pillar II and the Supervisory Review and Evaluation Process (SREP).

Banks are required to hold regulatory capital against operational risk. As expected, the use of internal models for regulatory capital purposes was discontinued following the introduction of CRR III. For Pillar I, only a single standardised approach is now available for all institutions, namely the Standardised Measurement Approach (SMA). Based on this new regulatory methodology, which incorporates interest-related, fee-related and financial components, the Bank experienced a modest reduction in the regulatory capital requirement compared with 31 December 2024. As at 31 December 2025, the regulatory capital requirement for operational risk amounted to EUR 78.9 million (previous year: EUR 80.4 million).

Liquidity Risk

Throughout 2025, Berenberg was able to fund its operations entirely through customer deposits. At no point during the reporting year did the Bank maintain open liquidity positions. Current developments regarding the Bank's liquidity position are described above in the "Outlook for 2026" section.

Given our business model, only a relatively small proportion of customer deposits is required for funding purposes, while the substantial majority serves as a liquidity reserve. Unlike many other banks, we do not engage in significant maturity transformation. The average interest rate fixation period of both the liquidity reserve and the investment portfolio remains below one year.

Owing to the short-term nature of our business activities, liquidity risk over longer-term horizons is comparatively limited. Within the one-year horizon, however, the Bank maintained a substantial liquidity surplus, supported by consistently high customer deposits. The elevated level of deposits, which continues to generate attractive margins, is primarily attributable to sizeable US dollar deposits from the Shipping business, a stable client base within Wealth Management, and the continued growth of our operating business. In line with our strategy, the surplus liquidity was invested in highly liquid bonds, primarily issued by the German federal states ("Länder") and promotional banks, with short- to medium-term maturities, or placed with the Deutsche Bundesbank. A portion of these securities has been pledged as collateral with the Bundesbank, thereby ensuring substantial refinancing capacity with the European Central Bank should an unexpected liquidity requirement arise. As at 31 December 2025, the Bank's unutilised credit facility with the Bundesbank amounted to EUR 1.3 billion (previous year: EUR 1.1 billion).

To manage short-term liquidity, the Treasury function continuously analyses all relevant cash flows over time in close cooperation with Risk & Finance. A range of comprehensive stress tests is performed on a daily basis, all of which indicated a substantial remaining liquidity buffer as at the reporting date. The ESG stress test incorporated into these analyses assumes significant deposit outflows and increased utilisation of committed facilities within the Shipping sector, which is considered particularly exposed under such a scenario. The reverse liquidity stress test illustrates the extreme conditions that would have to occur in order to fully deplete the Bank's available liquidity. The stringent assumptions applied in our liquidity stress scenarios also encompass the deposit outflows observed during historical banking crises. Our short-term stress scenario assumes an extraordinary outflow equivalent to almost 40% of the balance sheet total. Under the stress scenario applied to the Bank's liquidity maturity profile, and before taking any management actions into account, the calculated survival horizon exceeds three years, representing a comfortable liquidity position.

The regulatory requirements relating to both the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR) were consistently met with a comfortable margin throughout the reporting year. In light of the Bank's strong liquidity position, no risk coverage potential is currently allocated to liquidity risk within the ICAAP framework. Economic capital would only be allocated to liquidity risk in the unlikely event that adverse stress test results indicated potential increases in the cost of obtaining liquidity.

The Bank monitors the regulatory liquidity ratios prescribed under the Capital Requirements Regulation (CRR) on a daily basis. At the end of the financial year, the LCR stood at 1.7 (previous year: 1.8), which is comfortably above the regulatory minimum requirement of 1.0. The same applies to the NSFR, which amounted to 2.5 (previous year: 2.9).

The risk of insufficient market liquidity for individual trading instruments, as defined under MaRisk, is monitored implicitly through the Bank's market risk management framework.

Overall Bank Management

Our long-established business strategy has proven successful over many years and is reviewed regularly as part of the annual planning process together with the corresponding Risk Strategy. As part of this process, we also assess the measures by which the individual profit centres intend to achieve their strategic objectives and analyse the impact of their planned activities on projected earnings and the utilisation of the risk coverage potential within the ICAAP framework.

The risk-bearing capacity assessment represents a central element of the Bank's overall risk management framework by comparing quantified risks with the available risk coverage potential. In line with the current regulatory guidance on risk-bearing capacity, our framework integrates capital planning, profit and loss planning and risk-bearing capacity into a single, coherent concept. The parallel assessment of both a normative and an economic perspective ensures that the Bank considers both the continuity of the institution and the protection of creditors. In both perspectives, the utilisation of available risk coverage fluctuated during the year, reflecting volatile market conditions and encouraging business momentum. At all times, however, the relationship between risk and available risk coverage remained appropriate, particularly in view of the Bank's available management actions.

In accordance with the requirements imposed on all banks by the supervisory authorities under the German Recovery and Resolution Act (Sanierungs- und Abwicklungsgesetz (SAG)), the Bank's Recovery Plan is reviewed regularly and updated whenever necessary. In view of the Bank's size, the plan follows the simplified requirements set out in the Minimum Requirements for Recovery Plans (MaSanV). The key metrics defined within the Recovery Plan (recovery indicators) are monitored continuously and form part of the regular reporting to the Management Board. The existing management actions and governance processes for potential crisis situations are designed to enable financial deterioration to be addressed at an early stage where necessary. As part of its assessment of Berenberg's resolvability, BaFin has prepared a resolution plan under the simplified regulatory framework, which provides for liquidation through ordinary insolvency proceedings. As at 31 December 2025, all recovery indicators remained comfortably within their defined thresholds. Developments during the first half of 2026 likewise did not require the implementation of any measures under the existing Recovery Plan.

Within our Bank-wide management framework, opportunities are continuously assessed against the risks inherent in our banking activities. Economic capital is allocated as a scarce resource to those business areas where the expected economic opportunities outweigh the associated risks.

The quantitative information and control systems employed by the Bank as part of its risk management process provide essential information for assessing risk exposures. Combined with the extensive experience and expertise of our employees, they ensure a comprehensive assessment of the Bank's overall risk profile. We are therefore satisfied that the risks assumed remain proportionate to the earnings opportunities available and that the Bank has not entered into any risks exceeding its risk-bearing capacity.

Internal Control System

The Management Board of Berenberg bears overall responsibility for ensuring a sound organisational structure, including an appropriate and effective Internal Control System (ICS) as an integral component of the Bank's risk management framework. The Bank-wide ICS is based on a comprehensive framework of core and supporting processes – encompassing not only the domestic locations and subsidiaries, but also the Bank's international branches and subsidiaries. Its primary objective is to provide a structured and systematic approach to identifying both potential and known process risks, and to define and implement appropriate mitigation measures.

Overall responsibility for the preparation of the Bank's annual financial statements and for ensuring the proper application of the underlying accounting principles rests with the central Bank Management function. The accounting-related Internal Control System (ICS) is designed to ensure compliance with applicable accounting requirements and generally accepted accounting principles, thereby supporting the reliable and accurate presentation of the Bank's financial position, financial performance and results of operations. The foundation of this framework is the Bank's documented internal policy framework ("Schriftlich fixierte Ordnung" (SfO)), which comprises all Bank-wide internal policies and procedures. As part of the special investigation, evidence was identified indicating that formally implemented internal control processes had, in isolated cases, been deliberately circumvented by the Bank. The regular review process covers all business processes, with particular emphasis on accounting processes. These are critically assessed and adapted to reflect changes in the operating environment, including internal developments and new or revised standards. In addition, the Internal Audit function performs regular and event-driven independent reviews, the findings of which may result in amendments to business processes or to the Bank's internal policy framework (SfO).

As part of the preparation of the 2025 annual financial statements, the related processes, policies and principles were likewise subjected to a comprehensive review. Material deficiencies identified in the control environment resulted in the need for corrective measures and enhancements, which were implemented wherever possible without delay. In addition to implementing the recommendations arising from both routine and special audits conducted by Internal Audit, the Bank established a comprehensive independent project to address the governance deficiencies and control weaknesses that had been identified. This project is designed to analyse all relevant process chains, data quality and organisational structures, and to implement the necessary enhancements and improvements. The resulting measures comprise both technical and procedural changes and had not yet been fully completed at the reporting date. Their implementation, however, continues to receive the highest priority.

Sustainability Risks / ESG

ESG Risk Management

Sustainability risks do not constitute a separate risk category but are regarded as risk drivers within the traditional risk categories and are therefore incorporated into the Bank's overarching risk management framework. ESG risk drivers are embedded within the existing material risk categories of market risk, credit risk, liquidity risk and operational risk, and their significance continues to increase. We employ both qualitative and quantitative methods to identify and assess ESG risks. In addition to our ESG risk inventory, ESG factors are integrated into our existing risk models and capital planning processes to ensure that their potential impact is appropriately reflected.

Within the area of credit risk, our credit analysts consider a range of ESG-related factors, including whether a borrower's business model could be adversely affected in the future by climate-related risks such as flooding or other natural events. The overall assessment also incorporates an evaluation of whether regulatory, legislative or societal developments could have either a direct or indirect impact on the borrower's business activities, including through reputational risk. A dedicated stress test assessing the sector-specific impact of climate risks on the Bank's credit portfolio is conducted on a regular basis. Particular attention is also paid to governance-related matters, including Know Your Customer (KYC) processes. In addition, ESG scoring methodologies are applied within the Bank's lending activities.

Within market risk, our volatility-based Value-at-Risk (VaR) models also reflect the market's assessment already embedded in observable market prices, which naturally incorporates ESG-related considerations. For example, the share price of an issuer will generally respond sensitively to social or environmental developments, such as labour standards, child labour practices or failures to meet climate-related targets.

In addition, we closely monitor relevant academic research and developments in methodologies for incorporating sustainability parameters into market risk measurement, enabling us to adopt best practice where appropriate. Climate-related stress testing based on NGFS scenarios and ECB parameters, which assess the impact of various climate pathways on our portfolio, has already been implemented and continues to be refined where appropriate. ESG ratings provided by MSCI are also used to represent the ESG risk profile of the issuers held within the Bank's proprietary investment portfolio.

Within operational risk, our regular scenario workshops likewise assess the impact of ESG factors on both the severity and frequency of losses reflected in the model parameters, for example the effects of extreme weather events on the availability of buildings or data centres. Subject matter experts assess both the ESG relevance of each scenario and the extent of the ESG impact. Based on these assessments, an ESG-specific marginal Operational Value-at-Risk (OpVaR) can be calculated using the Bank's established VaR methodology. The results are incorporated into the Bank's ICAAP risk-bearing capacity assessment.

To identify and assess at an early stage the impact of internal changes on the Bank's sustainable development, ESG criteria have also been incorporated into both the MaRisk AT 8.2 process governing changes to business processes and organisational structures and the New Product Process (NPP). Overall, we believe that ESG risks are appropriately integrated into our risk management framework and pursue a responsible and proportionate approach to their management. We continue to monitor developments in this area closely and will implement further enhancements on an ongoing basis to minimise potential adverse impacts and strengthen the Bank's resilience.

ESG Governance Structure

Within the Sustainability Board, representatives from the various business areas report on sustainability developments and advise the Management Board, thereby ensuring that all group-wide sustainability activities and initiatives are coordinated centrally. The Board promotes cross-functional collaboration and ensures that sustainability is considered from a holistic perspective. The Sustainability Governance function is responsible for providing Bank-wide advice on regulatory ESG reporting requirements and for ensuring the effective execution of the related processes. As a central staff function, it monitors and coordinates relevant ESG developments across Berenberg and serves as the interface between the Bank's various internal and external stakeholders. Within the central Bank Management function, the ESG, Validation & Projects team acts as the independent governance and project management unit for all regulatory ESG requirements, ensuring their full integration into both the Group's risk management framework and its reporting processes. We believe that this organisational structure provides an appropriate foundation for Berenberg's continued development as a sustainable bank while supporting our long-term commitment to environmentally conscious, socially responsible and sound corporate governance.

Proprietary Securities Portfolio

ESG rating data have been assigned to the Bank's proprietary securities portfolio. The holdings within the ALCO portfolio, the Liquidity Portfolio, and the Sales and Trading portfolios (equities and fixed income) are analysed based on their respective ESG ratings. These ratings are provided by MSCI and range from the highest rating of AAA to the lowest rating of CCC. MSCI ESG Ratings are designed to assess how effectively companies and sovereign issuers manage financially material ESG risks and opportunities. They apply a rules-based methodology to identify an issuer's exposure to ESG risks and to evaluate how effectively those risks are managed relative to comparable companies or sovereigns. The resulting rating reflects the relative position of a company within its industry or of a sovereign relative to its peer group. Overall, our proprietary investment portfolio exhibits a very favourable ESG profile that is fully consistent with the Bank's investment strategy and risk appetite. We will continue to monitor these additional ESG metrics and perform further analyses where appropriate.

Joh. Berenberg, Gossler & Co. KG
Überseering 28
22297 Hamburg

Phone +49 40 350 60-0
www.berenberg.de/en

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