# 2022 Risk Report

# 1 Introduction

In its circular[1] published on 3 September 2015, the National Bank of Belgium (BNB) refers to the European Banking Authority (EBA) guidelines on the disclosure requirements that are covered in Part Eight of the EU Regulation 575/2013, also known as the Capital Requirement Regulation (CRR). The mentioned part of the Regulation (articles 430 to 455) is the European transposition of the Pillar 3 disclosure requirements included in the Basel Framework. It aims to address the information asymmetry by providing stakeholders (like clients, members and investors) with information on the solvency, risks and risk exposures of financial institutions. The EBA mentions that the access to information is one of the conditions necessary to promote the transparency of financial institutions and to contribute to the orderly functioning of financial markets. Disclosure requirements should be a cornerstone of market discipline, enhancing the ability of stakeholders to assess risk in financial institutions which may lead them to change their behaviour. Consequently, the EBA believes that market discipline provides an opportunity for institutions with sound risk management policies and practices to be rewarded with lower capital costs.

Institutions may decide how frequently to disclose information. Given its low risk profile and its size, CPH decided to disclose the required information on an annual basis. This report is published on the website of CPH and is adequately completed by the risk indicators in appendix.

CPH group covers in fact *Banque CPH* and its subsidiary *CPH Life*, respectively a credit institution under Belgian law and an insurance company under Belgian law.  Both of them, as Less Significant Institutions (LSI), are supervised by the National Bank of Belgium (BNB) and the Belgian Financial Services and Markets Authority (FSMA). This report focusses on *Banque CPH.* The total balance sheet of CPH Life, which is a captive insurance company, is considered as not material.

[1] Circular NBB_2015_25 available on www.nbb.be

# 2 Executive Summary

## 2.1 Version Française

En tant que banque coopérative principalement active dans la partie sud de langue française de la Belgique, le CPH profite de la proximité et du contact privilégié avec ses clients. Durant les dernières années, la banque a graduellement étendu ses activités de prêt à des particuliers, à des indépendants et à des PMEs. Malgré cette expansion et la crise financière, le CPH a été capable de maintenir un taux de défaillance très bas pour son portefeuille de crédits grâce à ses critères d'acceptations prudents et sa politique de garanties appropriée en combinaison avec un politique efficiente d'assurance-crédit pour certains risques spécifiques.

Entretemps, les revenus générés ont contribué à renforcer la base de fonds propres de la banque tandis que les besoins en fonds propres réglementaires ont baissé principalement suite au remplacement du portefeuille pour compte propre, notamment le portefeuille de titrisation, par des créances clientèle moins consommatrices en fonds propres. La combinaison de la hausse des capitaux disponibles et de la baisse des besoins en fonds propres a poussé la solvabilité de la banque à la hausse. Le ratio « Common Equity Tier 1 » de **21,71** % (**21,71**% de ratio global de solvabilité) pour le CPH est clairement au-dessus la moyenne des banques Belges et Européennes.

L'asymétrie naturelle des échéances dans le banking book entre le côté actif, avec principalement des crédits retail à moyen-long terme et le côté passif, avec des dépôts retail à court terme est suivie de près par le Comité de Direction et le Conseil d'administration de la banque via le Comité des risques. De plus, la banque gère l'exposition au risque de taux qui est liée à cette asymétrie d'une manière proactive et dispose d'instruments de couverture pour garder l'exposition dans les limites internes.

Finalement, le CPH a une position de liquidité très solide qui lui permet d'absorber un choc de liquidité inattendu. Il y a deux raisons pour justifier l'important excédent de liquidité : premièrement, les dépôts retail sont une source de financement stable et deuxièmement, les positions de haute qualité dans le portefeuille d'investissement donnent un coussin qu'on peut facilement convertir en cash si c'est nécessaire.

## 2.2 English Version

As a cooperative bank mainly operating in south part french speaking of Belgium, CPH benefits from its close contacts and privileged relationship with its clients. Over the last years, the bank has gradually expanded its lending facilities to retail clients, including professionals and small entities. Despite this expansion and the financial crises, CPH was able to keep the loss rate of the granted loans very low thanks to the prudent acceptance criteria and an appropriate collateral policy in combination with an effective credit insurance program for some specific risks.

Meanwhile, the generated earnings steadily enforced the own fund reserve while the capital needs required by the regulator decreased mainly as a result of the replacement of the investment portfolio, namely the securitisation positions, by lending facilities to retail client less consuming own funds. The combination of higher available own funds and lower needs has pushed the Common Equity Tier 1ratio to a fairly comfortable level of **21,71** % (**21,71**% global solvency ratio). This is clearly above the average of both the Belgian and European banking sector.

The natural maturity mismatch in the banking book between on the one hand, the assets principally middle and long-term retail loans and the liabilities principally short-term retail deposits on the other hand is closely followed by the bank's Management Board and the Board of Directors through the Risk Committee. The interest rate risk exposure associated to this mismatch is actively managed and hedging instruments are used in order to keep this risk within the internal limits.

Finally, CPH has a very strong liquidity position enabling the bank to absorb sudden unforeseen liquidity outflows. There are two reasons for the important excess of liquidity. First, the retail deposits are a stable funding source and second, the high-quality positions in the investment portfolio provide a liquidity buffer that can easily be turned into cash if needed.

# 3 General Risk management

## 3.1 Risk Profile

CPH is a local, cooperative bank that collects deposits from retail clients on the one hand and provides credit facilities to households, professionals and small to medium sized entities on the other hand. The bank aims to keep a close relation with its clients. The bank has 28 branches in Wallonia and Walloon Brabant and its activities are focused on these regions as well.

The positive evolution of the stock of retail deposits during the last decade underlines the stability of CPH's main funding source. The combination of stable retail deposits with a conservative investment strategy results in a solid liquidity buffer.

The current credit portfolio mainly consists of mortgage and corporate loans. CPH life applies strict acceptance and collateral criteria in order to mitigate the exposure to the credit risk of its debtors.

CPH only offers standard products and the products are integrated in the internally developed information system. The full ownership of its applications and the systems enable CPH to achieve its business objectives with a lean organisation and helps to keep the operating costs under control. On the path to digitalisation, the CPH has now a fully integrated omni-channel digital banking platform (web and mobile banking) which fully fulfils PSD II standards.

Next to that, CPH is not involved as sponsor in any securitisation and the off-balance sheet positions are limited. This makes the balance sheet of the bank shows a low asset encumbrance and has a strong leverage/MREL ratios.

Taking into consideration the previous elements and mainly local activities, our AML exposure is also reduced.

## 3.2 Risk objectives and policies

CPH recognises the importance of a sound risk management in order to sustain the stability and profitability of the bank. The risk framework is constantly adapted to the evolutions of bank's activities and proactively implements the new regulations.

The overall risk policy and risk appetite are defined by the Board of Directors. In order to monitor the risk profile of the bank, the Board of Directors created a dedicated risk committee.

Each member of the CPH's Management Board is responsible for the proper risk management of the activities and functions falling under his responsibility (first line of risk management). The independent Risk Manager (second line of defence) reviews and assesses the measures implemented by the business and he supports the business to assure the compliance with the relevant regulations. Finally, as mentioned in the previous paragraph, the Board of Directors with the dedicate risk committee supervises risk policies applied across the bank and intervenes where needed (third line of defence). Upfront these risk management Committees, there is the Audit Committee and the internal audit department (third line of defence) that regularly evaluates the different risk processes of the bank.

## 3.3 Risk Processes

### 3.3.1 ICAAP (Internal Capital Adequacy Assessment Process)

Each year since 2007, the CPH Management Board is conducting an ICAAP. The results of this process are documented in a comprehensive report transmitted to the National Bank of Belgium (NBB). The NBB compares the ICAAP results with the outcome of the SREP (Supervisory Review Process), that is the assessment of risks and capital requirement undertaken by the NBB using its own internal methodology.

Both the ICAAP and SREP are the cornerstones of the so-called Pillar 2 of the Basel framework. Recall that the Pillar 1 covers the general capital requirements and since 2015 the standardised liquidity requirements.

CPH largely exceeds both the Pillar 1 and Pillar 2 and SREP requirements.

### 3.3.2 Recovery Plan

The European Commission has developed a crisis management framework in response to the recent banking crisis. One of the corner stones of the EU crisis management is the Bank Recovery and Resolution Directive. This directive imposes on banks to design of own recovery plan whereas the national competent authorities are asked to draft their resolution plan on a national level. The recovery plan forces banks to identify its potential weaknesses and assess the effectiveness of plausible options to recover from very severe events without state intervention.

The management board appointed two of its members to design the plan. During the implementation, CPH consulted the NBB and integrated the feedback of the NBB in the plan. The final recovery plan was approved by the Board of Directors and transferred for the first time to the NBB in 2015. This plan is reviewed on an annual basis and transmitted on an annual basis to the supervisory body.

## 3.4 Hedging and risk mitigating

CPH has a natural exposure to credit and interest rate risk. In order to limit these exposures and align them with its risk appetite, the bank has put strict risk mitigation procedures in place. First, the availability and the quality of collateral is a key element in the bank's counterparty risk assessment of each individual credit request. The high recovery rate of defaulted credit openings proofs the effectiveness of the banks collateral policy. Second, the bank is actively managing its interest rate risk position of its core banking activities and it has developed a hedging strategy to keep the exposure to interest rate swings within the bank's risk appetite. The hedging strategy is based on a well-balanced mix of interest rate derivatives. The effectiveness of the hedges is closely monitored by the bank's risk management.

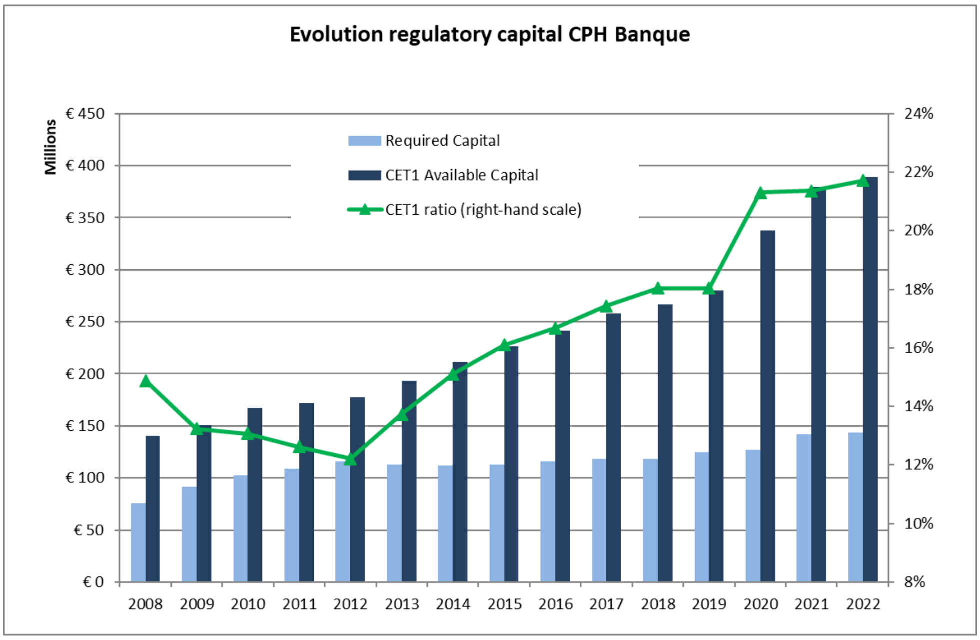
# 4 Solvency Position

## 4.1 Evolution overall solvency

CPH Banque has an unambiguous objective to fulfil all European and national regulatory capital requirements, more in particular those specified in CRR[2] for the banking activities and Solvency II[3] for its insurance activities. In addition to the regulatory requirements, CPH aligns its objectives with the recommendations of the *Conseil National de la Coopération, de l'Entrepreneuriat social et de l'entreprise Agricole*, this is the Belgian consultative intuition established by the Belgian law of 20 July 1955 in order to promote the principles of a co-operative statute and preserve the co-operative ideal. Therefore, the bank does not aim at a pure capitalistic return but at a sustainable evolution with respect for its social role. The general conditions for co-operative institutions limit the yearly dividend of the co-operative shares to a maximum of 6%.

Since its creation and over time, CPH was able to build a solid capital basis that enforces its total independency and allows staying a local bank where both clients and employees know each other and feel respected. Moreover, as a member of the *Confédération Internationale des Banques Populaires*, CPH benefits from an implicit support of this international confederation and its members if needed.

Even during the financial crisis, CPH Banque was able to maintain a Common Equity Tier 1 (CET1) ratio above 12%, which is far above the Basel II and even the Basel III thresholds. Over the last three years, the CET1 steadily evolved to a solid **21,71 % at the end of 2022**.




[2] CRR: REGULATION (EU) No 575/2013 of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012

[3] Solvency II DIRECTIVE 2009/138/EC of 25 November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II)

The average CET1 ratio of **Belgian** banking sector **rises to 17,6%[4] in 2021**. On a **European** point of view EBA shows CET1 ratio of **15,2 %[5] at the end of June 2022** so one can conclude that CPH's solvency position clearly outperforms both the **Belgian** and the **European** sector. The CPH Solvency ratio is **21,71 % end 2022**.

Below, one finds more details on the evolution of CPH's available and required capital since 2008.

| Evolution available and required capital Banque CPH | | | | | | |
|---|---|---|---|---|---|---|
| **Year** | **Required Capital** | **CET1 Available Capital** | **Tier 2 Available Capital** | **Total Available Capital** | **CET1 ratio** | **Total capital ratio** |
| 2008 | 75 431 474 | 140 328 291 | | 140 328 291 | 14.88% | 14.88% |
| 2009 | 91 052 500 | 150 618 319 | | 150 618 319 | 13.23% | 13.23% |
| 2010 | 102 315 077 | 167 093 829 | | 167 093 829 | 13.07% | 13.07% |
| 2011 | 109 109 072 | 172 196 965 | | 172 196 965 | 12.63% | 12.63% |
| 2012 | 116 256 186 | 177 506 896 | | 177 506 896 | 12.21% | 12.21% |
| 2013 | 112 696 099 | 193 327 319 | | 193 327 319 | 13.72% | 13.72% |
| 2014 | 112 033 732 | 211 490 475 | 5 000 000 | 216 490 475 | 15.10% | 15.46% |
| 2015 | 112 636 517 | 226 668 013 | 5 000 000 | 231 668 013 | 16.10% | 16.45% |
| 2016 | 115 865 713 | 241 453 154 | 10 000 000 | 251 453 154 | 16.67% | 17.36% |
| 2017 | 118 543 719 | 258 378 507 | 10 000 000 | 268 378 507 | 17.44% | 18.11% |
| 2018 | 118 335 876 | 266 876 959 | 16 750 000 | 283 626 959 | 18.04% | 19.17% |
| 2019 | 124.206.684 | 280.109.885 | 16.750.000 | 296.859.885 | 18,04% | 19,12% |
| 2020 | 126.734.014 | 337.457.697 | 16.750.000 | 354.207.697 | 21,30% | 22,36% |
| 2021 | 142.085.106 | 379.486.966 | 16.750.000 | 396.236.966 | 21,37% | 22,31% |
| **2022** | 143.322.279 | 389.007.062 | **0** | 389.007.062 | 21,71% | 21,71% |

[4] Source BNB Financial Stability Report 2022 https://www.nbb.be/doc/ts/publications/fsr/fsr_2022.pdf

[5] Source ECB Risk assessment report December 2022
Risk Assessment of the European Banking System (europa.eu)

## 4.2 Own funds

CPH's own funds only consists end 2022 of high-quality common equity tier 1 capital, namely co-operative shares (paid up capital) and mainly retained earnings accumulated over the past two decades (other reserves and funds for general banking risk). More than half of the retained earnings are placed in the funds for general banking risk which underlines CPH's intention to lock in its capital buffer and maintain a large cushion to absorb unexpected losses. At the end of **2022**, CPH owns 100% of CPH Life[6] shares corresponding to € 6 million. This participation is deducted from the common equity tier 1 capital.

The tier 2 capital has been put to zero in 2022.

The total own funds have decreased by € **7** million between 31 December 2021 and 31 December 2022. The decrease is mainly explained by the bank's contribution to the Fund for general banking risks (+€ **8** million) **combined with the vanishing of the Tier 2 capital (-€ 16,750 million).**

## 4.3 Capital requirements

The Pillar 1 capital requirements mainly consist of capital needs for the bank's credit risk under the standardised approach[7]. CPH only offers standard products like mortgage loans and consumer credits to households or commercial loans to professionals and small to medium sized entities. Given the low loss rate of CPH retail loans portfolio and the Belgian sector in general, the standardised approach is a very conservative risk measure since it does not fully recognise the low risk profile like more sophisticated internal models do. During the internal capital adequacy assessment (ICAAP), the bank puts the conservative of the standard model for its retail loan portfolio into evidence.

| Own funds Pillar 1 | 31-12-22 | 31-12-21 | 31-12-20 | 31-12-19 | 31-12-18 | 31-12-17 |
|---|---|---|---|---|---|---|
| Required Capital for Credit Risk | 135.080.312 | 134.508.524 | 118.961.794 | 115.871.011 | 109.253.898 | 109.340.858 |
| Required Capital for Operational Risk | 8.241.968 | 7.576.583 | 7.759.936 | 8.303.582 | 9.017.991 | 9.088.911 |
| Required Capital for Market Risk | 0 | 0 | 12.284 | 32.091 | 63.987 | 113.949 |
| Total Required Capital | 143.322.280 | 142.085.107 | 126.734.014 | 124.206.684 | 118.335.876 | 118.543.719 |

It is commonly known that internal models for credit risk result in lower capital requirements and thus, requirements under the standard formula are considered to be a conservative risk measure, especially in a Belgian mortgage loan context. The conservatism of the standard model for credit is considered in the internal capital adequacy assessment. The impact of energy crisis is actually fully under control.

CPH's intermediation activities, in particular retail deposits on passive side and credits on active side of the balance sheet, have an inherent interest rate risk component. The internal assessment for interest rate risk of the banking book activities is based on both internal and regulatory indicators.

[6] CPH Life is an insurance company under Belgian law

[7] defined in TITLE II CAPITAL REQUIREMENTS FOR CREDIT RISK, CHAPTER 2 Standardised Approach of the EU Regulation 575/2013 (CRR)

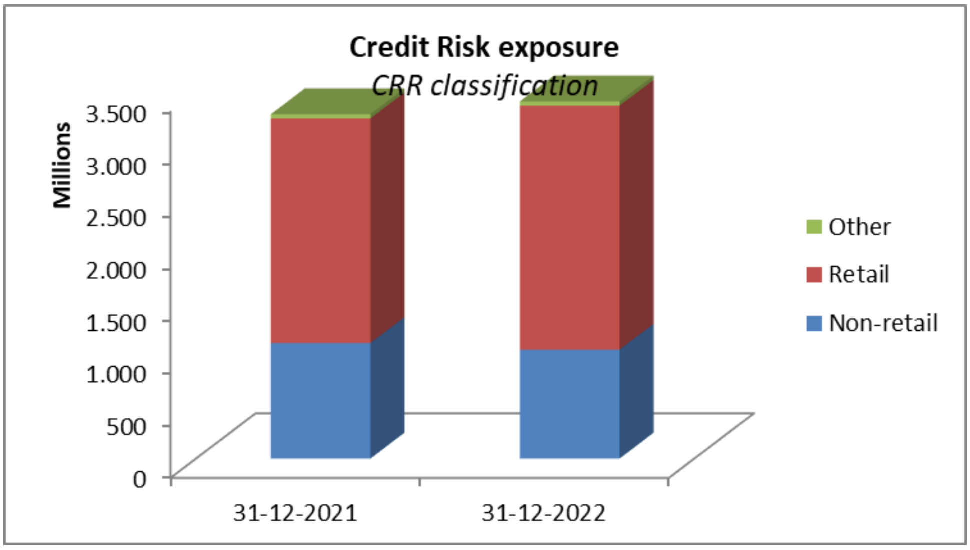
These indicators provide different angles on interest rate sensitivities of the bank. The interest rate risk hedging positions limit the negative impact on the both income and economic value of the bank's banking book.

CPH opts for the Basic Indicator Approach (BIA) for operational risk capital requirements. Since CPH is not involved in exotic banking activities and it has a typical organisation, the operational risk standardised model is considered to be an appropriate risk measure for a bank like CPH.

The **2022** ICAAP exercise confirmed the adequacy of CPH's capital buffer. The available own funds largely exceed both the pillar 1 and the internal capital needs. This important excess was also confirmed by the outcome of the Supervisory Review Process conducted by the Belgian National Bank (BNB) end 2021.

# 5 Credit Risk Management

The bank's credit risk exposure can be almost evenly split in retail and non-retail credit risk. The exposure to retail risks rose from € **2.146** million at the end of **2021** to € **2.332** million at the end of **2022** mainly due to the net retail credit production of **2022 mainly mortgage and investment loans**. The exposures classified as "others" are mainly accounting items related to the amortisation of renovations to own properties and (IT) infrastructure.




## 5.1 Exposure to retail credit risk

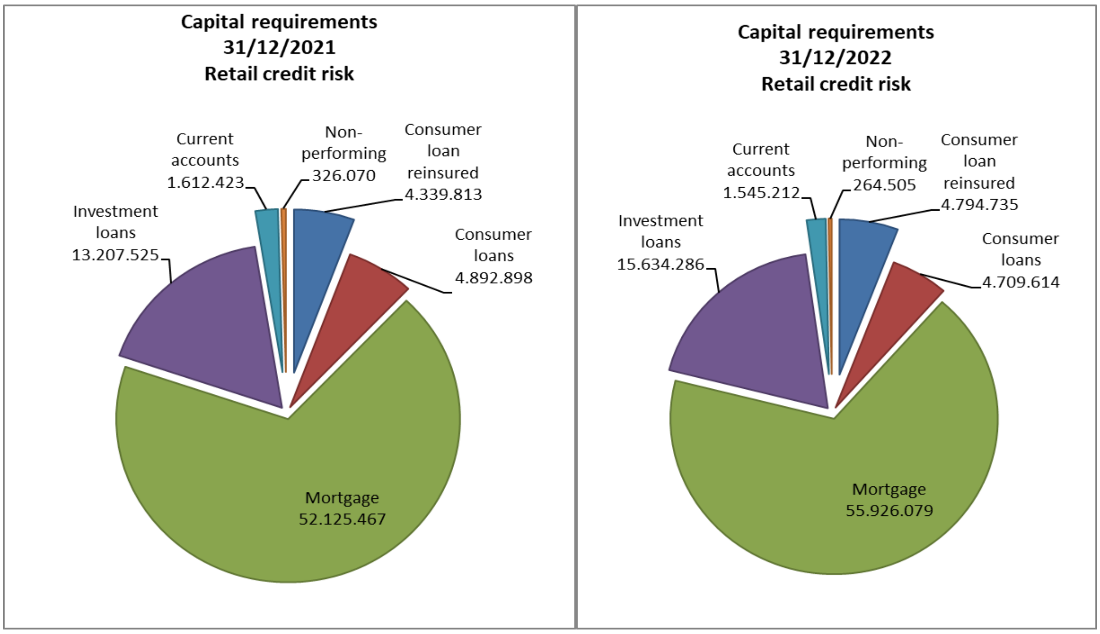
CPH, as local and cooperative bank in close contact to its clients, aims at providing a wide range of credit facilities to natural persons, to professionals and small or medium sized enterprises located in its geographical area of activities. The bank can follow its clients outside its initial area.

The low historical credit loss rates over the last years proof the conservatism of CPH and the effectiveness of the mitigation actions, including reinsurance. The credit risk policy targets a secure balance between risk and return that takes the overall business strategy defined by the Board of Directors into account. The policy consists of the following components :

- a general code of conduct
- a code of conduct to frame-up the yearly production objectives
- a credit acceptance process
- a monitoring of limits per counterparty
- a supervision and control of the credit activities
- a code of conduct for classification and provisioning

The performing loans are subjected to a tracking with automated reminders in case of delays in payments. CPH has an automated process to classify credit lines under "uncertain evolution". The local branches are in charge of the follow-up of the credit lines under uncertain evolution with the support of the front office and litigation department. Several initiatives can be considered going from a renegotiation of the credit modalities to the liquidation of borrower's belongings. Credit lines with more than 90 days past due are tracked by the litigation department. The litigation department evaluations these lines on an individual basis and assesses the value of the underlying collateral in order to book impairments if needed.

Mortgage loans represent more than **76 %** of the total retail exposure and their share is stable. Investment loans to professionals and small or medium sized companies represent 13,56% of the total non-retail exposure. The consumer loans are split into two groups: loans where the credit risk is reinsured and loans where the credit risk is taken by CPH. The two groups represent about **8,58%** of the overall retail exposure. Between the end of **2021** and the end of **2022**, the situation **remains stable**.




Credits to "retail" clients with an exposure above €1 million are considered as non-retail from a regulatory point of view but these loans are also subjected to the policy as described above.
Nevertheless, there is close monitoring of all exposures above 2 million with specific limits per sector.

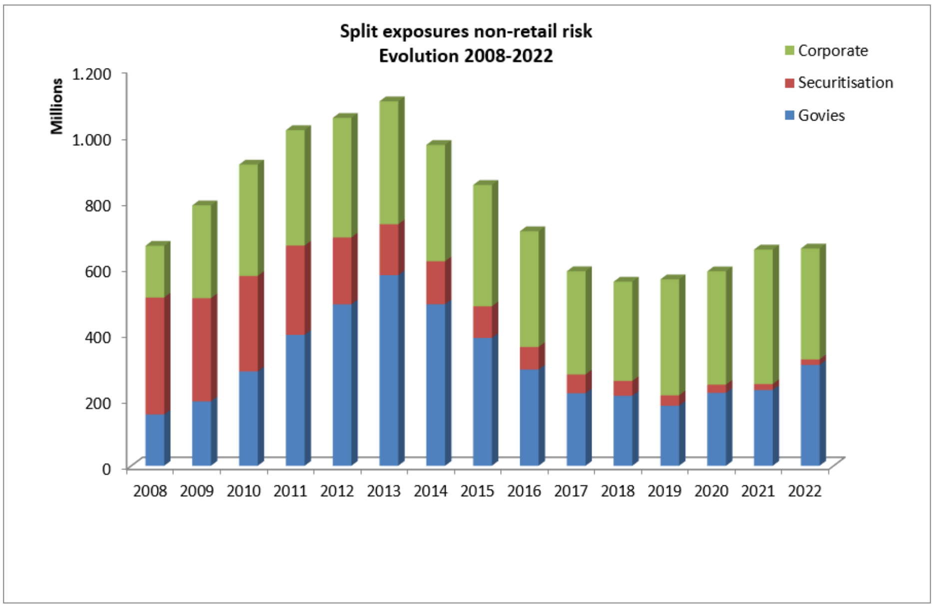
## 5.2 Exposure to non-retail credit risk of investment portfolio

The credit risk policy linked to the investment portfolio aims at an appropriate balance between risk and return taking the global strategy defined by the Board of Directors into account. The policy is based on several elements.

The first element is a code of conduct based on the following courses of action: (1) obtain a majority of investment grade positions and (2) maximize the diversification by limiting the exposures per region, per underlying instruments, and if applicable per tranche of the same deal. The limit framework for the investment portfolio enables the monitoring and controlling of the desired level of diversification in the portfolio.

In practice, the supervision of the investment portfolio takes place at different levels of CPH's organisation. On the one hand, there is the overall monitoring performed by external audit, internal audit, risk management and the Board of Directors (via the Risk Committee). On the other hand, the Management Board and the "Front Office Treasury (FOT)" committee are supervising the daily portfolio management. The FOT committee is a technical body (with no decision power) that regularly reviews the evolution of the portfolio. As a member of this committee, the external expert assures an independent and professional oversight of the portfolio. Finally, the Front Office Treasury (FOT) department is responsible for the close follow-up of each individual position. For this follow, the FOT department makes use of reports published by specialised agencies, traders and other trustees extended by its own expertise of the financial markets and by information of specialised financial news providers.

The investment portfolio is historically split into four sub-portfolios: Corporate bonds, Securitisation, Government bonds (Govies) and Term Deposits. **Since 2020, there are no more Term Deposits** (see the table at below the next graph).

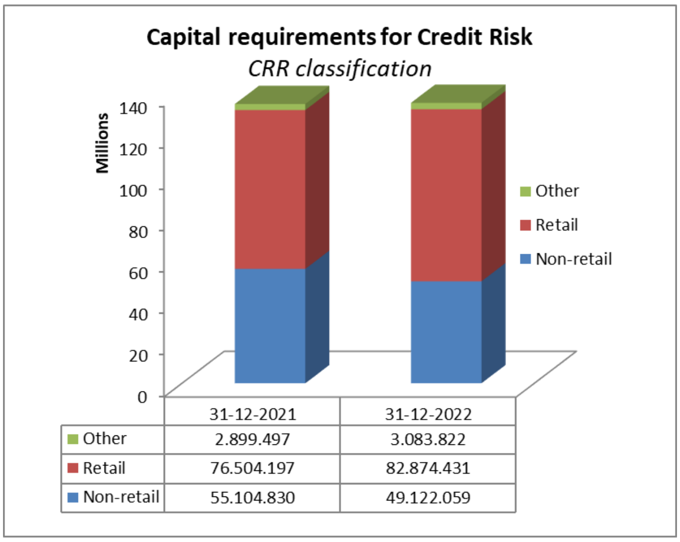


At the end of 2008, CPH had an exposure of about €354 million in securitisation positions and €155 million in Govies and €157 million in Corporates. The securitisation portfolio is in run-off since then and only € **17** million remains on December 31, 2022. The position in government bonds has gradually increased until 2013 and decreased until 2019. **It is now increasing again to end up to € 305 million** on December 31, 2022 with the increase of interest rates level. The exposure in corporate bonds decreased during 2022 mainly because of the non-renewal of commercial papers.

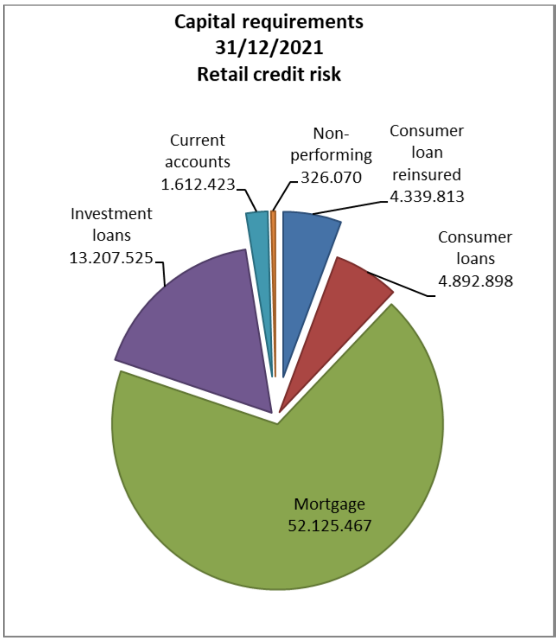
| ***Ex osure investment portfio in million eur*** | | | | | |
|---|---|---|---|---|---|
| | **Govies** | **Securitisation** | **Corporate** | **Term Deposits** | **Total** |
| 31-12-2008 | 155 | 354 | 157 | 79 | 746 |
| 31-12-2009 | 195 | 313 | 281 | 66 | 856 |
| 31-12-2010 | 286 | 289 | 337 | -2 | 911 |
| 31-12-2011 | 397 | 271 | 349 | -3 | 1014 |
| 31-12-2012 | 489 | 203 | 362 | -34 | 1020 |
| 31-12-2013 | 577 | 154 | 372 | 1 | 1105 |
| 31-12-2014 | 490 | 130 | 352 | -2 | 970 |
| 31-12-2015 | 387 | 96 | 368 | -27 | 824 |
| 31-12-2016 | 292 | 68 | 350 | 0 | 711 |
| 31-12-2017 | 220 | 57 | 313 | -29 | 561 |
| 31-12-2018 | 212 | 45 | 301 | 37 | 595 |
| 31-12-2019 | 182 | 31 | 351 | 53 | 617 |
| 31-12-2020 | 221 | 25 | 343 | 0 | 589 |
| 31-12-2021 | 229 | 18 | 407 | 0 | 655 |
| 31-12-2022 | 305 | 17 | 336 | 0 | 658 |

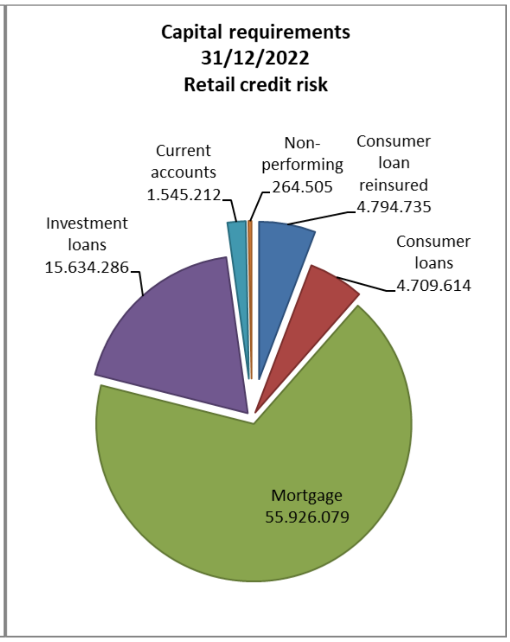
## 5.3 Capital buffers

CPH uses the standardised approach to all its credit risk exposures. Larger banks tend to opt for internal credit risk models what typically result in significantly lower capital requirements.



The total capital requirements for credit risk on December 31, **2022** is about € **135** million versus €**134,5** million at the end of **2021**. The capital requirements for non-retail credit risks **decreased** (- € 6 million) and those for retail credit risk increased (+€ **6** million).

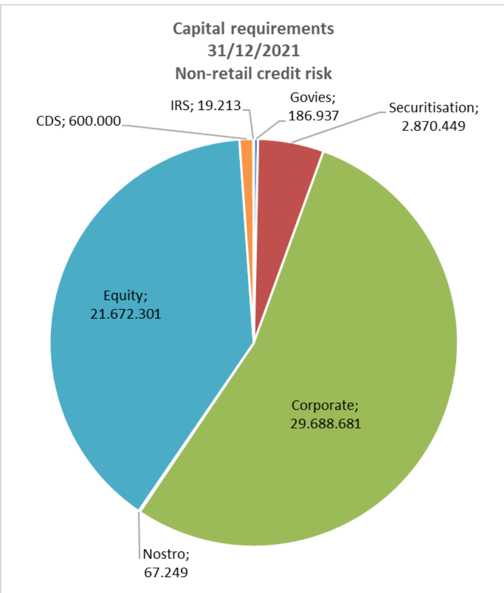


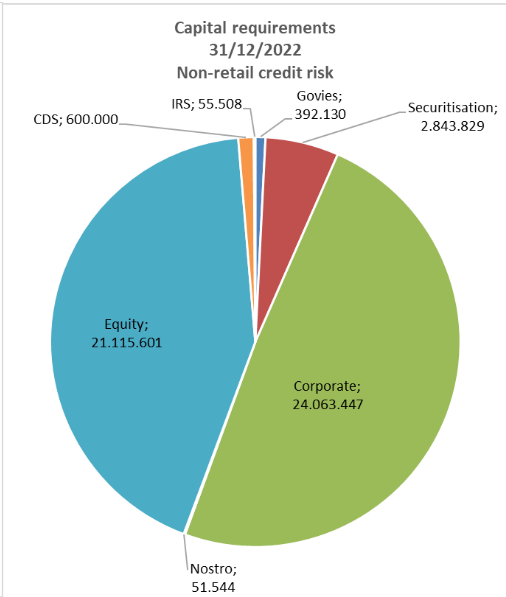




A closer look to the evolution capital requirements between December 31, 2021 and December 31, 2022 for retail credit risks learns that the needs for the mortgage loans went up by € **3** million which is in line with the production of mortgage loans in**2022**. Also, the investment loans required more capital at the end of **2022 (+€ 2,4** million).

The capital requirements for non-retail credit risk **decreased** in**2022**. This is mainly explained by the **decrease** in the **equity portfolio (-€ 0,557 million) and the corporate portfolio (-€ 5,6 million).**

The needs for other exposures remain globally stable.



## 5.4 Zoom on the exposures

An overview of all credit risk exposures grouped by type is available in appendix. In the following subsections, the principal kinds of counterparties in the investment portfolio are highlighted.

### 5.4.1 Government bond positions

Over the last years, CPH has had both short term (maturity shorter than 1 year) and long-term positions in government bonds but at end of 2015, all short-term positions were redeemed. The positions in Belgian government bonds (OLOs) went up by € **55,2** million during 2022 due to new positions. A US position of € **9,3** million appeared. The positions on other countries remain quite stable.

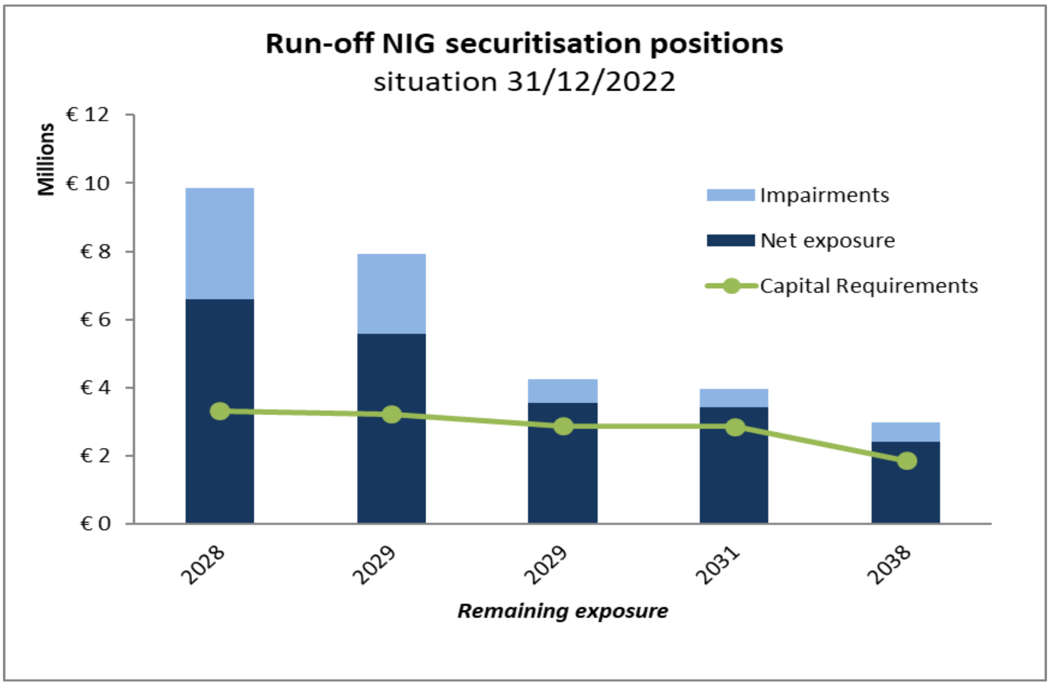
| | PAYS | 31-12-12 | 31-12-13 | 31-12-14 | 31-12-15 | 31-12-16 | 31-12-17 | 31-12-18 | 31-12-19 | 31-12-20 | 31-12-21 | 31-12-22 | rating 31/12/2022 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| CT | Europe | 1.235.518 | | | | | | | | | | | | |
| | Italie | 44.770.636 | 59.692.922 | 29.973.590 | | | | | | | | | | |
| | Espagne | 54.663.954 | 114.389.120 | 9.989.306 | | | | | | | | | | |
| | France | | | | | | | | | | | | | |
| | Total CT | 100.670.108 | 174.082.042 | 39.962.896 | 0 | 0 | 0 | 0 | | | | | | |
| LT | Belgique | 285.347.608 | 310.952.239 | 296.159.605 | 239.326.348 | 143.004.952 | 111.581.050 | 127.052.362 | 136.509.268 | 193.557.841 | 206.781.155 | **261.959.426** | Aa3 | 55.178.271 |
| | Europe | 1.659.328 | | | | | | | | | | | | 0 |
| | France | 50.061.672 | 50.063.467 | 50.050.528 | 50.037.683 | 50.042.594 | 50.042.594 | 50.000.000 | | 4.365.376 | 4.673.424 | 4.901.620 | Aa2 | 228.196 |
| | Espagne | 7.039.750 | 8.700.804 | 50.806.938 | 43.228.517 | 42.677.897 | 31.960.587 | 30.324.784 | 40.779.046 | 30.577.738 | 30.502.306 | 30.425.784 | Baa1 | -76.522 |
| | Italie | 31.776.149 | 31.718.607 | 51.501.961 | 50.735.324 | 49.959.737 | 16.056.440 | | | | | | | 0 |
| | Pologne | 10.086.567 | 4.900.830 | 4.931.033 | 4.962.202 | 4.995.906 | 5.030.720 | 5.067.224 | 5.104.984 | 5.145.629 | | | | 0 |
| | Slovénie | 8.193.941 | 8.199.992 | 8.206.373 | 8.212.515 | 8.220.173 | 8.227.610 | 3.080.876 | 3.090.203 | 2.052.730 | 2.052.811 | 2.052.896 | A3 | 85 |
| | Rép Tchèque | 1.530.386 | 1.531.276 | 1.532.199 | 1.533.046 | 1.534.148 | 1.535.177 | 1.536.244 | 1.537.241 | 1.538.498 | | | | 0 |
| | Chypre | 1.021.233 | | | | | | | | | | | | 0 |
| | Grèce | 26.034 | 26.034 | 26.034 | 26.034 | 26.034 | 26.034 | 26.034 | 26.034 | 26.034 | 26.034 | 26.034 | Ba3 | 0 |
| | Brésil | 2.548.713 | 2.037.293 | 1.977.383 | 1.411.399 | 967.939 | 806.224 | 692.656 | 652.257 | 440.026 | 420.670 | | | -420.670 |
| | US | | | | | | | | | | | 9.311.166 | Aaa | 9.311.166 |
| | Total LT | 399.291.383 | 418.130.540 | 465.192.053 | 399.473.068 | 301.429.379 | 225.266.436 | 217.780.179 | 187.699.033 | 237.703.871 | 244.456.399 | 308.676.925 | | |
| | Total CT + LT | 499.961.491 | 592.212.582 | 505.154.949 | 399.473.068 | 301.429.379 | 225.266.436 | 217.780.179 | 187.699.033 | 237.703.871 | 244.456.399 | 308.676.925 | | |
| CT | UE | 0,2% | 0,0% | 0,0% | 0,0% | 0,0% | 0,0% | 0,0% | 0,0% | 0,0% | 0,0% | 0,0% | | |
| | autres pays UE | 19,9% | 29,4% | 7,9% | 0,0% | 0,0% | 0,0% | 0,0% | 0,0% | 0,0% | 0,0% | 0,0% | | |
| LT | Belgique | 57,1% | 52,5% | 58,6% | 59,9% | 47,4% | 49,5% | 58,3% | 72,7% | 81,4% | 84,6% | 84,9% | | |
| | UE | 0,3% | 0,0% | 0,0% | 0,0% | 0,0% | 0,0% | 0,0% | 0,0% | 0,0% | 0,0% | 0,0% | | |
| | autres pays UE | 21,9% | 17,8% | 33,1% | 39,7% | 52,2% | 50,1% | 41,3% | 26,9% | 18,4% | 15,2% | 12,1% | | |
| | hors UE | 0,5% | 0,3% | 0,4% | 0,4% | 0,3% | 0,4% | 0,3% | 0,3% | 0,2% | 0,2% | 3,0% | | |

### 5.4.2 Securitisation positions

The portfolio with securitisation positions has been put in run-off in 2008. Since then, the exposure in these structured products has been reduced by the natural run-off of the portfolio. After impairments, the remaining exposure in book value was € **13,785** million on December 31, **2022**, of which **38,47** % positions in non-investment grade bonds. The non-investment grade bonds are less liquid and thus less easy to sell at a fair price. Nevertheless, the capital requirements decrease by **0,93** % (-€ **0,026** million) between December 31, **2021** and December 31, **2022** while the average Basel III risk weight of the standard formula for credit risk remains stable. The average risk weight is a proxy for the quality of the portfolio so the average quality of the remaining portfolio remained more or less stable over the last five years.

| Evolution securitisation positions | | | | | | |
|---|---|---|---|---|---|---|
| | Gros book value | Impairments | Net book value | percentage non-investment grade | Required capital | Average risk weights |
| 31-12-07 | 367.680.702 | 0 | 367.680.702 | 1,36% | 16.471.333 | 56% |
| 31-12-08 | 358.341.496 | 7.410.219 | 350.931.277 | 6,47% | 20.164.238 | 72% |
| 31-12-09 | 312.641.958 | 11.550.993 | 301.090.965 | 16,74% | 26.705.932 | 111% |
| 31-12-10 | 287.744.154 | 14.907.593 | 272.836.561 | 21,31% | 39.035.575 | 179% |
| 31-12-11 | 269.764.046 | 16.908.615 | 252.855.432 | 25,67% | 38.611.402 | 191% |
| 31-12-12 | 202.063.544 | 17.116.372 | 184.947.171 | 30,87% | 38.530.739 | 260% |
| 31-12-13 | 154.151.165 | 16.871.287 | 137.279.878 | 36,29% | 31.616.306 | 288% |
| 31-12-14 | 130.065.855 | 16.144.965 | 113.920.890 | 36,37% | 28.631.047 | 314% |
| 31-12-15 | 95.883.192 | 15.052.880 | 80.830.312 | 41,38% | 19.115.599 | 296% |
| 31-12-16 | 68.401.663 | 13.640.641 | 54.761.022 | 41,45% | 12.206.416 | 279% |
| 31-12-17 | 57.066.192 | 12.958.942 | 44.107.250 | 44,51% | 9.825.296 | 278% |
| 31-12-18 | 45.068.228 | 7.741.089 | 37.327.139 | 36,95% | 8.058.853 | 270% |
| 31-12-19 | 31.350.710 | 6 933 759 | 24 416 950 | 43,75% | 6.793.774 | 348% |
| 31-12-20 | 24.936.294 | 4.892.384 | 20.043.909 | 38,57% | 4.079.818 | 254% |
| 31-12-21 | 18.421.830 | 3.386.659 | 15.035.171 | 38,17% | 2.870.449 | 239% |
| 31-12-22 | 17.111.720 | 3.326.547 | 13.785.173 | 38,47% | 2.843.829 | 258% |

A look at the natural run-off of the securitisation positions over the coming years learns that both the exposures and capital requirements will gradually go down. **At the end of 20**, the total net exposure on the NIG should **be around € 6,6 million**.



### 5.4.3 Non-investment grade positions

CPH holds some positions in foreign countries (inside and outside the EU) with only a very limited exposure to countries having a rating below investment grade (<Baa3).

# 6 Other Risk Management Processes

## 6.1 Interest rate risk management in the banking book

The bank is actively managing its interest rate risk and uses several indicators to monitor the exposure to interest rate shocks. One of the indicators is the one defined by the BNB, the so-called "90.30 report", that assesses the impact of several interest rate scenarios on the economic value of the bank. In order to calculate the economic value of its assets and liabilities, several assumptions on the client behaviour are considered like for instance the prepayment rate of the credits and duration of the deposits. The duration of the deposits is imposed by the BNB and the prepayment rates for each scenario are estimated by the bank. The internal indicators provide different angles on the duration of the bank's own funds. A technical working group defines and reviews the internal indicators and its hypothesis. Several functions are involved in the bank's interest rate management while all important decisions are made on Management Board level.

The risk management regularly performs detailed analyses on the stability and maturity of the retail deposits and it often reviews the observed prepayment rate of the credit loans. Since 2014, as a result of the low interest rate regime, the Belgian banking sector observed a refinancing wave of the mortgage loans. CPH has also observed the phenomena of existing clients asking to review the conditions of their loan but also new clients transferring their mortgage loan.

In order to keep the interest rate exposure into the desired limits, the bank has developed a hedging strategy and makes use of interest rate derivatives in the light of this strategy.

## 6.2 Operational risk management

The bank's risk management plays a coordinating role in the operational risk management. The risk management keeps the risk cartography up to date. Next to that, there is an internal procedure prescribing that the employee or team who reports an incident is supposed to write an incident report.

Depending on the materiality of the incident, a post-mortem analysis is discussed on management board level.

The bank maintains a business continuity plan that can be deployed in case of extreme events. An important component of the plan is the disaster recovery plan for the IT infrastructure. This plan is tested once a year and reviewed when needed.

Finally, given the size and low numbers of internal incidents, CPH has opted for the Basic Indicator Approach (BIA) to measure the capital requirements for operational risk.

## 6.3 Liquidity risk management

The major funding source of the banks is retail deposits. A large part of these retail deposits (more than 70 %) are protected by the deposit guarantee scheme (DGS) up to one hundred thousand euros by individual. During the financial crisis, CPH was able to strengthen the stock of retail deposits, more details on the evolution of the deposits can be find in the bank's annual report[8]. There is a close monitoring of the in- and outflows of the deposits by the bank's Management Board. Meanwhile, the bank has built a solid stock of highly liquid assets that can absorb sudden extreme liquidity needs.

The company performs each year the ILAAP (Internal Liquidity Adequacy Assessment Process) exercise which confirms the strong liquidity position of the bank.

## 6.4 Remuneration policy

CPH's remuneration policy is available on the public website (URL: https://www.cph.be/la-banquecph/corporate-governance.html ).

## 6.5 Leverage ratio

| Leverage ratio | | | | | |
|---|---|---|---|---|---|
| | 31-12-22 | 31-12-21 | 31-12-20 | 31-12-19 | 31-12-18 |
| Tier 1 capital | 389.007.062 | 379.486.966 | 337.457.697 | 280.109.895 | 266.876.959 |
| Total exposures | 3.362.582.778 | 3.276.107.893 | 3.055.428.700 | 2.858.114.446 | 2.616.959.289 |
| Regulatory adjustments | -9.436.260 | -8.481.481 | -8.530.622 | -8.224.997 | -7.563.613 |
| Total exposures for the calculation of the leverage ratio | 3.353.146.518 | 3.267.626.412 | 3.046.898.078 | 2.849.889.449 | 2.609.395.677 |
| Basel III leverage ratio | 11,60% | 11,61% | 11,08% | 9,83% | 10,23% |

The leverage ratio is a popular solvency indicator in the Anglo-Saxon world since it is straightforward to compute and it is used across different business sectors. The regulatory minimum is fixed by the European Banking Authority at 3%. On December 31, **2022**, CPH Tier 1 capital represented **11,60**% of its total expose which is more than three time the proposed regulatory minimum of 3%.

## 6.6 Unencumbered assets and MREL

Encumbered assets refer to assets that are securing liabilities in the event that an institution fails to meet its financial obligations. The typical transactions that are collateralised or asset-backed are repurchase agreements (repos), securitisations, covered bonds, or derivatives. The higher the number of unencumbered assets, the better the depositors and even (cooperative) shareholders are protected in case of financial distress.

[8] Annual report is available on : https://www.cph.be/la-banque-cph/corporate-governance.html

CPH has no securitisation program, unlike some major (Belgian) banks that have repackaged a part of their retail loans. This makes that about 95% of CPH assets are unencumbered, which is a high number. Only the remaining 5% is collateral needed for the repos with the National Bank of Belgium (NBB) and for the derivative positions.

The new MREL (Minimum Requirement for own funds and Eligible Liabilities) excess is comfortable. The MREL is the minimum amount of equity and subordinated debt a firm must maintain to support an effective resolution.

## 6.7 Market risk

Market risk is the risk of loss due to unfavourable moves in market variables. Those moves can be due to exchange rates, prices, interest rates, credit spreads, volatilities. Market risk is then made of interest rate risk, foreign exchange risk, equity market risk and volatility risk. It occurs either through the positions of the trading portfolio or through the positions of the banking book. CPH Banque has no trading portfolio.

The interest rate risk has been developed before at point 6.1.

Exposures to currency risk are on major standard currencies and in relatively small amounts.

We no longer have a trading activity following the banking law of 25 April 2014.

# Appendix: Overview Credit Risk Exposures

**Credit risk exposure on 31/12/2021**

| | catégorie | Category | Gross exposure | Impairments | Net Exposure | RWA | Required Capital | Average wheight |
|---|---|---|---|---|---|---|---|---|
| | Trésorerie CPH | Govies | 244.456.400 | 0 | 244.456.400 | 2.336.712 | 186.937 | 1% |
| | | Securitisation | 18.421.830 | 3.386.659 | 15.035.171 | 35.880.615 | 2.870.449 | 239% |
| | | Corporate | 406.169.811 | 2.386.304 | 403.783.507 | 371.108.511 | 29.688.681 | 92% |
| | | Nostro | 158.964.520 | 0 | 158.964.520 | 840.619 | 67.249 | 1% |
| | | Term Deposits | 0 | 0 | 0 | 0 | 0 | |
| | | Equity | 267.779.144 | 5.153.864 | 262.625.281 | 270.903.757 | 21.672.301 | 103% |
| | | CDS | 7.500.000 | 0 | 7.500.000 | 7.500.000 | 600.000 | 100% |
| | | IRS | 1.200.802 | 0 | 1.200.802 | 240.160 | 19.213 | 20% |
| | | Derivatives | 0 | 0 | 0 | 0 | 0 | |
| Non-retail | | **Total** | **1.104.492.507** | **10.926.826** | **1.093.565.681** | **688.810.374** | **55.104.830** | **63%** |
| | Crédit Retail | Consumer loan reinsured | 108.322.635 | 0 | 108.322.635 | 54.247.666 | 4.339.813 | 50% |
| | | Consumer loans | 82.793.138 | 0 | 82.793.138 | 61.161.228 | 4.892.898 | 74% |
| | | Mortgage | 1.651.316.162 | 0 | 1.651.316.162 | 651.568.333 | 52.125.467 | 39% |
| | | Investment loans | 263.970.903 | 0 | 263.970.903 | 165.094.066 | 13.207.525 | 63% |
| | | Current accounts | 29.100.263 | 750.000 | 29.100.263 | 20.155.287 | 1.612.423 | 69% |
| | | Non-performing | 10.903.575 | 6.772.455 | 4.131.120 | 4.075.876 | 326.070 | 99% |
| Retail | | **total** | **2.146.406.676** | **7.522.455** | **2.139.634.220** | **956.302.458** | **76.504.197** | **45%** |
| Other | **Autres** | | **40.493.848** | **0** | **40.493.848** | **36.243.716** | **2.899.497** | **90%** |
| | ***Total*** | | ***3.291.393.031*** | ***18.449.282*** | ***3.273.693.749*** | ***1.681.356.548*** | ***134.508.524*** | ***51%*** |
| | | | 0,769339837 | | | | | |

**Credit risk exposure on 31/12/2022**

| | catégorie | Category | Gross exposure | Impairments | Net Exposure | RWA | Required Capital | Average wheight |
|---|---|---|---|---|---|---|---|---|
| | Trésorerie CPH | Govies | 308.676.926 | 0 | 308.676.926 | 4.901.620 | 392.130 | 2% |
| | | Securitisation | 17.111.720 | 3.326.547 | 13.785.173 | 35.547.867 | 2.843.829 | 258% |
| | | Corporate | 333.334.952 | 4.211.067 | 329.123.885 | 300.793.086 | 24.063.447 | 91% |
| | | Nostro | 77.902.543 | 0 | 77.902.543 | 644.296 | 51.544 | 1% |
| | | Term Deposits | 0 | 0 | 0 | 0 | 0 | |
| | | Equity | 292.540.354 | 37.472.683 | 255.067.671 | 263.945.015 | 21.115.601 | 103% |
| | | CDS | 7.500.000 | 0 | 7.500.000 | 7.500.000 | 600.000 | 100% |
| | | IRS | 3.469.251 | 0 | 3.469.251 | 693.850 | 55.508 | 20% |
| | | Derivatives | 0 | 0 | 0 | 0 | 0 | |
| Non-retail | | **Total** | **1.040.535.745** | **45.010.297** | **995.525.448** | **614.025.735** | **49.122.059** | **62%** |
| | Crédit Retail | Consumer loan reinsured | 119.654.188 | 0 | 119.654.188 | 59.934.192 | 4.794.735 | 50% |
| | | Consumer loans | 80.385.277 | 0 | 80.385.277 | 58.870.169 | 4.709.614 | 73% |
| | | Mortgage | 1.778.043.166 | 0 | 1.778.043.166 | 699.075.992 | 55.926.079 | 39% |
| | | Investment loans | 316.289.372 | 0 | 316.289.372 | 195.428.577 | 15.634.286 | 62% |
| | | Current accounts | 27.827.712 | 0 | 27.827.712 | 19.315.144 | 1.545.212 | 69% |
| | | Non-performing | 9.702.589 | 6.317.297 | 3.385.291 | 3.306.314 | 264.505 | 98% |
| Retail | | **total** | **2.331.902.302** | **6.317.297** | **2.325.585.005** | **1.035.930.389** | **82.874.431** | **45%** |
| Other | **Autres** | | **41.471.184** | **0** | **41.471.184** | **38.547.772** | **3.083.822** | **93%** |
| | ***Total*** | | ***3.413.909.232*** | ***51.327.595*** | ***3.362.581.637*** | ***1.688.503.896*** | ***135.080.312*** | ***50%*** |