Crelan Group

Risk Disclosure Report 2022

Crelan

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Glossary

AB	AXA Belgium
ABB	AXA Bank Belgium
ABE SCF	AXA Bank Europe Société de Credits Fonciers
ALM	Asset & Liability Management
ALMM	Additional Liquidity Monitoring Metrics
AML	Anti Money Laundering
AQR	Asset Quality Review
AT1	Additional Tier 1
BCBS	Basel Committee on Banking Supervision
BMA	Business Model Analysis
BoD	Board of Directors
BRRD	Bank Recovery and Resolution Directive
BSRC	Balance Sheet Risk Committee
CCR	Counterparty Credit Risk
CCyB	Countercyclical Capital Buffer
CDS	Credit Default Swap
CET1	Common Equity Tier 1
C&E	Climate and Environmental
CFC	Capital and Funding Committee
CO	Compliance Officer
COREP	Common Reporting
CRCU	Credit Risk Controlling Unit
CRD	Capital Requirements Directive
CRR	Capital Requirements Regulation
CTP	Capacity To Pay
CVA / DVA	Credit Valuation Adjustment / Debit Valuation Adjustment
D&I	Diversity and Inclusion
DFC	Default Fund Contribution
DGF	Deposits covered by the government
DPD	Days Past Due
DTA	Deferred Tax Assets
EAD	Exposure At Default
EBA	European Banking Authority
ECAI	External Credit Assessment Institutions
ECAP	Economic Capital
ECB	European Central Bank
EL	Expected Loss
ELBE	Expected Loss Best Estimate
EMTN	European Medium-Term Notes
EP	Energy Performance
EPC	Energy Performance Certificate
ESG	Environment, Social and Governance
EU	European Union
ExCo	Executive Committee
FRAS	Functional Risk Appetite Statement
FSMA	Financial Securities and Markets Authority

FX	Foreign Exchange
GDP	Gross Domestic Product
HQLA	High Quality Liquid Assets
ICAAP	Internal Capital Adequacy Assessment Process
IFRS	International Financial Reporting Standards
ILAAP	Internal Liquidity Adequacy Assessment Process
ILS	Internal Liquidity Stress
IRB	Internal Rating Based Approach
IRRBB	Interest Rate Risk in the Banking Book
JST	Joint Supervisory Team
KRI	Key Risk Indicator
LCR	Liquidity Coverage Ratio
LGD	Loss Given Default
LoD	Line of Defence
LRC	Lending Risk Committee
LTV	Loan-to-value
MO	Middle Office
MREL	Minimum Required Eligible Liabilities
NBB	National Bank of Belgium
NII	Net Interest Income
NSFR	Net Stable Funding Ratio
OCI	Other Comprehensive Income
OCR	Overall Capital Requirements
OLO	Obligation Lineaire / Lineaire Obligatie, Belgian government bond
O-SII	Other Systemic Important Institutions
PARP	Product Approval and Review Process
PD	Probability of Default
P&L	Profit and Loss
P1R	Pillar 1 Requirement
P2R	Pillar 2 Requirement
QCCP	Qualifying central counterparty
RAF	Risk Appetite Framework
(Reverse) Repo	(Reverse) Repurchase Agreement
RMBS	Residential Mortgage-Backed Securities
RoA	Return on Assets
RWA	Risk-Weighted Assets
SFT	Securities Financing Transaction
SICR	Significant Increase in Credit Risk
SOT	Supervisory Outlier Test
SPV	Special Purpose Vehicle
SRAS	Strategic Risk Appetite Statement
SREP	Supervisory Review and Evaluation Process
SRT	Significant Risk Transfer
SSRB	Sectoral Systemic Risk Buffer
TBD	To Be Decided
T1	Tier 1 Capital
T2	Tier 2 Capital
TLTRO	Targeted Longer-Term Refinancing Operation
TSCR	Total SREP Capital Requirements
US	United States
VaR	Value at Risk

Tables and figures

1. Introduction

The purpose of this Risk Disclosure report is to provide transparency on the risk profile of Crelan Group in line with the global regulatory framework established by the BCBS, also known as Basel III. On European level these are implemented in the disclosure requirements as laid down in Part Eight of the "Regulation (EU) No 575/2013 on prudential requirements for credit institutions and investment firms" (Capital Requirements Regulation, or "CRR") and with the "Directive 2013/36/EU on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms" (Capital Requirements Directive 4, or "CRD IV").

This report contains information on all subjects included in the directives, insofar as they apply to Crelan Group:

- EBA Guidelines for Pillar 3 Disclosures (EBA/GL/2017/11);
- Disclosure of Own funds (EU No 1423/2013);
- Disclosure of Countercyclical buffer (EU No 2015/1555);
- Disclosure of Leverage ratio (EU No 2017/200);
- Disclosure of Encumbered assets (EBA/DR/2018/2295);
- Disclosure of Remuneration (2013/36/EU Art. 74(3) and 75(2);
- Disclosure on Liquidity (EBA/GL/2018/01);
- Guidelines on disclosure of non-performing and forborne exposures (EBA/GL/2018/10);
- Part Eight of the CRR.

In addition, Crelan Group is closely monitoring future disclosure requirements and will apply these requirements when they become applicable.

This 2022 risk report covers the situation of Crelan Group on 31 December 2022. Information is disclosed on a consolidated level. All amounts in the templates are expressed in euro. Only relevant tables and templates are shown in this report and its annexes.

For sake of clarity, the following terminology will be used in the rest of this document: the denomination Crelan Group will be used to refer to the combination of CrelanCo CV, Crelan SA, ABB SA[1] and Europa-Bank NV. ABB will be used to refer to ABB SA, Europabank will be used to refer to Europabank NV. AXA Bank Belgium (ABB) will be used to refer to ABB SA, Europabank will be used to refer to Europabank NV, while the term Crelan encompasses CrelanCo SC and Crelan SA (i.e. the Crelan Federation).

1.1. Crelan Group

The business model of Crelan Group is structured around one core business line: Belgian retail banking activity. Crelan Group consists primarily out of 3 Belgian retail banks, focussing on retail funding and lending, i.e. servicing clients in their financing needs and facilitating savings and invest possibilities. In addition to the retail business, the financing of the agricultural sector is a second important activity. Apart from the exposure to the agricultural sector, the business models of Crelan and ABB are rather similar.

1 ABB SA includes AXA Belgium (AB) Finance, Royal Street and ABE SCF.

Europabank has a specific business model. It is a retail bank aimed at individuals, self-employed and small businesses, and only sells standard products. The bank operates in Belgium (Flanders, Brussels and Wallonia). The bank's activities include lending to customers (natural persons and legal entities) with a higher risk profile. Lending is done through consumer loans, mortgage loans, professional loans, financial leasing and renting of rolling stock. The bank obtains its funding mainly from deposit-taking via simple and transparent balance sheet products (savings accounts, term accounts). Furthermore, the bank offers payment services through acquiring payment cards. The bank also issues its own credit cards (issuing). Only a limited range of insurance products is offered (debt balance insurance). The bank offers its products through its own branches, brokers and dealers, the internet and Crelan and – recently – ABB agents

These business lines are supported by:

- ALM;
- Treasury;
- Funding via RMBS, EMTNs and covered bonds.

The table below gives an overview of the structure of Crelan Group's balance sheet per 31 December 2022:

On the asset side, mortgages, agricultural financing and other lending (mostly other retail loans) take up the majority of the balance sheet and a small and conservative bonds portfolio (mostly government and supra-nationals) is held in order to guarantee a minimum level of unencumbered liquid assets (HQLA). On the liability side, funding is mainly provided by retail deposits. In addition to the pool of retail deposits, the covered bonds issued by SCF and the EMTNs issued by AB Finance provide structural long-term funding.

Table 1 - Consolidated Assets and Liabilities of Crelan Group

Assets (in € millions)		Liabilities (in € millions)	
Mortgages	36 851	Current accounts	9,887
Consumer loans	1 656	Saving accounts	30,908
Professional loans	5 397	Term accounts	1,050
Agricultural loans	2 031	Certificate of deposits	423
Other loans (FI & Govies)	318	Covered bonds	5,189
Investment portfolio	1 219	SNP	300
Cash & ECB account	7 130	EMTNs	376
Derivatives	337	ECB funding	1,266
Fair value changes	3 149	Derivatives	43
Other assets	2 054	Other liabilities	3,043
		T2	200
		AT1	245
		Cooperatives shares	912
Total Assets	53 842	Total Liabilities	53 842

On both sides, the balance sheet contains the fair value of derivatives (in treasury assets and liabilities, netted partly by the value of collateral). The derivatives portfolio is therefore mainly used for hedging purposes in ALM, Treasury and the investment portfolio. Crelan Group's business model, business lines, income and cost drivers are presented and discussed on a regular basis with the JST via Business Model Analysis (BMA) presentations.

1.1.1. Belgian retail activity

In Belgium, Crelan Group offers an extensive range of financial products to retail clients, self-employed professionals and small companies. Therefore, it relies on a network of exclusive, independent bank agencies (except for Europabank) and independent credit brokers. The bank agents typically also have an independent insurance brokerage activity. To support these activities Crelan Group has commercial agreements and preferred partnerships with the following companies:

- AB Insurance (non-life insurances);
- Allianz (life insurances);
- AXA Investment Managers (mutual funds);
- Amundi (mutual funds);
- Econopolis (mutual funds).

The product range is easy to understand and covers all elementary banking needs. The core products are current accounts and related savings accounts, term deposits, mortgage loans, consumer and professional loans, and investment funds.

Crelan Group's balance sheet exists to a large extent out of mortgage loans (+/- 68%) and client deposits (+/- 78%), by consequence a significant part of Crelan Group's revenue is derived from net interest income. In order to increase revenue diversification, Crelan Group is increasing its effort and focus on developing sources of fee income through the sale of investment products and the distribution agreement of insurance products, as well as credit production in professional loans.

1.1.2. Crelan Group credit portfolio

Crelan Group's retail credit portfolio mainly consists of Belgian mortgages, consumer loans, agricultural loans and professional loans, with mortgage loans representing the most important share or 80% of the total portfolio, in terms of exposure. The loan book is well collateralized.

Table 2 - Retail loans Crelan Group

Exposure (in € millions)	2022
Mortgage Loans	36,851
Consumer Loans	1,656
Agricultural Loans	2,031
Professional Loans	5,195
Other Loans	318
Total	46,051

Table 2 excludes interbank loans, cash collateral and impairments. The retail credit portfolio is an important source of potential loss in the event of a macro-economic stress scenario. Therefore, the assessment of quality of this portfolio and the careful monitoring of the quality of new production are crucial in order to be able to trust the adequacy of the internal capital.

1.1.3. Concentration risk on Belgian mortgages

Despite the good performance of Belgian mortgage loans in terms of default rates, different instances have expressed their concerns on the Belgian residential property market. The cause for this is the growing debt ratio and the increasing house prices. Crelan Group is aware of the concentration of mortgage loans on its balance sheet and in its income model. Therefore, the bank is attentive for the concerns raised on the Belgian real estate market and the vulnerable segments in the mortgage portfolio.

Crelan Group aims to defend and slightly grow its market share while diversifying its income sources through fees received for the commercialisation of investment products. Aside from its growth ambition, the quality of the portfolio and production is a constant focus at Crelan Group, which is clearly reflected in the observed default rates. The latter can be attributed to three important causes, being:

- The controlled and monitored risk intake policy of Crelan Group;
- The supporting measures taken by the Belgian Governments towards retail clients to invest in their own house;
- The positive effect on repayment capacities due to low interest rates in combination with the fact that existing mortgage clients have little impact of the increasing interest rates.

Crelan strongly oversees the repayment capacity of its clients and several early warning indicators. The actionability and monitoring of these early warning indicators are further strengthened by the additional risk management tools that were developed for IFRS 9 purposes. Crelan Group's credit policy furthermore defines general rules on among others repayment capacities and collateral values. Crelan Group is careful in granting loans with an LTV above 80% and such loans are only provided to clients with a good risk profile. This is because only a combination of a correction in the Belgian real estate market (a drop in house prices) and a default of the client, will have a material impact on the bank. Additionally, when comparing collateral values, collateral instruments and debt-to-income ratios, it is observed that Crelan Group is in line with its peers in the Belgian market. Crelan Group is fully compliant with the so-called NBB speed limits. Note that with respect to the client's repayment capacity, most mortgage loans are fixed rate loans or variable rate (with a legal cap on the maximum increase) and that these loans are partially hedged against inflation risk via the automatic loan indexation in Belgium.

On top of the monitored risk intake policy and a high-quality mortgage portfolio, Crelan Group is well-capitalized for withstanding negative shocks in the macro-economic environment. The assessment of the constituents of the bank's mortgage portfolio and the strong risk profile strengthens the confidence of this statement.

In addition to Crelan Group's strong capitalization, controlled risk intake and qualitative loan portfolio, the Belgian regulatory and social framework provides additional stabilizing factors in case of macro-economic downturns such as social security, unemployment schemes and the automatic indexation of wages.

Crelan Group is however aware of the constant effort that is required for managing and controlling the risk intake. The bank furthermore follows the Belgian property market closely via reports of the supervisor, other external sources and own analysis of recovery date, and leverages on the herein provided insights.

1.1.4. Crelan Group's retail deposits

The largest portion of Crelan Group's retail customers are private individuals while a small part of the total deposits is from self-employed and micro-enterprises. There is hardly any concentration risk in the Crelan Group deposit portfolio with only a very limited number of larger deposits of more than €5 mln and with 78% of the deposits covered by the government (DGF). While interest rate risk linked to retail deposits is mainly a liquidity risk, there is also a risk from a capital perspective. The Belgian Royal Decree to implement the income tax code (KB/WIB 92) states that a compensation for regulated saving accounts has to be paid. This compensation should be non-negative for the base rate and a fidelity premium should be at least the maximum of 10 bps or 25% of the base rate. This translates to the legal floor of 11 bps applicable to the client rate of all Belgian regulated saving accounts, which results in a floored cost of retail funding. In previous years with persistent negative rate environment, this has led to a diminishing net interest margin for retail banks. Due to the increased level of inflation, interest rates were raised by central banks in 2022. As a consequence, the legal floor is no longer affecting profitability as it was in the past.

1.2. Significant events in 2022

2022 was dedicated to the first part of the integration and migration process as explained in 1.2.1, managing the bank in an energy crisis (see 1.2.2) and the Asset Quality Review (AQR) at Crelan (see 1.2.3).

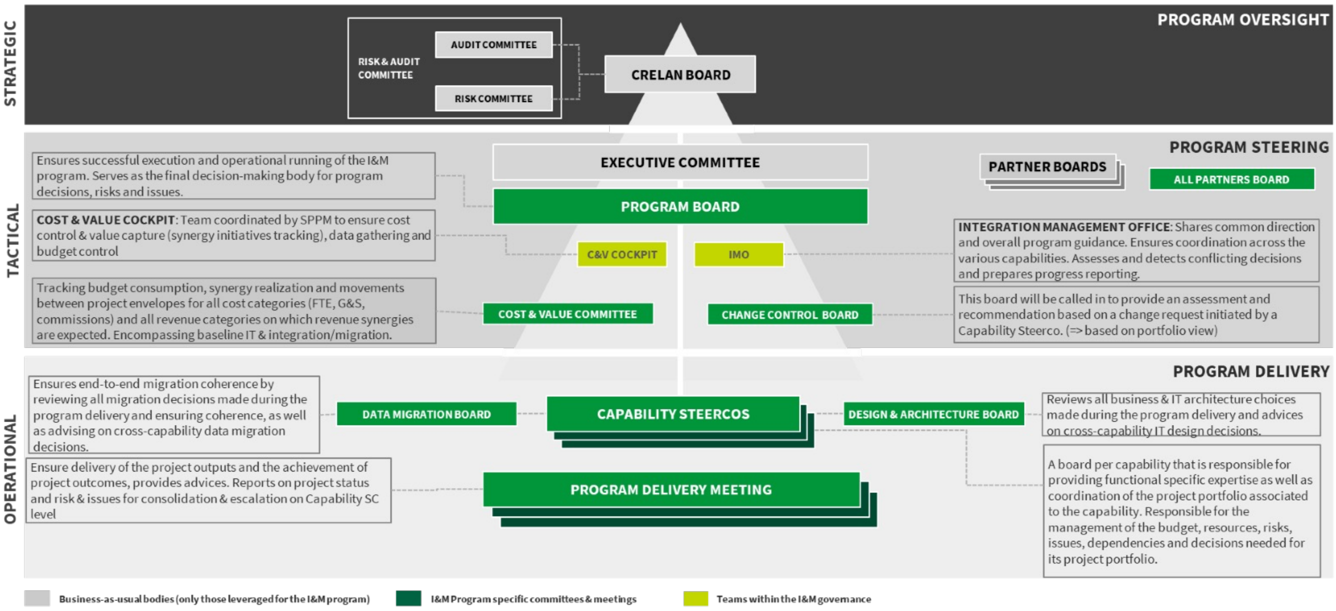
1.2.1. Integration and migration process

On 24 October 2019 AXA Group and Crelan Group reached an agreement regarding the acquisition of ABB by Crelan Group and the sale of Crelan Insurance SA to AXA Group as part of a strategic long-term partnership. On 31 December 2021, the closing (= effective implementation of the agreement with AXA Group) was completed after receiving the green light from the regulators. After the closing, a migration and Integration program was set up to execute the operational integration of the banking activity of ABB in Crelan, which is foreseen in 2024. The Integration and Migration plan consists of 76 projects.

The main projects are the following:

- Data migration and Integration: Implementation of "missing" processes and functionalities, followed by the migration of all client and product data from ABB to Crelan Group;
- Human Resources: The 'One Organisation' for Crelan and ABB is implemented as from November 2022. Harmonization of reward and labour conditions will be finalized in 2024;
- Network – Agencies: Building the network of the future by resizing the landscape, by having capable & knowledgeable independent agents, based on a clear footprint;
- Harmonization of the product offer;
- Change and communication Plan;
- Management of group budget and synergies.

Figure 1 – Organs with the different responsibilities



Seen the importance and the size of this plan, a specific governance is put in place to ensure the necessary follow-up.

To assure the oversight and the quality at the first line, a 2nd and 3rd line follow-up (internal control) is foreseen. Seen the nature and size of this program, an external party, experienced in mergers, supports the CRO in the second line follow-up.

At Board level, a dedicated committee, ABARC (= Risk Committee members + Audit committee members), is created to allow to focus on the risks linked to the integration & migration. Specific instruments are created, dedicated to the follow-up of risks related to the Integration & Migration program: a risk register and a Key Risk Indicator (KRI) dashboard. Each of these are at least quarterly assessed at ABARC level. The Risk Management Department also provides his second opinions to the ABARC on specific topics (infrastructure readiness, status at cut-over, migration approach,…). Finally, there is also a quarterly reporting on the status of the integration and migration program to ECB in place.

1.2.2. Risk management in an energy crisis context

As a result of the war in Ukraine, energy prices have risen sharply since the end of 2021, which had an impact on inflation. Both households and companies were impacted by this cost increase. In Belgium, automatic salary indexation and social tariffs protected the employees' purchasing power to a large extent, making the decrease of purchasing power in Belgium among the lowest in the EU.

On the other hand, the rapid rise in wages (especially from January 2023) will lead to rising costs for Belgian companies which may lead to financial problems within this segment. If multiple entrepreneurs were to go into default due to rising costs, this could potentially lead to increased unemployment. Finally, the bank should also be attentive to spill-over effects to the public sector since the government today takes a significant share of the burden. This was also stated in the publications of the National Bank of Belgium (NBB) where it is stated that the Belgian economy looks set to slip into a brief recession in the course of 2023.

Crelan Group management has taken multiple actions to steer the bank during this crisis and to made sure that follow-up of the impact of this risk on the bank was incorporated in the business as usual. Additionally, the Belgian banking sector also implemented some measures which are described in section below (see 1.2.2.2).

1.2.2.1. Internal governance

In 2022, the bank has actively worked on the management of credit risk related to the energy crisis. Next to the 'regular' follow-up of the portfolio, the following actions were taken (among others):

- Analysis of repayment capacity of retail clients;
- Leverage of ECB ESG stress test to determine potential financial impacts;
- Assessment of impact for the large exposure portfolio;
- Review of the forbearance framework regarding the new Febelfin measures.

In order to make sure that the bank will timely identify emerging issues and will be able to cope with increasing loans in credit default the following measures were implemented:

- Capacity analysis at the level of the pre-litigation department;
- Review of large exposures which are heavily impacted;
- Dashboards with focus on DPD (or reminders) to identify arrears in an early stage;
- Risk-based analysis to identify loans with an increasing risk and individual follow-up together with the client journey teams.

The uncertainties that will continue to be present in 2023 have been reflected in the parameters of the IFRS9 models and post-Covid review of management overlays. This resulted in a prudent and general increase in credit impairment compared to 2021.

1.2.2.2. Measures at the level of the Belgian Banking sector

The Belgian banking sector, via Febelfin, has decided to introduce accompanying measures for mortgage loan clients, as was already the case during the Covid-19 period. Clients can request deferral of the capital payment under the following conditions:

- Main residence is in Belgium;
- The total of the movable assets does not exceed €10,000;
- On 1 March 2022, there were no payment arrears on the loan for which the payment deferral has been requested;
- A payment plan is requested to or provided by the energy supplier.

This is a 12 months deferral of capital with the possibility of an extension of the term of the initial loan. Interest is still due and will be added to the contractual repayment schedule. These adaptations to contracts should be reserved for those who really need them.

Application must be introduced between October 1, 2022 and March 31, 2023. At end 2022 capital suspensions granted are very limited for both banks. All those loans are flagged as forborne (and hence stage 2).

There are no measures at the level of the Belgian Banking sector for professional credits. The measures available for professional clients are decided on a case-by-case basis (including for example the granting of new short-term loans or working capital credits). Crelan Group has decided to grant a credit line to solid companies and self-employed people whose turnover is processed through a Crelan Group account and who are experiencing temporary liquidity problems due to the energy crisis. These are treated as a new credit application and an individual credit analysis is carried out. Depending on the risk profile of the borrower, an adjusted proposal can be made.

1.2.3. Asset Quality Review (AQR)

The Crelan scope within Crelan Group was subject to an Asset Quality Review (AQR) conducted by the ECB during 2022. The scope of the exercise concerned the balance sheet of Crelan stand-alone (i.e. excluding ABB) and Europabank. ABB had already undergone an AQR in 2014. The AQR was conducted at the date of 31 December 2021 and resulted in a CET 1 impact of 0.2%-pts. This limited impact is due to the challenger model developed by the ECB, which led to higher loan loss provisions (€27 mln before taxes) compared to the bank's model. According to Crelan Group, this difference is due to methodological differences between the AQR methodology and IFRS 9. Moreover, as of 31 March 2022, Crelan implemented a new expected loss best estimate (ELBE) model which led to a comparable level of extra prudential provisions. The new ELBE model increases provisions above the level obtained in the AQR exercise. In order to avoid a double counting, the quantitative impact of AQR is not added on top of the adjusted prudential provision level.

1.3. Significant events after 2022

During the second half of March 2023, 2 United States (US) banks ran into financial difficulties. Crelan Group has no direct exposures to these banks. In the aftermath of these problems in the US, uncertainty also arose regarding Credit Suisse, which had to be rescued by the Swiss government over the weekend of 18 March 2023. Currently, there is still nervousness surrounding the financial sector in Europe and the US, but the situation seems to be stabilizing. Crelan Group follows the developments in this area very closely. In general, the bank has no material positions towards other banks for which no collateral is exchanged. The exchange of collateral significantly reduces the bank's risk. As of 24 March 2023, there is only a total amount of €7.3 mln in nostro accounts placed at 2 European banks for which no collateral has been exchanged.

In terms of indirect impact, it has to be noted that Crelan Group has distributed through its network notes guaranteed by several European banks. Should the bank in question default, this could lead to a capital loss for the customers who bought these products.

1.4. Diversity policy

At the moment there is not yet one overarching diversity policy for Crelan Group under the new structure (after the closing with ABB). Currently, there is one diversity policy for Crelan and one for ABB in place. Both diversity policies state that the banks are committed to promote Diversity and Inclusion (D&I) by creating a work environment where all employees are treated with dignity and respect and where individual differences are valued. ABB and Crelan are committed to equal opportunity in all aspects of employment. They oppose all forms of unfair or unlawful discrimination and will not tolerate discrimination based on age, nationality, ethnic origin, gender, sexual orientation, gender identity or expression, religion, marital status, or disability. Both ABB and Crelan are dedicated to cultivate a diverse and inclusive environment where all employees feel fully engaged and included in our business and strategy to become the "Preferred Company".

The aim of the diversity policies of Crelan and ABB is to ensure, over time, the maintenance of a gender-diverse Board of Directors. Just after the closing with ABB, the Board of Directors consisted of 20 members of which 2 women (10%). At this moment, the board consists of 19 members, of which 4 women, and thus reaching 21%. We continue the intention on the long run to reach a goal of minimum 33% directors of each gender.

The HR department is responsible to create from the Crelan and ABB diversity policy one policy for the whole Crelan Group at the moment of the legal merger of Crelan & ABB. To that end, a steering committee with representative participants within both organizations has been engaged, chaired by the newly appointed D&I manager.

1.5. Disclosure policy and validation

For purposes of Article 431 of the CRR, Crelan Group agreed upon a consolidated formal Public Disclosure policy in the course of 2022, aiming to support a conclusion that our risk disclosures are compliant with applicable regulatory risk disclosure standards and are compiled based upon a set of internally defined principles and related processes. Domain Managers and Process Owners from Finance, Risk and Human Resources assume responsibility for our risk disclosures and govern our respective risk disclosure processes.

The information provided in this document has not been subject to an external audit. As an overall principle, the Risk Disclosure report and its templates are signed off by Crelan Group's Chief Risk Officer. The report is challenged and validated by the Executive Committee, Risk Committee and the Board of Directors. Based upon their assessment and verification we believe that our risk disclosures appropriately and comprehensively convey our overall risk profile. Finally, internal Audit challenges the effectiveness of the reporting processes, including the Public Disclosure report.

In line with Crelan Group's Public Disclosure policy, Crelan Group aims to be as transparent as possible when communicating to the market about its exposure to risk. Risk management information is therefore provided in a separate section of the 2022 Annual Accounts of Crelan Group and – more extensively – in this publication.

Both reports can be found on the corporate website of Crelan Group at http://www.crelan.be.

If information is already available in the public domain (e.g. Annual Accounts) and if it is equivalent in nature and scope to the disclosure requirements, the Risk Disclosure report clearly refers to it. For this purpose, a disclosure map is established (see section 1.6).

If Crelan Group does not intend to disclose specific information, under the circumstances set out in Article 432(1) and (2) of the CRR, i.e. where (i) the information is not material or (ii) the information is regarded as proprietary or confidential, a specific statement will be made, as well as the reason for non-disclosure, in the Risk Disclosure report, validated by the BoD.

As EBA encourages institutions to disclose the quantitative templates in an editable format, the Public Disclosure policy foresees the publication of these templates in a separate Excel referred to as the annex of the Risk Disclosure report (Risk Disclosure Report 2022 Annex.xlsx). The Risk Disclosure Report and its quantitative and qualitative templates will be available in English on Crelan's website.

1.6. Mapping with Pillar 3 requirements

For a number of topics, we refer to the 2022 IFRS Consolidated Financial Statements (Annual report) of Crelan Group in order to avoid too much overlap or duplication of information. Quantitative templates can be found in the Excel in annex. To improve the readability of the report, a table containing the references to other the document is shown below:

Figure 2 - Mapping table

Article CRR	Disclosure requirement	Risk Disclosure Report	Annual Report Crelan Group 2022
435	Risk management objectives and policies	1.4. Diversity policy 2. Risk Management, objectives and policies 3.1. Capital management Information per risk type, in the sections: - Governance - Risk policy, framework and reporting	7.2 Solvency Risk
436	Scope of application	1.8. Scope	2.4. Structure of Crelan Group
437	Own funds	3.2. Own funds	8.26. Equity
438	Capital requirements	3.3. Capital requirements	7.2 Solvency Risk
439	Exposure to counterparty credit risk	6.5. Counterparty credit risk	7.4.4.1.1 Derivatives and Repos
440	Capital buffers	1.7. Regulatory environment 3.4.3. Countercyclical capital buffer	
441	Indicators of global systemic importance	Not applicable as Crelan Group is not considered as an institution with global systemic importance	
442	Credit risk adjustments	5.2. Credit risk exposures 5.3. Credit Quality	7.4. Credit risk
443	Unencumbered assets	11. Assets encumbrance	
444	Use of ECAIs	7. Use of ratings from external credit assessment institutions (ECAIs)	
445	Exposure to market risk	9.2. Market risk Trading book 9.3. Currency risk	7.6.2 Market risk Trading Book 7.6.3 Currency risk
446	Operational risk	12.1. Operational risk	7.7 Operational risk
447	Exposures in equities not included in the trading book	5.4.2.3. Participations	8.4.4.4. Financial Assets at Fair Value through OCI
448	Exposure to interest rate risk on positions not included in the trading book	9.1. Interest Rate Risk Banking Book	
449	Exposure to securitisation positions	8.2. Securitisation	
450	Renumeration policy	14. Remuneration risk	
451	Leverage	4. Leverage ratio	
452	Use of the IRB Approach to credit risk	5.5. Internal Ratings Based approach	
453	Use of credit risk mitigation techniques	5.3.7. Credit risk mitigation 6.4. Policies for hedging and risk mitigation	
454	Use of the Advanced Measurement Approaches to operational risk	Not applicable for Crelan Group	
455	Use of Internal Market Risk models	9.2. Market risk Trading book 9.4. Prudent valuation	

1.7. Regulatory Environment and Key Metrics

The EU introduced stricter rules around capital requirements for banks in the aftermath of the financial crisis that are based on the Basel III accords. The requirements for banks are set out in the CRR and the CRD IV. The CRR/CRD IV was gradually introduced since 1 January 2014 and is fully in force since 1 January 2023[2]. In June 2021 the new CRR II / CRD V was implemented. The EU proposed for a CRR III / CRD VI, to be applicable as from 2025.

In order for banks to fully commit their resources to respond to the impact of Covid-19, the original 2022 implementation deadline of Basel III was postponed to 2023.

After the acquisition of ABB, Crelan Group became a Significant Institution as of 1st February 2022. This means the ECB becomes the competent authority for prudential supervision of the group. The supervision is carried out by the Joint Supervisory Team (JST) that consists of members of the ECB and the national competent authority (NBB). From 2022 onwards regular consultations took place with the relevant supervisors by means of on-site inspections, workshops, interviews and reports.

The **minimum capital ratios** (Pillar 1 requirements) which are to be met by all banks according to CRR/ CRD IV are 4.5% for the common equity tier 1 (CET1) ratio, 6.0% for the tier 1 capital ratio and 8.0% for the total capital ratio.

Besides the minimum own funds requirements of the CRR, Crelan Group should also comply with the various buffers that can be imposed in accordance with CRD IV, as shown in the table below.

Table 3 - Applicable capital limits of Crelan Group at 31/12/2022

	Crelan		
	CET1	**Tier 1 capital**	**Total capital**
Pillar 1 requirement (P1R)	4.50%	6.00%	8.00%
Pillar 2 requirement (P2R) [3]	1.78% [4]	2.37% [5]	3.16%
Total SREP Capital Requirements (TSCR) 2022	**6.28%**	**8.37%**	**11.16%**
Capital conservation buffer	2.50%		
Other Systemic Important Institutions (O-SII) buffer	0.37%		
Countercyclical buffer	0.00%		
Sectoral Systemic Risk Buffer (SSRB) [6]	2.89%		
Overall Capital Requirements (OCR) 2022	**12.04%**	**14.13%**	**16.92%**

2 Press release BIS of 27 March 2020: www.bis.org/press/p200327.htm

3 Reported P2R is the weighted average of ABB and Crelan.

4 CET 1 P2R = 56.25% * TC P2R.

5 Tier 1 P2R = 75% * TC P2R.

6 The Sectoral Systemic Risk Buffer (SSRB) has been decided upon by the Belgian National Bank. It is an additional buffer replacing the micro and macro prudential add-ons on RWA. The SSRB of 9% on the RWA targets the IRB retail exposures which are collateralized by residential real estate located in Belgium. Refer to section 5.5.9.

Key figures of Crelan Group can be found below:

Table 4 - Key figures

Available own funds (amounts)		
Common Equity Tier 1 (CET1) capital	1	1,896,221,510
Tier 1 capital	2	2,141,393,457
Total capital	3	2,343,107,984
Risk-weighted exposure amounts		
Total risk-weighted exposure amount	4	8,915,192,734
Capital ratios		
Common Equity Tier 1 ratio (%)	5	21.27%
Tier 1 ratio (%)	6	24.02%
Total capital ratio (%)	7	26.28%
Additional own funds requirements to address risks other than the risk of excessive leverage		
Additional own funds requirements to address risks other than the risk of excessive leverage (%)	EU7a	3.16%
of which: to be made up of CET1 capital (percentage points)	EU7b	1.78%
of which: to be made up of Tier 1 capital (percentage points)	EU7c	2.37%
Total SREP own funds requirements (%)	EU7d	11.16%
Combined buffer requirement		
Capital conservation buffer (%)	8	2.50%
Institution specific countercyclical capital buffer (%)	9	0.0015%
Other Systemically Important Institution buffer	EU10a	0.37%
Combined buffer requirement (%)	11	5.76%
Overall capital requirements (%)	EU11a	16.92%
CET1 available after meeting the total SREP own funds requirements (%)	12	14.99%
Leverage ratio		
Leverage ratio total exposure measure	13	55,038,241,113
Leverage ratio	14	3.89%
Additional own funds requirements to address risks of excessive leverage		
Total SREP leverage ratio requirements (%)	EU14c	3.00%
Leverage ratio buffer requirement (%)	EU14d	0.00%
Overall leverage ratio requirements (%)	EU14e	3.00%
Liquidity Coverage Ratio		
Total high-quality liquid assets (HQLA) (Weighted value -average)	15	8,334,449,748
Cash outflows - Total weighted value	EU16a	4,990,148,316
Cash inflows - Total weighted value	EU16b	453,293,701
Total net cash outflows (adjusted value)	16	4,536,854,615
Liquidity coverage ratio (%)	17	184.28%
Net Stable Funding Ratio		
Total available stable funding	18	49,265,289,833
Total required stable funding	19	33,072,276,792
NSFR ratio (%)	20	148.96%

The regulatory minimum solvency targets were exceeded at the end of 2022 (see template **KM1** in annex).

Crelan Group's Leverage Ratio according to current CRR legislation ('Delegated Act') at the end of December 2022 was at a level of 3.89% which is well above the requirement of 3.00%. Until March 2022, Crelan Group applied the temporary measure to exclude central bank exposures from the Leverage Ratio exposure as explained in section 4.2. End 2022 this is no longer the case. Crelan has the ambition to drive the leverage ratio well above 4%.

The liquidity position of Crelan Group is robust at the end of 2022. LCR at consolidated level was at 195.69% at the end of 2022.

In the following Table the Return on Assets at the end of 2022 of Crelan Group is given according to Article 90 of CRD IV.

Table 5 - Return on Assets of Crelan Group

	31/12/2021	31/12/2022
Return on Assets (RoA)	0.20%	0.28%

1.8. Scope

1.8.1. Differences in the measurement of exposures

In this section and template **LIA** and **LIB** in annex, we highlight differences in scope between the regulatory and accounting frameworks to enhance comparison of reported information for our stakeholders.

Templates **LI1, LI2** and **LI3** in annex cover information on the differences in the scope of consolidation and the measurement of exposure. They provide supplementary information on items deducted from own funds, elements that have an impact on the difference in the exposure value between the regulatory and the accounting frameworks (netting, provisions, prudential filters...).

As there is no difference in the basis of consolidation for accounting and prudential purposes, column (a) and (b) of template **LI1** were merged.

Template **LI1** gives a break down on how the amounts reported in the financial statements (a) are to be allocated to the different risk frameworks. The sum of the amounts disclosed under the different frameworks does not equal the amounts disclosed in column (a), as some items are subject to capital requirements for more than one risk framework (e.g. derivatives in the trading book are part of both the counterparty credit risk framework and the market risk framework).

Following items are not subject to capital requirements or are subject to capital deductions:

- Intangible assets: starting from Q4 2020, intangible assets are partially deducted from CET1 and partially subject to capital requirements;
- Deferred tax assets (DTA): they are subject to special treatment and are netted with deferred tax liabilities by tax entity. Net DTA that do not rely on future profitability and net DTA that rely on future profitability and do not arise from temporary differences are subject to capital deduction. Net DTA that rely on future profitability and arise from temporary differences below the 10% threshold are risk weighted;
- Liabilities are not in scope, except some derivative and securities financing transactions (SFT) items and some provisions.

Template **LI2** provides information on the main sources of the differences between the financial statements' carrying values and the exposure amounts used for regulatory purposes (gross carrying values).

1.8.1.1. Main drivers of differences in the credit risk framework

- Off-balance amount: this mainly concerns undrawn credit lines subject to a credit conversion factor;
- Differences due to consideration of provisions: re-integration of the provisions in the exposure value;
- Differences due to Securitisation with risk transfer: More information on this securitisation can be found in chapter 8 of this report.

1.8.1.2. Main drivers of differences in the counterparty credit risk framework

- Off-balance amounts: potential future exposure, calculated according to the mark-to-market method, is added as well as off-balance collateral for SFTs [7].
- Difference due to different netting rules.
- Only positive market values are taken into account, meaning that the negative amounts are adjusted to zero. Negative market values are in this way removed from the calculations. This also includes the reduction of the collateral received if this exceeds the market value.
- The Own funds requirements for pre-funded contribution to the Default Fund (DFC) of a qualifying central counterparty (QCCP) is part of counterparty credit risk, but risk-weighted assets are calculated separately according to article 308 of CRR. They appear under a separate line in the different reports.

1.8.1.3. Main drivers of differences in the market risk framework

- Difference due to different netting rules: no netting applied in market risk framework;
- Differences due to prudential treatment concerns the definition of the long and the short position in the market risk framework according to the CRR.

1.8.2. Scope of consolidation

At 31 December 2022, the scope of consolidation of Crelan Group includes the following companies: The Crelan federation of credit institution (consisting of Crelan SA and CrelanCo CV), Europabank NV, Royal Street SA, AB Finance BV and ABE SCF and CASPR S.à.r.l. These entities are fully consolidated (see template **LI3** in annex).

Crelan SA – CrelanCo CV: In accordance with Article 239 of the Law on the Statute of and Supervision of Credit Institutions of April 25, 2014, Crelan SA forms with the recognized cooperative company CrelanCo a federation of credit institutions of which Crelan SA is the central institution. Because of this all liabilities of CrelanCo and Crelan SA are joint and several. The Belgian Banking Law foresees that a Federation consists of a central institution (Crelan SA) and affiliated institutions (in the underlying case only one – CrelanCo). It is also important to note that the Federation of Crelan only applies to Crelan SA and CrelanCo. Europabank and ABB (and its subsidiaries) are part of Crelan Group, but they are not part of the Federation (the activity of ABB will become part of the Federation after the integration/legal merger in 2024). The Belgian Banking Law foresees clear rules on the governance of a Federation of credit institutions:

- The governance of the Federation is stipulated in a uniform internal regulation that is created by the central institution (Crelan SA). This internal regulation must be approved by the supervisor (ECB) and all federation members are obliged to follow this internal regulation. The internal regulation of the Federation Crelan is contained in the so-called 'affiliation rules';
- Affiliated institutions are themselves credit institutions given their formal affiliation to the central institution, however the necessary license is granted by the supervisor only after an opinion from the central institution stating that the affiliated institution complies with all the provisions of the internal regulation;
- The obligations of the affiliated institutions and of the central institution are joint and several liabilities;
- The central institution directly supervises the affiliated institutions and is authorized to issue instructions regarding their policies, operations and organization;
- The central institution is responsible for the policies, administrative and accounting organization and internal control of the affiliated institutions;
- All obligations imposed within the framework of European banking supervision apply to the scope of the Federation as a whole and not to individual members or the central institution. In order to do so all regulatory reporting is performed in a consolidated manner for the central institution and the affiliated institutions together;
- As its name indicates, the central institution is responsible for the supervision of the Federation. The Executive Committee that has been installed at the level of Crelan SA (central institution) has full responsibility for the entire Federation.

7 SFTs are transactions where securities are used to borrow cash, or vice versa. This includes repurchase agreements (repos), securities lending activities and sell/buy-back transactions.

It is clear that the concept of a Federation of credit institutions is comprehensively provided for in the Belgian Banking legislation and the European CRD regulation. The legislator wants to ensure that all members of the Federation comply with the rules of banking supervision and this has to be supervised at all times by the central institution.

Europabank NV is a 100% subsidiary of the Crelan Group. It is a retail bank aimed at individuals, self-employed and small businesses, and only sells standard products. The bank operates in Belgium (Flanders, Brussels and Wallonia). The bank's activities include lending to its customers (natural persons and legal entities) with a slightly higher risk profile. Furthermore, the bank offers payment services as payment cards acquirer. The bank also issues its own credit cards (issuing). Only a limited range of insurance products is offered (debt balance insurance). The bank offers its products through its own branches, brokers and dealers, the internet and Crelan agents.

In Belgium, ABB provides a broad range of financial products to individuals and small businesses and has a network of exclusive independent bank agents who typically also provide insurance solutions as a broker.

While Crelan also offers Belgian retail loans, compared to ABB and Europabank, there is a better diversification with a larger share of the professional segment, and to the agricultural sector in particular.

The activities of AB Finance consist of issuing notes under programs that are unconditionally and irrevocably guaranteed by its sole shareholder ABB S.A. The notes issued by the Company are mainly placed among European investors. The net proceeds of these notes are lent to ABB that uses the proceeds for the funding of its banking activity. In 2022, Crelan Group only distributed EMTNs issued by a third party bank and didn't use AB Finance in 2022 as an issuing entity.

Royal Street is a SPV created to securitise a part of ABB's residential mortgage portfolio. As an SPV, Royal Street does not engage in any commercial activity. Currently, Royal Street is fully unwounded and no longer used for ECB funding as discussed in section 8.2. Issuing RMBSs via Royal Street is still considered a useful balance sheet management tool, yet currently not actively used.

ABE SCF, a French law governed Société de Crédit Foncier, is a wholly owned subsidiary of ABB and legally bankruptcy-remote from ABB. It was created for the purpose of issuing covered bonds for the benefit of ABB.

ABE SCF must meet the minimum capital requirements imposed by the competent authority. It has no commercial activity as such. It only maintains activities that support ABB's covered bonds program done for funding and liquidity management.

CASPR S.à.r.l, a Luxemburg law governed SPV is a SPV created to securitise the credit risk of a part of ABB's residential mortgage portfolio. As an SPV, CASPR does not engage in any commercial activity. More information on this company can be found in section 8.2 of this report.

1.8.3. IFRS9

Crelan Group has decided to not apply the transitional arrangement to limit the impact of the introduction of IFRS 9 on own funds. The implementation of IFRS 9 is done at once (fully loaded) and no transition is applied. Therefore all "Fully loaded ECL accounting model" lines were removed from the templates in annex.

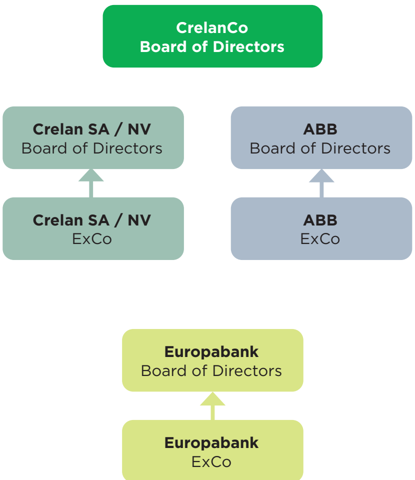
2. Risk management, objectives and policies

2.1. General risk governance structure and organization

The risk governance structure of the bank describes how Crelan Group is organized in order to respect the principles of good governance. It explains the roles and responsibilities of the senior management and the directors, as well as the roles and responsibilities of the risk management department. The various committees that are put in place by Crelan Group are described as well.

2.1.1. Organisational structure Crelan Group

Figure 3 - Governance structure



Cooperative shareholders

As explained in a section 1.8.2, as of the closing date of the takeover of ABB, Crelan Group consists of 4 main credit institutions (SCF not taken into account):

- CrelanCo;
- Crelan SA;
- Europabank NV;
- AXA Bank SA (and its subsidiaries).

CrelanCo and Crelan SA constitute a Federation of credit institutions under Belgian Law creating a joint and several obligations between them. Both legal entities conduct banking activities and have products on their balance sheet. Crelan SA acts as the central institution and is the central bank of the Federation. Only cooperative shareholders are the stakeholders for the bank.

Crelan Group is organised as a cooperative banking group 100% owned by approximately 275,000 shareholders. Cooperative shares are offered on a continuous basis via the bank based on a prospectus approved by the FSMA. CrelanCo cooperative shareholders meet annually to validate:

- Nomination and resignation of CrelanCo directors and external auditor;
- Validation of CrelanCo annual financial statements (statutory at entity level, globalisation at the level of the Federation and consolidation at group level);
- Validation of profit allocation / dividend upon proposal of CrelanCo BoD;
- Modification of status and internal rules as required.

Board of Directors

Due to the set-up as a cooperative bank being part of the Federation, a distinction can be made between roles and responsibilities of the BoD on CrelanCo and on Crelan SA level:

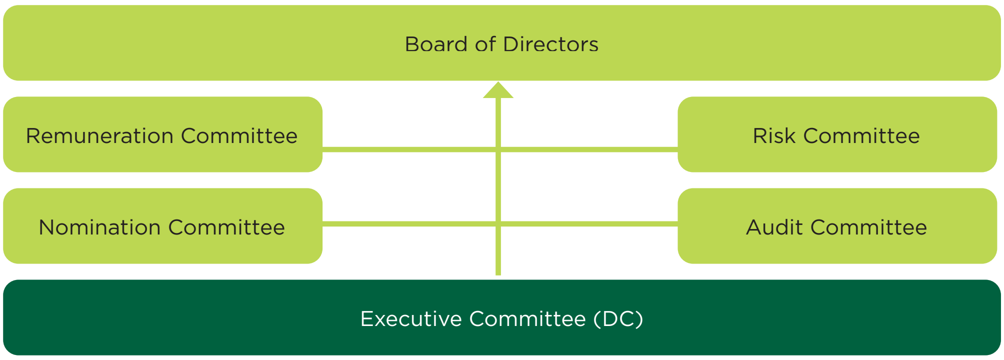
- CrelanCo BoD key responsibilities include:
  - Determination of the Crelan Group strategy;
  - Supervision of cooperative activities and of Crelan Foundation;
  - Review of Crelan Group management delegated to Crelan Group's ExCo;
  - Proposition of allocation of CrelanCo profits / dividends

  .
- Crelan SA BoD key responsibilities include:
  - Determination and supervision of Crelan Group strategy;
  - Determination of Crelan Group policies including risk appetite;
  - Determination of financial policy and targets;
  - Supervision of Group compliance with regulatory requirements;
  - Proposition of allocation of profits / dividends;
  - Nomination of key executives and remuneration policy.

The BoD of each Crelan Group entity is responsible for defining its strategy and for the operational implementation of the objectives it has set within the framework of Crelan Group's general policies. The composition of Crelan SA and ABB SA BoD is identical given the proposed merger between the two entities in 2024. More information about the management body can be found in template OVB in annex.

Specific risk committees support the Board of Directors via the delegation of roles and responsibilities. The specific risk committees which support the Board of Directors are the following:

Figure 4 - Specific risk committees BoD



Risk Committee

The Risk Committee assists the Board of Directors' by means of:

- Proposing an adequate and effective risk strategy and appetite to actual or future risks;
- Providing assistance to assess the implementation of that strategy;
- Assess the adequacy and effectiveness of the internal control and the risk management framework;
- Oversight on all 2nd line functions.

Audit Committee

The Audit committee assists the Board of Directors' oversight of the:

- Financial reporting process and the integrity of the publicly reported results and disclosures made in the financial statements;
- Effectiveness, performance and independence of the internal and external auditors.

Remuneration Committee

The Remuneration Committee assists the Board of Directors by means of:

- Overseeing the compensation system's design and operation;
- Ensuring that the compensation system is appropriate and consistent with the bank's culture, long term business, risk appetite, performance and control environment and all legal and regulatory requirements.

Nomination Committee

The Nomination Committee assists the Board of Directors by means of:

- Recommending candidates, for approbation by the General Assembly, suitable to fill vacant seats on the Board of Directors (including ExCo);
- Elaborating and proposing a policy with regards to recruiting, assessments and resigning of non-executive administrators (dependent or independent), members of the Board of Directors and responsible of independent control functions;
- Examining all concrete propositions of nomination or resigning and by formulating advice to the Board of Directors;
- Evaluating periodically, at least once a year, the structure, the size, the composition and the performances of the Board of Directors, in order to give recommendations for eventual changes.

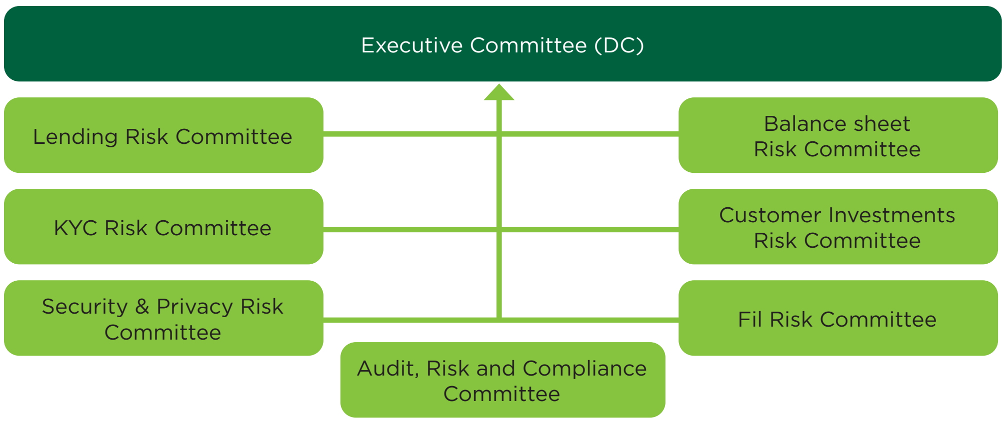
Executive Committee

Crelan SA ExCo is mainly responsible for:

- Implementation of the strategy defined by the BoD;
- Day-to-day management and control of Crelan operations (Federation level);
- Day-to-day management of CrelanCo is delegated to Crelan SA.

The ExCo of CrelanCo, Crelan and ABB consists of the same representatives.
Specific sub-ExCo risk committees are responsible to monitor and apply the specific risk strategies set by Crelan Group ExCo (in line with the plans and targets set by Crelan Group's Board of Directors).

Figure 5 - Specific risk committees ExCo



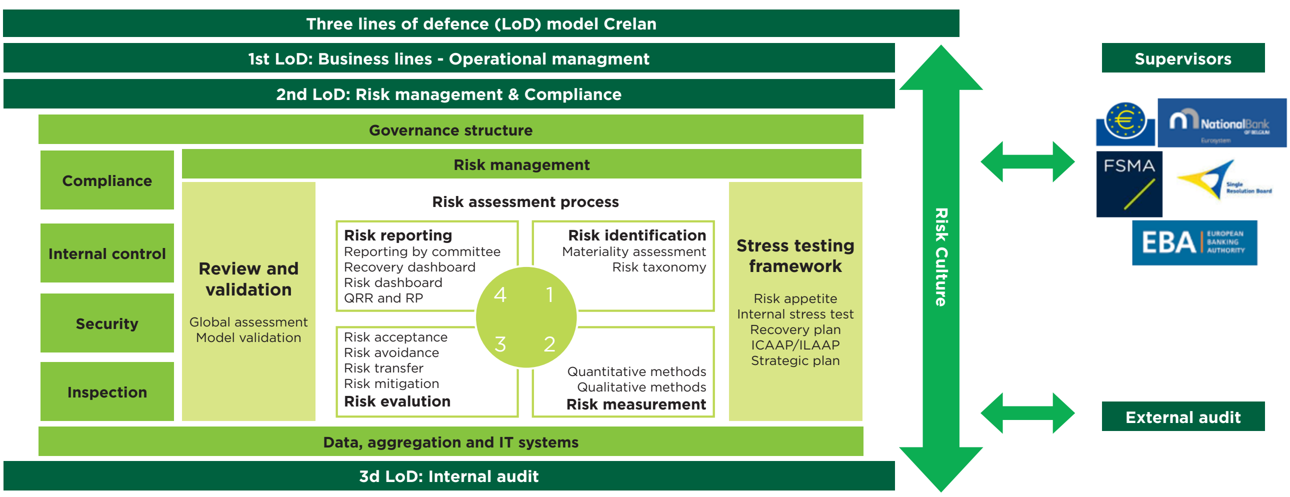
2.1.2. Structure of the risk management department

Mission

The overall risk management of Crelan Group consists of three lines of defence, of which the Risk Management department represents the second one. The mission of the Risk department is to identify, assess and control potential risks as well as to maximize the realization of business opportunities and minimize potential losses. This is organized and achieved on an independent basis and in cooperation with different management bodies and committees.
The three lines of defence (LoD) for the management of risks within Crelan Group are illustrated in the figure below.

Business lines act as a first LoD; they are in the frontline and are firstly responsible to acknowledge and manage risks. They are responsible for the daily monitoring, management and control of the risks linked to their activity.
The Risk Management department acts as a second and independent LoD for the management of risks. It ensures compliance with Crelan Group's risk appetite framework and therefore it ensures that the risks generated by the activities of business lines are identified, measured/assessed, adequately mitigated, monitored and reported. The internal control team (as an integral part of the Risk Management department) sets up checks and controls for all departments in Crelan Group and ensures that these controls are adhered to (even for risk management processes itself). Other teams, such as the inspection team (controls on the agency network), the compliance team and the security team are also organised in the 2nd line of defence. The Audit department acts as third LoD.
A sound risk attitude requires the risk management framework of a bank to be regularly reviewed by both internal and external parties. The objective of these reviews is to assess whether the risk framework is still appropriate and sufficient for managing the risks a bank faces. The external reviews are performed by the regulators (i.e. NBB, FSMA and ECB) and the external auditor. Internal reviews are performed by Crelan Group's own internal audit. A validation function is also in place that controls the models developed to assess and quantify risks. The Risk Committee obviously plays an important oversight role together with the BoD.

Figure 6 - Three lines of defence



Structure

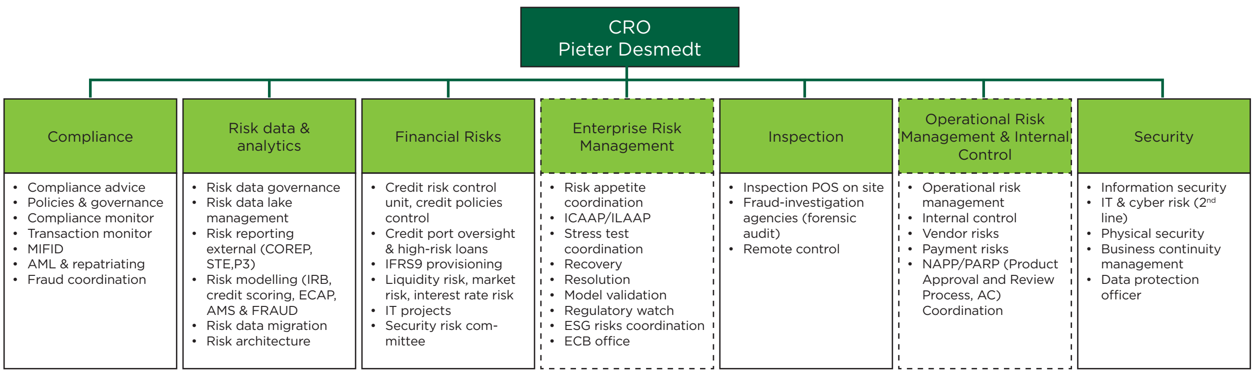
As an independent control function (independent from the business lines) represented in Crelan Group's Executive Committee and reporting to its CEO, Crelan Group's Risk Management department assists Crelan Group's Board of Directors and the specialized risk committees to manage the bank's risks. It acts as the second line of defence in terms of risk management, after the business lines who are frontline and therefore first responsible to manage their risks.

The coordination of the Risk Management department is done by the Chief Risk Officer (CRO). The organisational charter of the Crelan Group's Risk Management department at 31/12/2022 as well as their role and responsibilities can be found below.

More in detail, the risk management department's main objectives are the following:

- Play a core role in supporting the ExCo for defining, implementing, monitoring and regularly reviewing Crelan Group's risk appetite framework, e.g. by translating Crelan Group's risk appetite into operational indicators and limits;
- Ensure that the management of risks is part of Crelan Group's strategic decision-making process, by embedding the risk appetite in the strategic plan and budgeting process;
- Define, implement and regularly review the risk management framework by ensuring that all material risks are identified, assessed/measured, mitigated and reported:

Figure 7 - Risk management organigram



- Identification: by yearly reviewing Crelan Group's risk cartography and taxonomy;
- Assessment/Measurement: by using appropriate indicators and models. This requires ensuring that indicators and models are properly maintained, developed, documented and validated (by the independent validation team). In addition, models need to be regularly reviewed and backtested;
- Mitigation: by ensuring that the required levels of capital, liquidity buffers and processes are in place to adequately mitigate risks;
- Monitoring/Reporting: by ensuring that reporting processes are in place to control that risk appetite remains within limits. This includes making certain that functional escalation processes are in place to alert management of limit excesses and/or of the materialisation of risk events.

- Ensure that Crelan Group's risk appetite framework and risk management processes are documented and reported in various reports for internal and external use (regulator);
- Ensure that processes are appropriate for approval of launch of new products or significant changes of existing products via a product approval process (NAPC);
- Perform stress testing to evaluate the effects of exceptional, but plausible events on Crelan Group's financial position;
- Perform regulatory surveying to monitor changes to risk related laws and regulations, alerting management in due time of changes that might impact Crelan Group.

2.2. Risk Management

2.2.1. General

In the exceptional conditions of 2022, Crelan Group ensured a coherent and prudent risk management by applying its risk management framework. The bank has broadly implemented robust strategies, policies, processes and systems for identifying, measuring, managing and monitoring its risks.

The Risk Management framework and the RAF were updated in the first trimester of 2022 and further throughout the year because of the acquisition and integration of ABB (to have an overarching Risk Management Framework and RAF) and because of changes in regulation, processes and strategies.

Crelan Group regularly adapts risk policies in order to stay on track in this constantly changing environment. Risk management believes that the current arrangements are adequate taken into account the bank's profile and strategy.

2.2.2. Declaration on the adequacy of risk management arrangements (pursuant to Article 435 of the CRR)

The Risk Disclosure report gives a detailed description of the risks that Crelan Group faces and of the Risk Management Framework.

The risk management policy and its organizational structure are designed in such a way that, in our opinion, the known risks are sufficiently identified, analysed, measured, monitored and managed.

Risk management distinguishes the following risk categories: solvency risk, liquidity risk, profitability risk, credit risk, counterparty risk, market risk (interest rate risk and other market risk), operational risk, IT security risk, compliance risk and other risks (business risk, model risk, political and regulatory risk, reputation risk, ESG risk, pension risk, securitisation risk and step-in risk).

The risk management framework and control systems are based on a risk identification process that is combined with prevention and control measures. A strategic risk appetite is determined for the main areas (capital, profitability, liquidity and non-financial risks). This risk appetite model was approved by the Board of Directors and is used as a central tool for managing the risks in the bank.

Crelan Group's risk data and systems support regulatory reporting and disclosures as well as internal management reporting on a regular or ad hoc basis for the different risk types. The various reports are presented to the appropriate committees as indicated in the General risk governance structure section.

These reports show that the financial result was achieved within Crelan Group's risk appetite for 2022 and within the legal requirements.

This provides a reasonable degree of certainty that the risk reporting does not contain material misstatements and that the internal risk management and control systems worked well in the 2022 financial year.

As required in Article 435 of the CRR, the Executive Committee declared that it is of the opinion that the risk management measures taken, are necessary and appropriate for Crelan Group's profile and strategy.

This declaration is also approved by the Board of Directors.

2.2.3. Risk Appetite

A RAF is the whole set of policies, processes, limits, controls, and systems that banks put in place to define, communicate, and monitor how much risk and what type of risks they are willing to take on and to make sure that risk profile of the bank is in line with the objectives of the bank.

The risk appetite has to be aligned with the strategy, the bank has to ensure that the envisioned strategy is in line with its risk appetite, the bank should thus not pursue a strategy that is beyond its risk capacity.

The following diagram gives an overview of the different building blocks of Crelan Group's RAF applicable in 2022:

Figure 8 - Building blocks of Crelan Group's RAF

Integration in strategic decision making

The risk appetite statements and their translation into limits is not a standalone exercise. It is equally important as the determination of the strategy of the bank. Therefore, the risk appetite framework is fully integrated in the strategic & financial planning process of the bank and thus the yearly update of the strategic plan goes hand in hand with the review of the RAF and their respective limits.

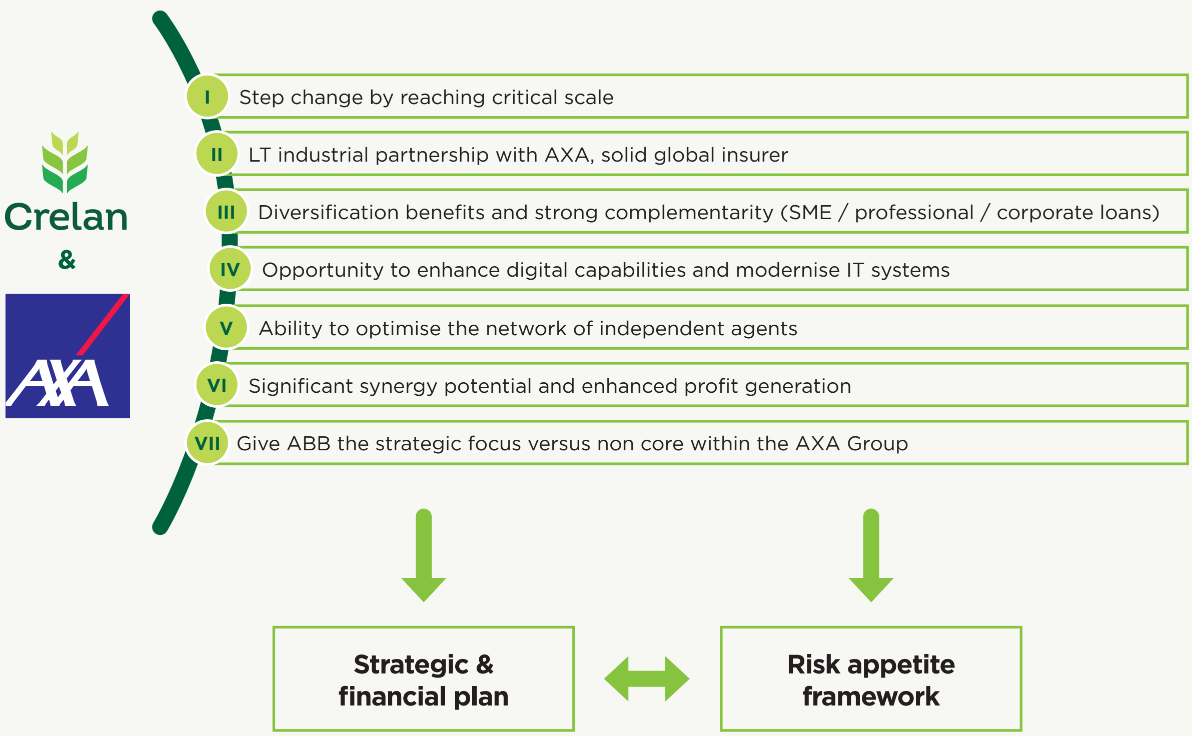
The figure below shows the strategy which was set up for the combined bank Crelan-ABB. Strategic choices are dependent on the business model in which the bank operates, the macro-economic environment, the vision of executive management, the mission statement of the bank, … These strategic choices can be of a quantitative nature or of a qualitative nature. Quantitative strategic choices can be linked to accounting figures, budgeting and forecasting figures via financial plans. Other strategic choices cannot be quantified as they concern elements which cannot be expressed in terms of results or financial figures. The execution of the strategy of the bank leads to inherent risks, which need to be identified, measured/assessed, treated and reported. Integration of the risk appetite framework in strategic decision making therefore means that the RAF of the bank is applied to or takes as an input both to the quantitative strategic choices (e.g. the financial plan) but also qualitative strategic choices. Vice versa, the risk appetite of the bank is an input for the strategic and financial plan. It defines the limits to the risk that the bank is willing to take. This is reflected in the commercial and other ambitions of the bank when setting the strategic plan.

As can be seen in the next sections, Crelan Group has integrated its strategic decision making in its RAF by:

1. Comprehensive part of the risk management framework

In line with the strategy the bank determines a risk appetite. As explained in the previous section, the starting point to develop a risk management framework are the strategic choices taken by the bank, considering the operating model and the business environment in which the bank operates. The risk appetite framework plays a central role in the risk management framework of the bank.

Figure 9 - Interaction between strategy and risk appetite



The risk appetite framework focuses in more detail on how the risk appetite framework is embedded within the risk management framework. The risk appetite framework contains the same building blocks as the general risk management framework:

- It is supported by a strong governance;
- It applies data and uses end user computing tools in order to compute the limits;
- It is reviewed and validated on a regular basis;
- It applies stress testing in order to define limits;
- It follows the cycle of the risk assessment process:
    - Risk appetite is only defined for risks which are identified (as per the business model and strategy of the bank);
    - Risk appetite can only be set quantitively if indicators are defined and measured on a regular basis;
    - Risk evaluation is the central component of a risk appetite framework, with the setting of quantitative or qualitative risk appetite statements and corresponding limits;
    - Regular reporting on the RAF is done via risk dashboards.

2. Effective governance

Identifying risks, specifying risk appetite statements and defining limits goes hand in hand with a solid governance framework. In Crelan Group's risk identification exercise, a distinction is made between key risks and sub-risks. The key risks are considered as strategic risks, while the sub-risks are considered as functional risks. Therefore, the current RAF foresees 2 follow-up levels:

- Strategic level: the SRAS (Strategic Risk Appetite Statement) define quantitative and qualitative limits on the most important risk dimensions of the bank. For each dimensions specific risk metrics are maintained. As such, it defines the limits with respect to the quality and quantity of risk that Crelan Group is ready to accept or tolerate in order to accomplish its mission and its strategic objectives, taking into account the expectations of all stakeholders.
- Functional level: the FRAS (Functional Risk Appetite Statement) define quantitative and qualitative limits on a more granular level (indicators that are used in day-to-day business decisions).

The SRAS and FRAS are central elements of Crelan Group's risk appetite framework. They focus on quantitative and qualitative limits on risk dimensions which allows Crelan Group to accomplish its mission and its strategic objectives, as well as defining functional limits. These indicators are defined at the top level of the bank (respectively the Board of Directors and the Executive Committee) and are followed up and monitored by the risk department. This framework is complemented by an operational limit framework which is used in day-to-day business decisions by specific business lines. It is the responsibility of the business lines to define an operational risk appetite framework where these indicators are defined and limits are set. The responsible sub-risk committee[8] of that business line is responsible for defining the limits, monitoring the operational indicators and performing a risk assessment against the limits of these indicators. The limits are however set in collaboration with the risk department as there needs to be alignment between the strategic and functional limits on the one hand and the operational limits on the other hand:

8 We refer here to the specific committees (also referred to as business committees) that exist within the bank

- Using the strategic/financial and funding plan as an input for most of its strategic quantitative indicators for capital, liquidity and profitability;
- Setting qualitative risk appetite statements or creating indicators to cover strategic choices which are more qualitative in nature.

3. Consistent use and ownership

Risk indicators are defined at all levels throughout the organization. Therefore, it is important that risk indicators and their respective limits are assigned to business lines and that ownership and responsibility is clearly defined.

RAF implementation

The previous section focused on the theoretical concepts on which the RAF of Crelan Group is built. This section explains how these theoretical concepts are applied on a day-to-day basis.

Crelan Group's RAF consists of 2 types of risk appetite statements, namely qualitative risk appetite statements and quantitative risk appetite statements.

1. Qualitative risk appetite statements

These qualitative statements are used to express guiding rules to which the bank wants to adhere or define the risk appetite in these cases where it cannot be expressed quantitatively. It can also serve as an additional enhancement to the quantitative framework.

Business risk:

Belgian anchoring

Crelan is a Belgian bank owned by Belgian cooperative shareholders that sells its products on the Belgian market. It therefore focuses on the Belgian market and does not wish to take on commercial risks linked to foreign activities. If positions are nevertheless taken that have a link to foreign markets, these transactions are first subjected to a thorough screening and advanced due diligence of the risks.

Prudent investments

Crelan Group will only invest in and sell investments products that it fully understands and for which it has the necessary resources to manage these products.

Model risk:

Crelan Group has no appetite for material model risk and mitigates this risk via capital buffers and processes such as the model risk management and validation framework.

Political risk:

Crelan Group has no appetite for avoidable political risk and mitigates this risk via a close follow-up of political evolutions and decisions.

Regulatory risk:

Crelan Group has no appetite for material regulatory risk and mitigates this risk via a follow-up of all regulatory and legal developments, as well as anticipating the importance of regulation before it comes into effect.

ESG risk:

Crelan Group promotes the values of a society where sustainability and corporate responsibility are a central component of everything that we do. Additionally, the group recognizes that risks can rise from environmental, social and governance angles (in addition to economic angles such as inflation, GDP, unemployment etc.) for which it must also take mitigation actions. Within this context Crelan Group will further develop the risk measures in order to integrate ESG in its risk appetite framework. A focus currently lies with the E pillar, also seen as a focus area for all stakeholders of the bank, including the supervisor. As described in the ESG library, the bank distinguishes between:

- Transition risks, referring to the institution's financial loss that can result, directly or indirectly, from the process of adjustment towards a lower-carbon and more environmentally sustainable economy on its counterparties, invested assets or own assets/operations. Transition risks can be subdivided into policy & regulation risks, technology risks and market sentiment & demand risks;
- Physical risks, being the risks of any negative financial impact on the institution stemming from the current or prospective impacts of a changing climate on its counterparties, invested assets or own assets & operations. This includes more frequent extreme weather events (acute physical risks) gradual changes in climate (chronic physical risks) and environmental degradation.

For both transition as physical risk, Crelan Group has performed a qualitative materiality assessment and action plan. The group is currently in the process of establishing qualitative and quantitative risk measures in order to develop the risk appetite framework further on this topic.

Following the yearly review of the bank's risk taxonomy, a risk assessment takes place to determine the materiality of identified risks. As part of this process, an ESG risk materiality assessment is carried out based on expert judgement.

For this exercise, Risk Management develops a number of plausible C&E risk scenarios for financial risks which are then discussed within the respective risk teams. Separate sessions are organized per financial risk (credit, market and liquidity risk). The same exercise is carried out by Operational Risk Management for operational risks.

The materiality assessment considers two axes, namely likelihood (low, medium, high, very high) and financial impact (low, medium, high, very high) over the short (0 to 3 years), medium (4 to 10 years) and long-term (beyond 10 years). Where applicable, ongoing actions & existing processes are considered in these discussions as risk mitigants.

Figure 10 - Risk matrix C&E risk

The 2022 exercise was performed mainly in a qualitative manner but towards the future more quantitative data will become available to support the assessment process.

Today, Crelan Group's stakeholders, including the regulator, have increased the focus on the C&E pillar of ESG (e.g. in the context of the EU Green Deal). Hence, as mentioned above, the risk identification and assessment exercise of 2022 focused on C&E risks.

As a financial institution, Crelan Group considers itself materially exposed to C&E risks. In the short and medium-term, it is expected that the main impact on the bank will stem from transition risks. More specifically, the Group believes that transition risks could have a significant impact on its retail credit portfolio and its fund-raising capacities. Below, a short overview is provided of the key C&E risks identified as part of the 2022 risk identification & assessment exercise.

- Credit risk: the majority of the loans to customers balance consists of retail mortgage loans. Hence, the main C&E risks for the credit portfolio, are:
  - Retail mortgage loans - transition risks:

    Energy inefficient housing may become a less attractive investment in the medium and long-term, given the high energy costs associated with such properties. Hence, collaterals with poor energy efficiency values may decrease in value, affecting Loss Given Default (LGD) values. Furthermore, customers with energy inefficient houses may experience increasing difficulty to pay back loans as a larger portion of their income is dedicated to paying energy bills, decreasing their Capacity To Pay (CTP) and increasing their Probability of Default (PD). The risk related to volatile energy prices is expected to be most pertinent in the short-term.
  - Professional loans - transition risks:

    The main risks relate to regulatory initiatives in the medium and long-term (such as a carbon tax) affecting carbon-intensive sectors, which will impact their cost of doing business and hence affect their CTP and PD if they have taken out a loan with the bank. For instance, regulation related to nitrogen emissions may impact the costs related to livestock farming and increase the credit risks in this segment. Additionally, soaring energy costs in the short-term may also affect their CTP and PD.
  - Retail mortgage loans - physical risks:

    The main risks relate to the damage that may be caused by severe flooding to the property for which a loan was taken out. Owners may need to use their savings to fund repairs, hence affecting their CTP and PD (at least temporarily). Additionally, collateral values may (temporarily) be affected by the damage caused, affecting LGD values. While the financial impact of such a flooding scenario is expected to be similar across different timeframes, the likelihood may increase over time.

    Note that flood damage is normally covered by fire insurance in Belgium. This type of insurance is mandatory and hence can be considered a risk mitigant.
  - Professional loans - physical risks:

    The main risks relate to the damage that may be caused by severe flooding to company property/ operations. They may not have savings in place to cushion the financial damage caused, hence impacting their CTP and PD if they have taken out a loan with the bank. While the financial impact of such a flooding scenario is expected to be similar across different timeframes, the likelihood may increase over time.

    Note that a severe drought scenario was also considered in this year's C&E risk materiality assessment exercise given the bank's significant exposure to the agricultural sector. However, the bank notes that its agricultural exposures have shown resilience in light of droughts in the past (FY18, FY19, FY20 & FY22) and counterparties have in most cases made the necessary investments to adapt to the increasing frequency of droughts (e.g., through the re-use of water). Hence, this risk is currently not considered material.

- Operational risk

  The main C&E risk is related to compliance with ESG regulations. A significant portion of this regulation relates to standardized reporting on C&E topics. In order to be able to meet these reporting obligations, identifying & remediating C&E data gaps is crucial. This risk is considered material across all timeframes. While the likelihood of breaches will decrease over time as more data becomes available and proxy methodologies improve, the financial impact remains significant if a breach were to occur.

  Another risk, mainly in the short-term, is greenwashing risk at key vendors given the complexity of ESG regulations and a competitive push for green products. Finally, the reputation risks associated with the bank's activities in the agricultural sector have also been assessed. In particular, their impact on the bank's ability to attract and retain talent in the medium and long-term.

- Liquidity risk

  TThe group recently developed a green bond framework in order to raise green funding. The bank notes that investor preferences for green bonds (especially non-covered bonds) compared to traditional issuances are already more pertinent in the market today.

  The impact of flood risk on client drawdowns is also considered a relevant risk across all timeframes. While the likelihood is considered low in the short-term, financial impact is expected to be very high, in particular if government and insurance support cannot keep up (which is more likely in an extreme scenario where a more significant portion of the country is flooded).

- Market risk

  The bank does not carry out any trading activities for its own account. The main C&E risks for the bank relate to the transition risks in the investment portfolio. These risks are expected to be most pertinent over the medium and long-term horizon.

  The investment portfolio mainly consists of government bonds, which are concentrated at the moment in 5 EU countries (Belgium, Austria, France, the Netherlands and Finland).

  All known identified material risks must be evaluated and mitigated by adequate mitigation techniques and/or processes. To ensure that C&E risks are adequately embedded in the overall business strategy and risk management framework of the bank, C&E risks have been incorporated in the bank's Quarterly Risk Report (QRR) framework and quarterly Risk Presentation (RP).

  The RP summarizes significant events of the quarter and can be considered as the executive summary of the QRR. The reports described above are presented on a quarterly basis to the Board of Directors (BoD), Executive Committee (ExCo) and Risk Committee (RC), which will take action based on the outcome of the discussions held. Note that the ECB is also informed of the outcome of the QRR. The different climate risks are monitored and evaluated in the different governance bodies applicable in the Crelan entity.

Reputation risk - Transparent reporting:

Crelan has no appetite for the adverse perception of the image of the bank on the part of customers, counterparties, stakeholders, investors or regulators. The risk is hedged via processes such as the role of a reputation ambassador as well as embedding reputation at operational levels.

Crelan will put in place a transparent reporting in relation to its financial performance, risk management and other important aspects of company performance. We will aim to make this information understandable and easily available for all stakeholder groups.

Compliance risk:

Crelan Group attaches great importance to compliance with the legal and regulatory provisions governing its activities and to the implementation of the systems and procedures that ensure such compliance, as well as that of the circulars that apply to them. Through its internal policies and codes of conduct it wants to commit itself to achieving high moral standards and to assuming its social responsibility. In terms of combating money laundering, terrorism and other abuses, Crelan Group is committed to doing everything in its power to combat these practices, including through active and preventive AML policies and systems and to take action where necessary.

Profitability – earnings:

Crelan Group wants to realize stable profitability. Our objective is to be able to pay a fair remuneration for our shareholders and to be able to finance the organic growth of the group without generating a negative impact on the capital ratios. Thus Crelan Group does not aim to develop activities that generate highly volatile earnings.

2. Quantitative risk appetite statements

Quantitative risk appetite statements are mathematically computed limits linked to risk indicators. These limits should be set at an appropriate level and should be consistent. Since the acquisition of ABB end 2021, Crelan Group faces the challenge of combining two banks with two separate risk appetite statements. Therefore, there was a need to align risk metrics, computation methodologies and limit calculations. In order to establish this in a structural way, a 3-phase approach was applied in 2022:

- In a first step, the focus lied on the key indicators used to assess financial risks (solvency and liquidity). This was done begin of 2022 so that Crelan Group could already have a consolidated financial risk management and follow-up but also to apply the limit framework in its regulatory exercises which were due by end-April 2022 (ICAAP/ILAAP);
- Furthermore, Crelan recognized that a number of key indicators are also too important so that they required consolidation as soon as possible. This e.g. covers the non-financial risk framework;
- In a third phase, the focus was on relevant yet less material risk indicators and limits.

The quantitative risk appetite statements on strategic level are built around four building blocks that are constructed around the risk taxonomy:

- Solvency: Is Crelan Group sufficiently capitalized to absorb the financial impact of different risks that could happen? Is the risk of leverage sufficiently mitigated?
- Liquidity: Does Crelan Group have sufficient resources to meet its obligations in the short and medium-long term?
- Profitability: Does our activity generate sufficient sustainable profitability to pay a fair compensation towards our shareholders and finance the necessary growth?
- Non-financial indicators:
    - Operational risk: Ensuring that the risk of loss resulting from ineffective or failed internal processes, people, systems, or external events that can disrupt the flow of business operations is appropriately mitigated;
    - IT and security risk indicators: Making sure that our IT and security organisation is able to safeguard the assets of the bank and its clients.
    - Compliance risk: Making sure that the bank’s potential exposure to legal penalties, financial forfeiture and material loss, resulting from its failure to act in accordance with regulation is mitigated.
    - Transformation/integration/migration risk: Follow-up on the integration of the two banks and the risks that stem from this integration.

Table 6 - Strategic risk appetite statements

Indicator type	Indicator sublevel	Indicator	Ras description
Solvency	Capital	CET1 ratio	Have sufficient capital to withstand a stress scenario and remain above overall capital requirements. At the same time, have a comfortable buffer above regulatory guidance.
		T1 ratio	
		Total capital ratio	
		Economic capital requirement	Have sufficient capital to withstand stress scenario and remain above economic capital requirements.
	Leverage	Leverage ratio	Have sufficient capital to withstand a stress scenario and remain above overall leverage ratio requirements.
	MREL	Minimum Required Eligible Liabilities ratio	Monitor MREL even in the absence of a legal requirement on consolidated level.
Liquidity	Short term liquidity	LCR %	Have sufficient liquidity to withstand a stress scenario and remain above overall LCR requirements.
		ILS excess liquidity	Have sufficient liquidity to withstand a stress scenario and remain above economic liquidity requirements.
	Structural liquidity	NSFR %	Have sufficient liquidity to withstand a stress scenario and remain above overall NSFR requirements.
Profitability	ROTE%	Return on tangible equity	Have a sufficiently profitable return on tangible equity
	Cost income ratio%	CIR%	Manage the cost/income of the bank below a 80% level
Non-financial	Indicators linked to process	Process indicators	Ensure that the non-financial risk identification, assessment and risk treatment policy in function of non-financial risk appetite is correctly followed.
	Backtesting	Actual operational losses	Ensure that actual operational losses are below the risk appetite.

While credit and interest rate risk are currently considered as functional risks in Crelan Group's risk taxonomy, the non-performing loan ratio and the EVE sensitivity are considered as strategic indicators:

Figure 11 - Risk appetite NPE ratio and EBA SOT

Indicator type	Indicator sublevel	Indicator	Ras description
Credit Risk	Retail	Non-performing ratio (BE)	Ensure that the level of non-performing loans is below target level
Market Risk	IRRBB	EVE Sensitivity (EBA SOT)	Ensure that the volatility of economic value of the equity of the bank due to interest rate shocks is below target level

In addition to these strategic building blocks, Crelan has also identified functional risk appetite statements for risks that affect one (or more) of the strategic domains.

The table below shows the limits approved by the BoD of Crelan Group in December 2022.

Table 7 - Crelan Group Strategic RAF limits 2023

Strategic Risk Indicators			Limits	
Indicator type	**Indicator sublevel**	**Indicator**	**Alert**	**Monitoring**
Solvency	Capital	CET1 ratio	< 15%	< 16%
		T1 ratio	< 17%	< 18%
		Total capital ratio	< 20%	< 21%
		Economic capital requirement	> 1.65 bln	> 1.5 bln
	Leverage	Leverage ratio	< 3.7%	< 4%
	MREL	Minimum Required Eligible Liabilities ratio (MREL)	N/A	N/A
Liquidity	Short term liquidity	LCR %	< 125%	< 130%
		ILS excess liquidity	< 1.0 bln	< 1.3 bln
	Structural liquidity	NSFR %	< 112%	< 120%
Profitability	Profitability	ROTE%	< 4%	< 5%
		Cost income ratio%	> 80%	> 75%
Non-financial	Loss backtesting	Total non-financial risk actual loss amount (quarterly)	> 1.5 mln	>0.75 mln
Credit risk	Portfolio quality	Non-performing loan ratio (BE)	> 1.7%	>1.3%
Market Risk	IRRBB	EVE Sensitivity (EBA SOT)	> 15%	>12%

In a future exercise it is the goal to set the limits in function of a percentage of equity and the market share the bank wants to achieve.

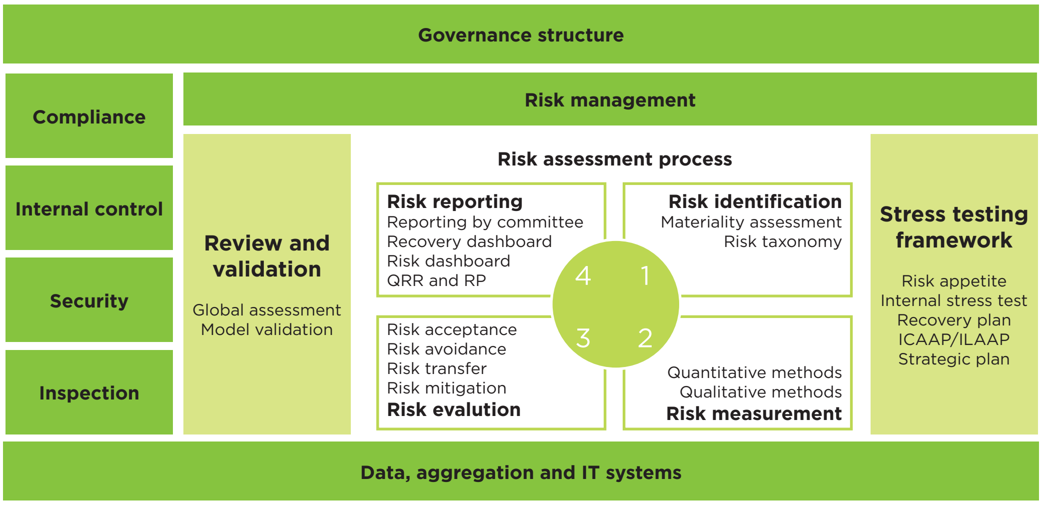
2.2.4. Risk management framework

The business model and strategy of Crelan Group is supported by a comprehensive risk management framework. This section combines the key information found in the general risk charter, risk taxonomy, global risk assessment and the stress testing framework. Furthermore, it provides more information on the risk governance, risk department structure, RAF and risk data, aggregation & IT systems.

The risk management framework is built around five components (Figure 12):

- Risk governance structure and risk management department;
- Risk assessment processes: risk identification, risk measurement, risk mitigation and risk reporting;
- Review and validation;
- Stress testing framework;
- Risk data, aggregation and IT systems.

Figure 12 - Chapter overview: Risk management framework



The general risk management framework is a result of a frequent risk assessment. This is particularly important in an environment that is continuously changing and where, consequently, the risk map is constantly shifting. Furthermore, Crelan Group's Executive Committee reviews on a regular basis the context in which the bank operates. Different subjects are reviewed, among others: market conditions, competition, technological trends, legislative requirements, political environment, key drivers of profitability and sustainability, complexity of the organisation in terms of size, existing strategies and organisational structure (template **OVA** in annex).

2.2.4.1. Risk governance structure and risk management department

The governance structure is described in section 2.1.1.

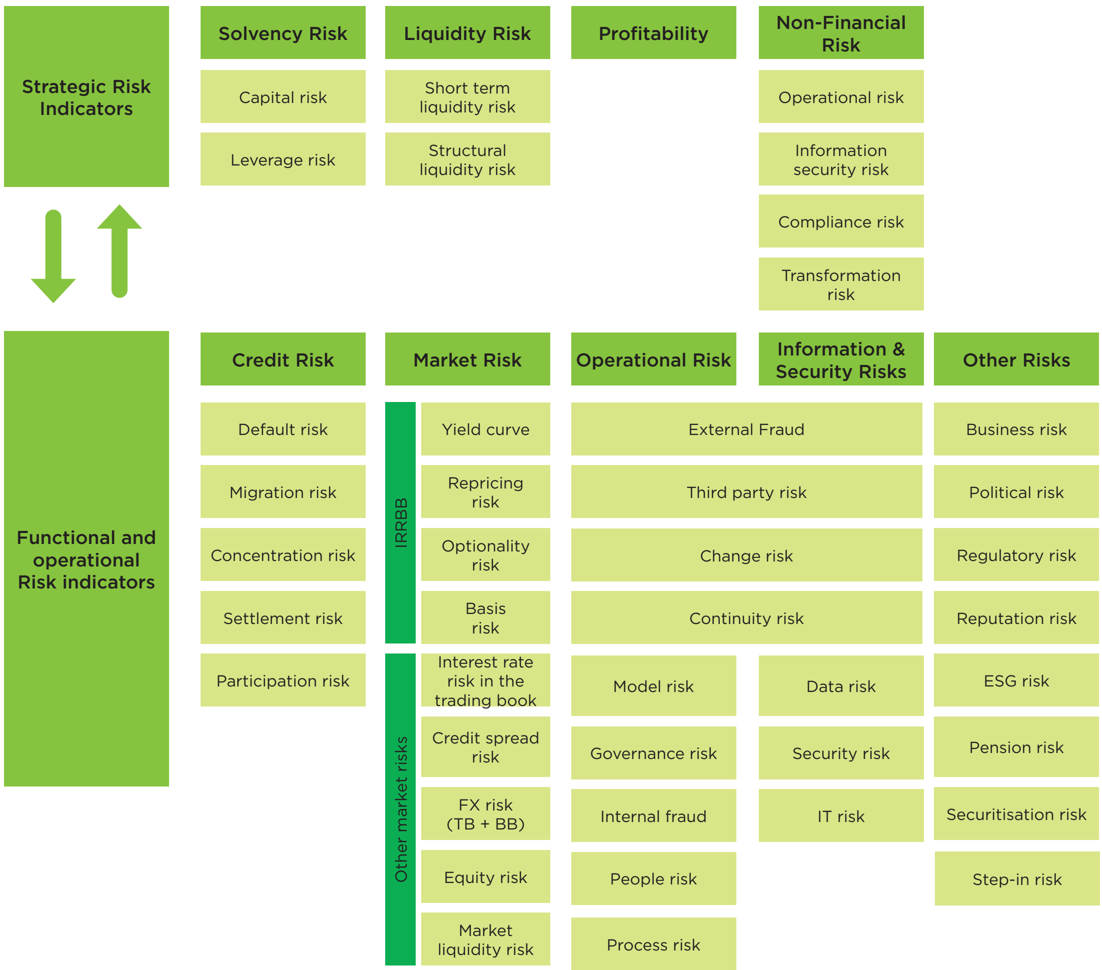
2.2.4.2. Risk Assessment processes

Risk assessment is a process where risks are first identified, then measured and mitigated via qualitative or quantitative methodologies and indicators and finally reported, both internally and externally. This 4-step approach is described in more detail in this section.

Risk identification

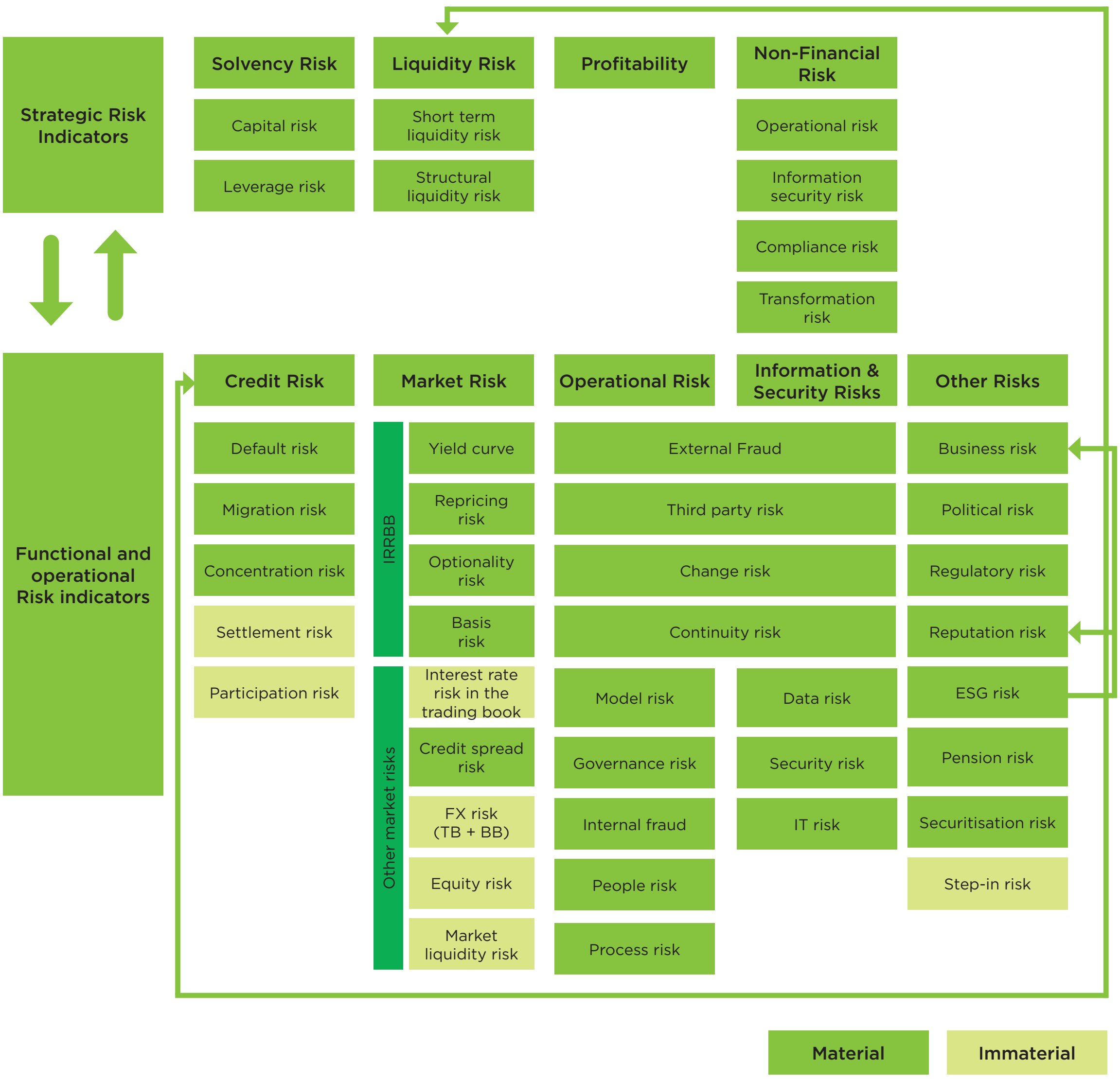
In order to perform proper risk management, the risk management department first needs to identify all risks the bank is facing. The outcome of this exercise is the risk taxonomy, which provides an overview of all the risks the bank is facing. As ABB and Crelan had two separate risk taxonomies before the acquisition of ABB by Crelan, the two taxonomies needed to be compared and aggregated into a single risk taxonomy. This risk taxonomy can be found below:

Figure 13 - Crelan Group's risk taxonomy



Simultaneously during the risk identification process, the materiality of potential risks is assessed. The results of this analysis, based on expert judgement, can be found below. Note that ESG risk is considered as a driver of other risks..

Figure 14 - Crelan Group's risk materiality



The risk taxonomy makes a distinction between strategic risks and functional risks. In addition, both strategic and functional risks can consist out of financial and non-financial risk. On the strategic level, Crelan Group identified the following key risks::

- Solvency risk: solvency risk covers the regulatory and economic capital risk, as well as risks related to leverage and MREL. Crelan Group defines solvency risk as the risk of being unable to absorb losses, generated by all other types of risk, with the available capital and the risk of excessive leverage of on- and off-balance exposures.
- Liquidity risk, covering both short term and structural liquidity risk:
  - Short term liquidity risk is the risk that Crelan Group cannot meet its financial liabilities when they come due, within the day, overnight, within one day, within one week, within one month and within one year, at a reasonable cost and in a timely manner;
  - Structural liquidity risk is the risk that the structural, long term balance sheet cannot be financed at a reasonable cost and in a timely manner. In this view of liquidity risk, the total on and off-balance sheet positions are considered from a structural asset and liability management perspective.
- Profitability risk: Profitability risk is the risk that the profitability of the bank deteriorates or even that the bank has a loss due to evolution of economic indicators, evolution of interest rate curves, a lack of different type of income sources, too high-cost income ratio, exceptional losses on credits, operational events, …;
- Non-financial risks are all the risks not covered by traditional financial risk management. Crelan Group identifies four major axes with respect to non-financial risk:
  - Operational risk: the risk of loss resulting from ineffective or failed internal processes, people, systems, or external events that can disrupt the flow of business operations;
  - IT and security risk: risks related to IT and security organisation being able to safeguard the assets of the bank and its clients;
  - Compliance risk: risks related to the bank's potential exposure to legal penalties, financial forfeiture and material loss, resulting from its failure to act in accordance with regulation; Compliance risk is a particular focus for Crelan Group as it wants to improve its maturity on dealing with compliance related matters. In this regard, various action plans are in execution mode. Regarding conduct risk, fixes are needed to the agents' renumeration scheme in 2023, while mystery shopping revealed important weaknesses in the sales process;
  - Transformation/integration/migration risk: Follow-up on the integration of the two banks and the risks that stem from this integration.

Risk measurement & assessment

Risk assessment methods may vary from quantitative models to qualitative expressions of expert opinions. They may be organised into estimates of likelihood of events, estimates of consequences of events, and estimates of the combined effect of likelihood and consequences according to the risk criteria. A distinction is made between:

- Risk measurement: this includes setting indicators that are monitored and that are annually assessed. A quantitative calculation or model is applied to compute these indicators;
- Risk assessment: for certain types of risks that are typically managed in a qualitative way, risk is assessed via qualitative expressions or expert opinions.

How risks are measured and/or assessed for each individual risk type (included in the risk taxonomy) is described in the individual risk charters.

Risk evaluation

For all identified material risks, the bank defines a treatment. Risk evaluation is closely linked to the risk appetite framework (RAF) of the bank. This is described in section 2.2.3.

Risk reporting

The final step of the risk management process corresponds to the risk monitoring and reporting (internally to management and externally to regulators). Monitoring involves communication both upstream and downstream and across the organisation. It includes periodic reporting and follow-up on the risks by various levels of management and risk committees. The reporting of risks includes the comparison of all material risk exposures against limits. On a quarterly basis, Crelan Group produces the risk dashboard, which is presented to the ExCo, the Risk Committee and the BoD via the Quarterly Risk Report and the Risk presentation. Monitoring and reporting processes by type of material risk are defined in the specific risk management charters which are still to be developed on consolidated level.

This risk dashboard will be further enhanced throughout in line with the establishment of the RAF. Crelan Group also aligned the recovery dashboard between the two banks. The recovery plan was updated by year end and the new recovery dashboard will be used in 2023.

2.2.4.3. Review and Validation

The risk assessment process and the stress testing framework respectively consider risks in normal and in stressed market environments. These assessment and measurement methodologies need to regularly be reviewed. The global assessment exercise serves as a yearly review of the treatment of individual risks. In addition, the model validation function regularly challenges the quantitative methodologies used to measure risks.

Global assessment

Crelan Group's risk management framework must be regularly reviewed at both internal and external levels. The objective of these reviews is to assess that the risk management framework is appropriate and sufficient. The results of the reviews are translated into improvement objectives which are transposed into recommendations.

The reviews are performed by:

- Crelan Group's internal Audit;
- External auditors (EY);
- Regulators (i.e. the NBB and the ECB);
- Risk Management: via the so-called Global Assessment exercise.

As explained in previous sections, the core of Crelan Group's Risk management framework consists of the risk assessment approach. This 4-step approach is a continuous process throughout the bank to ensure that the risks (linked to the business model, economic environment and strategy of the bank) are properly identified, measured, managed, mitigated and reported.

On a yearly basis, a review is performed of this 4-step process, where each individual step is evaluated.

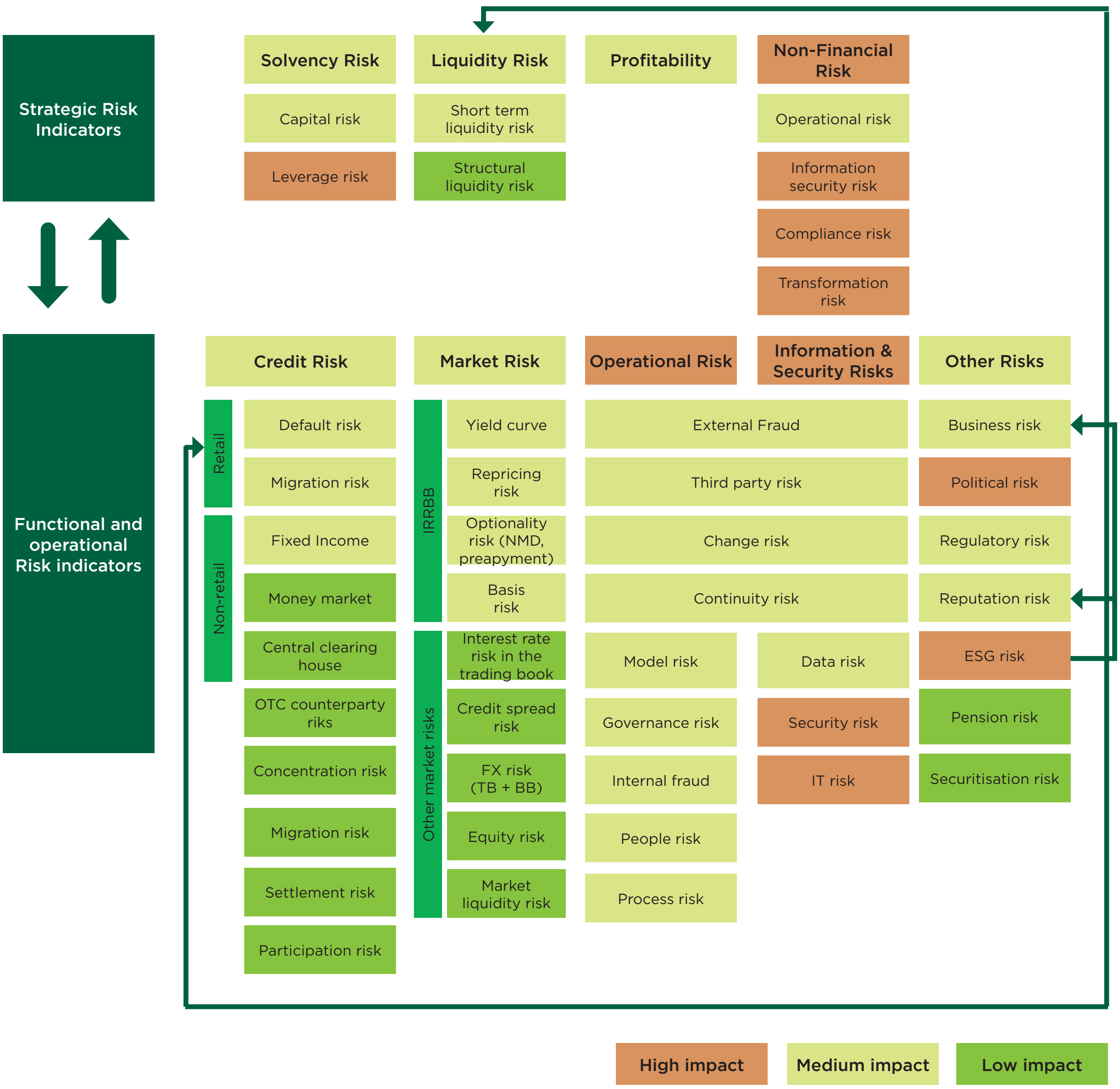
This is done separately for non-financial risk and financial risks:

- Non-financial risk: organised by the ORM/IC team via the high-level risk self-assessment (HLRSA) yearly exercise;
- Financial risk: organised by ERM via a similar exercise, but for financial risks (methodology described below):

Risk identification

The ERM team organises workshops with the separate domains involved in financial risks (financial risk management, risk data & analytics, BSM, SPPM). In this exercise, the ERM team starts from the risk taxonomy of the previous year:

Table 8 – Starting point global assessment



The following checks are performed with the owners of each risk (of the previous year):

- Is the list still up to date?;
- Is the bank missing risks?;
- Is there a need for an increased level of granularity?;
- Who should be the owner of each risk in the next year?;
- What are the interactions between risk types?

Risk measurement

Once risks have been identified (and the risk taxonomy has been updated), it is checked with owners of each risk:

- Does he bank still agree with the high-level risk assessment of the previous year (high, medium, low)?
- How does the bank measure each of these risks: what kind of indicators do we calculate, do we have a description of the methodology to calculate the indicator, how often does the bank calculate it? Are there other qualitative measurement methodologies?
- A deep dive can be performed on specific risks. In 2022, a focus was given to model, pension and business risk.

Risk evaluation

Risk evaluation strategies are accept, mitigate, avoid or transfer. For each risk type, we should check what strategy is followed. A key concept in risk evaluation is risk appetite.

The goal of this step is:

- To create awareness of the overall RAF and to ensure that all business units are up to date on the applicable limits;
- To define (quantitative + qualitative) risk appetite limits based on materiality (more focus on high versus lows);
- Check if functional/strategic and operational limits are still aligned and to see if any limits are not being captured by the ERM team.

Risk reporting

Indicators (but also qualitative measures) should be regularly reported (internally or externally).
The goal of this section is:

- To update the database of all risk indicators (strategic, functional, operational), as well as their limits;
- To integrate this database in the quarterly risk dashboard;
- To use this in internal reporting (ICAAP/ILAAP, QRR, second opinion on strategic plans, internal risk policies) and disclosures (annual reporting, P3, prospectus, ...).

Model validation

The model validation function at Crelan Group resides within the ERM team and is responsible for the independent validation of models. It is thus in charge of:

- Setting up the validation process and criteria for model assessment;
- During model development, challenging the choices performed by the modelling team and providing non-binding advice;
- Verifying that models are performing as expected in line with their design objectives and business uses;
- Outlining model weaknesses, limitations and assumptions, and if relevant, assessing their possible impacts;
- Preparing and submitting the validation reports to the CRO and the relevant ExCo sub-Committee;
- Maintaining the documentation related to the validated and not-validated models in a central repertory[9].

9 The documentation should contain the following information: model documentation and codes, validation reports, presentations of validation conclusions to the relevant Committees, and the list of recommendations.

The validation function is part of the Enterprise Risk Management of Crelan Group. The ERM team is responsible for setting up the validation guidelines and general framework. In addition, the ERM team also performs validations linked to credit risk models (IRB, IFRS 9, ECAP retail credit risk and other credit risk models).

The independent validation function works independently from model owners and modellers and has as objective to provide confidence in the validity of models by verifying that they are performing as expected, i.e. in accordance with their objectives, design and use, and to identify limitations and assumptions in order to ensure a proper and thorough use of the models. The validation conclusions are reported to the CRO and to the relevant ExCo sub-committees.

The necessity of independent validation is specified in Crelan Group's validation guidelines. This process, as well as its governance, is documented thoroughly by Crelan Group's Risk Management in a specific document[10].

In addition to the validation framework, Crelan Group has also consolidated the model risk management framework. The model risk management policy gives an overview of how model risk is treated within Crelan Group. It contains definitions & model risk terminology, roles and responsibilities, a model inventory and describes the model risk management process (which is linked to the risk assessment process of the bank).

2.2.4.4. Stress Testing Framework

Crelan Group uses a wide range of regular stress testing exercises to assess whether it has sufficient liquidity or capital to withstand adverse shocks. Stress testing allows to understand and evaluate the impact of risk drivers under different stress scenarios and therefore it complements the risk assessment process. It allows to assess which stress scenario would lead to a breach of the regulatory or internal levels and how management actions can help to restore liquidity risk above these levels. Stress testing plays an important role in:

- Providing forward-looking assessments of risk;
- Overcoming limitations of models and/or historical data;
- Feeding into capital and liquidity planning procedures;
- Informing the setting of a banks' risk tolerance/ appetite;
- Facilitating the development of contingency plans;
- Informing supervisors for the annual SREP assessment.

The stress testing framework aims at providing the methodology and process for the performance of stress testing by Crelan Group as part of the risk management process, taking into account the applicable regulation. The scope of the programme extends to all entities managed or controlled by Crelan Group. When performing stress tests all material risk domains of all entities in the scope of the programme are taken into account.

10 This document is named 'Validation framework"

Stress test types

Crelan Group applies various types of stress test methodologies, depending on the purpose and the scope of the stress test exercise..

1. Individual sensitivity analyses

A sensitivity analysis is a stress test that measures the potential impact of a single risk factor or simple multi-risk factors of a specific risk dimension, e.g. liquidity, retail credit risk, capital, trading ratios, derivatives CVA/DVA, interest rate risk… on the financial condition of Crelan Group. The source of the shock is not important.

Sensitivity analysis should be performed on various levels: on individual portfolios, for specific risk dimensions, to the bank as a whole. Sensitivity analysis provides valuable insights into the consequences associated with specified financial shocks. It also shows the point where the bank will come in difficulties. The result of a sensitivity analysis is set off to a predefined limit for such a shock: “if rates go up with x bp, we except a maximum additional risk of Y”. These limits are defined in the RAF.

2. Scenario analysis

A scenario analysis assesses the resilience of an institution or an individual portfolio to a given scenario which combines a set of risk dimensions and a set of assumptions representing a certain confidence level. The scenario should be exceptional but plausible. The different risk factors and dimensions are aligned in a consistent way and represent a simultaneous occurrence of forward-looking events, based on historical events and hypothetical events. In some cases, different degrees of severity are executed (most used level of severity are 1 in 20-year shock (95% confidence) and 1 in 200 year (99.5% confidence)). This type of stress testing is used for multi risk dimension stress test exercises.

3. Reverse stress testing

Reverse stress testing is a stress test which starts from the identification of the pre-defined outcome and then explores scenarios and circumstances that might cause this to occur. It should take all possible side-effects into account. Crelan Group also estimates the likelihood of these scenarios and defines management actions (to rectify business failure, risk appetite, recovery actions…). The purpose is to define scenarios that would result in a situation where Crelan Group could be in trouble or in near default.

This type of stress testing is used in the recovery plan: the point of recovery is defined on different levels for different domains (capital, leverage, liquidity) and given this level the severity of the scenarios is developed. Reverse stress testing is also used to assess the severity of the scenarios for ICAAP and ILAAP stress test and to define mitigating actions in those plans and to challenge the capital and liquidity plans.

Stress test exercises

1. Risk dimensions

For each risk area an individual stress scenario is calculated, which is driven by several parameters.

Figure 15 - Drivers of risk dimensions

Credit risk	Stress on retail portfolio (P&L and RWA)	Macro-economic crisis	GDP
			Unemployment
			House prices
			Inflation
	Stress wholesale credit risk (P&L and RWA)	Unexpected credit losses	Exposure 95% * PD * LGD
		Default of counterparties	Default of the biggest counterparties
		Downgrade financial counterparties	Downgrade financial counterparties
	Crelan-specific shocks	Downgrade Crelan	Downgrade Crelan
			Increase interest rate on deposits (bp)
		Stress on agriculture sector	Agriculture collateral shock
Market risk	Stress IRRBB	Increase/Decrease interest rates	Interest rates (bp)
	Stress on investment portfolio	Increase of government spreads	Belgian spread (bp)
			Dutch spread (bp)
			Austrian spread (bp)
			German spread (bp)
			French spread (bp)
			Spanish spread (bp)
			Finnish spread (bp)
		Increase of corporate spreads	VaR calculation
	Stress on equities/immo	Haircuts on fair value	Fixed percentage
	Stress on CVA/DVA through capital and through P/L		Increase CDS spread (bp)
Profitability risk	Stress on investment products	Decline of stock markets	Market and volume effect impacting P&L
	Stress on expenses		Inflation
Non-financial risk	Stress on operational risk	General	TBD
	Information risk	Cyber	Scenario analysis
	Integration risk	Cost of I&M program	Scenario analysis
Pension risk	Stress on pension fund assets/liabilities		TBD
Business risk	Increased production at lower margin		TBD
ESG risk	Flood & transition risk scenarios		Scenario analysis
Liquidity risk	Outflow of cooperative capital Crelan		Outflow cooperative capital Crelan
	Outflow deposits		Outflow deposits
	Inflow deposits		Inflow deposits

For each parameter an individual shock is calibrated at the 95% and 99.5% confidence interval. Do note the macro-economic and business risk shocks represent a 3-year cumulative that is used in all multi-year stress tests (for stress test exercises with 1 year horizon only the shock in the first year is taken into account). Other risk factors (interest rate, credit spreads, …) will consider a one-time instant parallel shock or downgrade and the influence of this shock over the period of the stress test exercise. Therefore, no assumptions are made with regard to restoration of these parameters and compared to the macro-economic parameters, which tend to evolve over an extended period of time.

2. Stress scenarios

Crelan Group created a number of scenarios that aim at covering all material risks of the risk taxonomy. In this way, all material risks are assessed under stressed conditions. On a yearly basis, individual shocks are computed for material risks. The stress scenarios provide a narrative in order to combine the individual risk shocks into credible, but stressed market environments. These stressed scenarios and their impact on capital, liquidity, profitability, and other metrics are being used in risk exercises throughout the year, such as the ICAAP/ILAAP, recovery planning or internal stress testing.

This process, as well as its governance, is documented in more detail by Crelan Group Risk Management in a specific document[11].

2.2.4.5. Risk data, aggregation and IT systems

The management, control and monitoring of risk data, aggregation and IT systems is an important pillar within the risk management activities. Crelan Group's business model focusing only on Belgian retail activity makes it possible to develop and maintain processes and systems that enables Crelan Group to have an adequate and complete view on its risk positions. The acquisition of ABB results in additional complexity in the risk processes and systems as the ABB perimeter is still managed within another IT system. In preparation of the acquisition process of ABB by Crelan important investments were done guaranteeing the aggregation capabilities between Crelan's and ABB's balance sheets.

11 This document is named 'Stress testing framework 2022" '

3. Capital Risk

3.1. Capital Management

Under the EU Capital Requirements Regulation and Directive (CRR/CRD IV) as well as the Basel accords, Crelan Group must maintain a minimum level of own funds to cover their credit, market and operational risks. This obligation is known as the "Pillar 1 Minimum Regulatory Capital Requirement". Banks must also have in place sound, effective and complete strategy and processes to assess and maintain on an ongoing basis the amounts, types and distribution of internal capital that they consider adequate to cover the nature and level of the risks to which they are or might be exposed to. This obligation is known as the "Pillar 2 Economic Capital Requirement" and is assessed in the context of the supervisory review. In addition to the Pillar 1 and Pillar 2 requirements, Crelan Group also adheres to combined buffer requirements, comprising of the capital conservation buffer, the countercyclical capital buffer and the other-systemic important institution buffer. These capital requirements lead to the overall capital requirements of the bank.

The capital risk is the risk that the bank has or may have insufficient capital to cover the risks to which the bank is exposed. In practice, this is translated into a cross-check of the capital base against the minimum regulatory capital requirements and capital guidance.

The bank reports the required capital to the supervisor in an annual ICAAP file. The ICAAP is the internal review process of the institution itself, which allows it to assess the adequacy of its capital in light of its risk profile and its organization. Crelan Group considers its capital adequate if:

- In a normal market environment, the capital risk metrics are above the alert level of the RAF and the profit generating capacity is sufficient in order to restore the risk metrics above the monitoring level in a 3-year time horizon. If this is not the case, realistic management actions can be applied;
- In an adverse market environment, the capital risk metrics are above the regulatory thresholds (Pillar 1 and Pillar 2) and can be restored above alert level by realistic management actions in a 3-year time horizon..

The adequacy of capital is defined on a normative and an economic level. The normative approach is a forward-looking approach that starts from the multi-year projections made in the strategic plan. The strategic plan projections are translated into a regulatory capital plan. In addition, the general stress test framework of Crelan Group provides alternative scenarios under which the adequacy of capital is assessed. Next to the normative approach, Crelan Group developed economic capital models as an alternative and complementing methodology to assess the adequacy of its capital. In this approach, risks are assessed from an economic point of view, and sensitivity analyses on the parameters of the economic models are performed.

In both approaches, a risk assessment is performed where capital indicators are tested against the RAF of Crelan Group. Crelan Group developed a RAF where limits are put in place on multiple levels: monitoring (early warning indicator) and alert. The governance framework of Crelan Group states that in case of an alert level breach, the Executive Committee presents an action plan containing management action to the Board of Directors. Therefore, the ICAAP also contains a non-exhaustive list of management actions that can be taken in case there is an alert level breach of the risk appetite framework (RAF).

The capital base is carefully monitored by the BSRC. The committee is supported in this mission by a sub-committee: the CFC. The CFC oversees new regulations ('regulatory watch'), follows up on the current and projected solvency ratios and anticipates and manages the economic and regulatory capital requirements.

The calculations for regulatory capital are reported to the supervisor (COREP) on a quarterly basis.

3.2. Own Funds

The own funds for solvency requirements are different from the equity in the financial statements. Equity as reported in the Annual Accounts of Crelan Group is determined on the basis of IFRS.

The reconciliation of the accounting equity based on IFRS with the own funds for solvency requirements can be found in template CC1 in annex.

Crelan Group is allowed to include the consolidated net profit for 2022 (€158.2 mln) minus the dividend pay-out (€35.5 mln) into capital. The net contribution to the capital position is €122.7 mln. The CET1 is further adjusted by the deferred tax assets, intangible assets, securitisation, IRB shortfall, other deductions, and the value adjustments.

3.2.1. Prudential filters

The CRR specifies a number of prudential filters (articles 32 to 35 of the CRR) which lead to an exclusion of certain items of CET1 capital. The following prudential filters apply to Crelan Group:

Changes in the value of own credit risk on fair valued liabilities and related to derivative liabilities. At the end of 2022 this amounts up to €1.75 mln to be deducted from the capital position.

Value adjustments as result of the requirements for prudent valuation: this is a specific requirement concerning the financial instruments measured at market value in the IFRS balance sheet to ensure that prudent valuation is reflected in the calculation of own funds. The amount of €0.7 mln was deducted at the end of 2022.

3.2.2. Deductions

A certain number of items have to be deducted from CET1 capital (articles 36 to 49 of the CRR):

- Goodwill of €23.6 mln accounted for as intangible assets;
- Intangible assets: the deduction of intangible assets (mainly software) already existed under Basel I (and II). Starting from Q4 2020, 'prudently valued software' or software (intangible) assets can be partially excluded from capital deductions and can be risk-weighted at 100%. As a result, the deduction for end of 2022 equals to €31.9 mln;
- Deferred tax assets (DTA) that rely on future profitability and do not arise from temporary differences net of associated tax liabilities: at the end of 2022 €13.2 mln was deducted from CET1;
- IRB shortfall: when the IRB approach is applied to calculate credit risk, banks are required to compare their actual provisions with their expected losses. Any shortfall should be deducted from CET1 while an excess will be eligible for inclusion in Tier 2 capital subject to a cap. A shortfall of €35.7 mln was deducted at the end of 2022;
- Securitisation: in Q4 2021 the synthetic securitisation transaction was set up as an RWA reduction measure. The capital deduction is the consequence of the retained risk related to the first loss tranche and equals €2.5 mln;
- Deferred tax assets arising from temporary differences (amount above 10% threshold) amounts to €23.9 mln;
- Insufficient coverage (Pillar 1) for non-performing exposures results in a capital deduction of €1.4 mln;
- Additional deductions of CET1 Capital due to Article 3 CRR: these concerns the contributions to the European resolution mechanism recorded on the balance sheet (€3.4 mln). Next to this, the prudential provisions for the stock of non-performing exposures (NPEs) Pillar 2 is reported (€23 mln). The combined amount concerns a deduction of €26.4 mln.

All items that are not deducted (i.e. amounts of net DTA below the threshold) are subject to a risk weighting of 250%.

3.2.3. Transitional adjustments

With the introduction of the CRR, transitional measures are provided in order to gradually include unrealised gains and losses measured at fair value in determining the Core Tier 1 capital. In 2018 this transition period ended meaning that 100% of the Other Comprehensive Income (OCI) of the available-for-sale portfolios is included in the Own funds. The deduction of the deferred taxes was also subject to the phase-in which ended in 2018.

With the implementation of IFRS 9 (as of 1/1/2018), the unrealised gains and losses of the portfolios that will be valued at FV OCI (Fair Value through OCI) will be different as there will be another classification and measurement depending on the business models and SPPI tests.

Capital instruments that no longer qualify as AT1 or T2 capital under the CRR/CRD 4 are subject to grandfathering rules during a transitional period and are phased out from 2013 to 2022

3.2.4. Own funds for solvency requirements

The CET1 of Crelan Group amounts to €1,896.2 mln at the end of 2022.

Crelan Group is allowed to include the consolidated net profit for 2022 (€158.2 mln) minus the dividend pay-out (€35.5 mln) into capital. The net contribution to the capital position is €122.7 mln.

The total own funds for solvency requirements include:

- CET1
- Additional Tier 1 capital consisting of convertible bonds;
- Tier 2 capital, consisting of the useful value of the subordinated loans, perpetual subordinated loans including Basel III transitional measures..

Table 9 - Total Capital

TOTAL OWN FUNDS FOR SOLVENCY REQUIREMENTS (in '000 EUR)	31/12/2022
Common Equity Tier 1 Capital	1,896,222
Additional Tier 1 Capital	245,172
Tier 1 Capital	**2,141,393**
Subordinated debt	201,715
Perpetuals grandfathered	0
Perpetuals phase out	0
Eligible Perpetual Subordinated debt	0
Tier 2 Capital	**201,715**
TOTAL OWN FUNDS FOR SOLVENCY REQUIREMENTS	**2,343,108**

The total own funds of Crelan Group is €2,343.1 mln at the end of 2022. Basel III established certain high-level disclosure requirements to improve transparency of regulatory capital.

Capital instruments' main features can be found in template CC2 in annex. The Main features of regulatory own funds instruments and eligible liabilities instruments can be found in template CCA of the annex.

3.3. Capital requirements

3.3.1. Key Metrics

An overview of the most important capital requirements at the end of 2022 can be found in template **KM1**.

3.3.2. Regulatory capital requirements

The regulatory requirements are based on the concept of RWAs as described in CRD IV. Crelan Group measures its regulatory capital requirements using the following methods for each entity: :

Figure 16 - Regulatory capital methods

Risk Category		AXA Bank Belgium	Crelan	Europabank
Credit risk	Retail Credit Risk (Mortgages, Consumer & Professional loans)	Internal Rating Based Approach	Internal Rating Based Approach	Standardised Approach
	Retail Credit Risk (Other loans)	Standardised Approach	Internal Rating Based Approach	Standardised Approach
	Non-Retail Credit Risk	Standardised Approach	Standardised Approach	Standardised Approach
	Counterparty Credit Risk (Derivatives)	Standardised Approach for CCR	Standardised Approach for CCR	NA
	Counterparty Credit Risk (SFT)	Financial Collateral Comprehensive Method	Financial Collateral Comprehensive Method	NA
Market risk	Market Risk Traded debt instruments	Standardised Approach	NA	NA
	Market Risk Foreign exchange	Standardised Approach	NA	NA
Operational risk		Standardised Approach for OR	Standardised Approach for OR	Standardised Approach for OR

The regulatory requirements are based on the concept of RWA.

The Pillar 1 minimum regulatory capital requirements foresee in different calculation methods, which are defined specifically in the regulation. The risk weighted assets are calculated according to the specific Basel calculation rules for weighted risks for which ABB and Crelan have received approval.

The Internal Rating Based Approach (IRB) is applied to the retail loan book (except Europabank). For all other risks the Standardised approach is used.

The RWA of Crelan Group under the Basel III rules amounted to €8,915.2 mln on December 2022.

Template OV1 in annex shows the RWA and the capital requirements according to Basel III pillar 1. The other risk exposure amount refers to the additional stricter prudential requirements based on article 458 of the CRR.

The Belgian regulator has introduced a Sectoral Systemic Risk Buffer (SSRB) on IRB retail exposures collateralized by residential real estate located in Belgium. This SSRB replaces both the 5% add-on on IRB exposure value of Belgian mortgage loans as well as the capital requirement factor of 1.33 applied on IRB RWA, introduced in the first half of 2018. This change resulted in a significant increase of the solvency ratios (between 5.5 %pts and 6%pts) as of June 2022 and an increase of the capital requirements of a bit less than 3%pts

3.3.3. Economic capital requirements

Under Basel III principles, the measurement of economic capital requirements must take into account all identified material risks (hedged through capital).

It must also take into account planned (expected) business growth. In order to assess capital requirements on a forward-looking basis, Crelan Group's strategic plan is tested versus the risk appetite framework. Therefore, capital requirements are forecasted over the full horizon of the plan for every business line/activity by using the assumptions embedded in the strategic plan.

As some risks are not fully correlated to others, the measurement of economic capital requirements may also be adjusted (and reduced) for diversification benefits between risks. Crelan Group's correlation matrix aims at estimating correlations between business lines as well as correlations between risk types.

Crelan Group may also adjust (i.e. increase when relevant) its capital requirements based on its analysis of stress testing exercises. From an economic perspective, Crelan Group's excess capital can be measured by subtracting from Crelan Group's available internal capital under stress its total economic capital requirement as defined above. The available capital must always exceed Crelan Group's total economic capital requirements.

At the moment of the acquisition of ABB by Crelan, the economic capital methodologies were different between ABB and Crelan. Therefore, Crelan Group decided to work on a consolidated approach in 2022. This consolidated approach:

- Starts from the most material risks for the banks, including financial risks such as IRRBB and market risk, but also credit risk;
- The general idea is that Crelan Group tries to measure 1 in 1000-year shocks per risk type for the most material risks: credit risk and IRRBB;
- For credit risk, the starting point is the internal ECAP model (asymptotic single risk factor at 99.9% confidence level) which was developed by ABB. As it was not possible to fully integrate the Crelan exposures and risk parameters into the ABB systems, a simple rule of 3 was applied in order to extrapolate the ECAP requirements for ABB to the entire portfolio. The rule of 3 is applied based on the relative share of the two banks to the total regulatory RWA of the combined bank;
- For IRRBB, Crelan Group applies the following approach:
  - The six shocks defined by Crelan Group are computed (parallel down, up, short rates down, short rates up, steepened and flattened). This clearly shows that on consolidated level, the parallel up shock is the most severe;
  - Crelan Group then relied on its internal stress testing models where historical data on interest rates is used to check what 1 in 1000 years shocks are;
- For operational risk a simplified approach has been used: regulatory standardised approach;
- In 2022 integration risk was implemented;
- For business risk, the scenario approach of ABB was maintained but on the entire portfolio;
- The correlation matrix of ABB was maintained;
- For the other, less material risks, Crelan Group falls back to the regulatory approach where RWA amounts are translated into capital requirements..

3.4. Capital Adequacy

3.4.1. Crelan Group's capital adequacy objectives

Crelan Group's capital objective is to respect the following minimal capital requirements at any time under current and stressed market conditions:

Minimum Regulatory Capital Requirement (regulatory capital vs. own funds)

Maintain sufficient own funds to exceed minimum regulatory capital requirements. In addition, in a normal market environment the regulatory solvency ratio should be above the alert level of the RAF and the profit generating capacity should be sufficient in order to restore above the monitoring level. In an adverse market environment, it should be possible to restore the capital ratios above the alert level of the RAF via realistic management actions.

Economic Capital Requirement (economic capital vs. internal capital)

Crelan Group's main Pillar 2 objective is to remain sufficiently capitalised to be able to cover at all times all of its material risks hedged through economic capital calculated with a 99.9% confidence interval over a defined time horizon [12]. A similar link is made with the RAF as for minimum regulatory capital requirements.

12 Important to note: The standard time horizon that ABB uses to measure its risks is one year. Some risks are evaluated on a shorter horizon since their exposures are easier to hedge or sell in time of stress

3.4.2. Regulatory capital adequacy

The regulatory solvency ratios compare the own funds of the bank to its RWA. Crelan Group shows solid solvency ratios at the end of 2022. The Common Equity T1, T1 and total capital ratio consider the transitional provisions of Basel III.

As per 31 December 2022, Crelan Group Tier 1 ratio stands at 24.02% and total capital ratio at 26.28%.

Table 10 - Crelan's regulatory capital ratio at consolidated level

Regulatory capital (in '000 EUR)	31/12/2022
CET1	1,896,222
TIER 1	2,141,393
TOTAL CAPITAL	2,343,108
RISK WEIGHTED ASSETS	8,915,193
CET1 ratio	21.27%
T1 ratio	24.02%
Capital ratio	26.28%

3.4.3. Countercyclical capital buffer (CCyB)

In template **CCyB1** in annex, the geographical distribution of the bank's credit exposures relevant for the CCyB calculation for December 2022 is shown. Countries with a total risk weighted exposure above €1 mln are shown along with Russia given the war in Ukraine and the countries for which a countercyclical buffer rate is applicable. Countries with an exposure below €1 mln are allocated to "Other countries".

Almost 98 % of total relevant exposure (all exposures excluded the ones treated as governments and exposures to institutions) is related to Belgium. The NBB has set the countercyclical buffer percentage for credit risk exposures to counterparties established on Belgian territory at 0% for each quarter of 2022.

The countries in which Crelan Group has relevant exposures that have a countercyclical buffer rate above 0% are Bulgaria, Czech Republic, Denmark, Estonia, Hong Kong, Iceland, Luxemburg, Norway, Romania, Slovakia, Sweden and United Kingdom of Great Britain. The exposures to these countries represent only 0.2% of the total exposures and this impact is negligible in the CCyB calculation. Details can be found in template **CCyB2** in annex.

3.4.4. Economic Capital Adequacy

The economic capital risk assessment defines a limit which is based on the internal capital definition. It starts from the amount of internal capital but takes into account a 1 in 1000-year stress scenario on internal capital. In this regard, the limit is consistent with the definition of capital demand, where also a 1 in 1000 scenario is applied. In order to adjust internal capital to reflect this stress, Crelan Group starts from the regulatory CET1 building blocks and calculates a 1 in 1000-year stress on the amount of cooperative shares, due to redemptions by cooperators.

The cooperative capital of CrelanCo is subject to monthly calls for repayment of the invested amount by cooperators and, on the other hand, by repayments of the invested amount as a result of the decease of cooperators. Based on historical figures from July 2014 to December 2022, the maximum amount of repayment is calculated with a probability of 95% on the one hand and a probability of 99.9% on the other. The table below provides an overview of all redemption requests (excluding deceases) from July 2014 (to be redeemed in May 2016) to December 2022 (to be redeemed in May 2024).

Table 11 - Cooperative shares withdrawals

(€ k) Month	Repayments capital:								
	May '16	May '17	May '18	May '19	May '20	May '21	May '22	May '23	May '24
7	128	272	248	741	547	515	31	308	195
8	118	280	376	890	716	442	4	388	294
9	124	415	392	820	743	612	906	447	417
10	363	474	614	1.355	856	671	750	401	516
11	433	513	624	1.277	753	764	613	400	475
12	511	557	745	1.086	850	730	858	681	369
1	900	1.087	1.446	2.437	1.585	1.579	2.177	1.307	
2	1.020	985	1.464	1.940	1.278	1.133	1.577	1.194	
3	1.253	845	1.851	1.965	1.522	797	1.637	969	
4	998	1.112	3.118	2.144	1.445	725	1.830	1.041	
5	1.289	1.376	3.856	3.174	2.159	1.464	1.636	1.639	
6	1.915	1.877	4.620	3.489	2.122	2.753	3.081	2.153	

There is clearly a seasonal effect in this historical series. The monthly amounts increase towards the end of each repayment period (June).

Based on this historical series, we determine per month the 95% percentile and the 99.9% percentile and then sum them. This gives a maximum annual loss of capital of €23.0 mln at 95% probability and €31 mln at 99.9% probability. This is of course overly simplified. Yet, it makes sense to use those amounts as the maximum outflow is anyway capped and the General Assembly can always refuse outflows in case solvency issues may arise.

In addition to these monthly withdrawals, there are also monthly immediate repayments of capital upon the decease of a cooperator.

After deducting this amount from CET1, Crelan Group applies a prudent buffer of approximately €250 mln, which reflects potential stress on other elements of CET1 in a 1 in 1000-year scenario, such as the net income of the year (big loss event), OCI (variability in OCI events), intangible assets, IRB shortfall, prudential provisioning, ... In next iterations, this buffer will be recalibrated.

This leads to the following alert and monitoring limits as per 31/12/2022:

- Economic capital alert limit: €1.65 bln;
- Economic capital monitoring limit: €1.5 bln.

One can then compare the limits of the RAF to the ECAP requirements calculated in the previous section. This risk assessment is shown in the table below.

Table 12 - Result risk assessment economic perspective

Economic capital (in € mln)		**Dec-22**
CREDIT RISK	Retail Credit risk BE	862.09
	Non-retail & other credit risk	17.98
MARKET RISK	Banking Book (IRR, basis, CS, FX , liq)	25.2
	Trading Book (T&B , EDP)	0.8
OPERATIONAL RISK		97.72
INTEGRATION RISK		66,5
BUSINESS RISK		41,97
TOTAL ECAP BEFORE DIVERSIFICATION		1,112.27
Economic capital (in € mln)		**Dec-22**
Total Economic Capital Consumption (after diversification)		1,027.86
Alert limit		1,650
Excess vs alert		622.14
Monitoring limit		**1,500**
Excess vs monitoring		**472.14**

3.5. Risk of insufficient loss absorption and recapitalisation capacity

The Bank Recovery and Resolution Directive (BRRD) provides that institutions established in the European Union (EU) should meet a minimum requirement for own funds and eligible liabilities ('MREL') to ensure an effective and credible application of the bail-in tool. Failure to meet MREL may negatively impact institutions' loss absorption and recapitalisation capacity and, ultimately, the overall effectiveness of resolution. This requirement is part of the necessary steps needed to make institutions resolvable. The BRRD requires that MREL is tailored to bank-specific features, including its size, business model, funding model and risk profile and the needs identified to implement the resolution strategy. MREL targets are set by EU resolution authorities, after consultation with prudential supervisors, and should be complied with by banks at the end of the transitional period, if any.

Regarding MREL, Crelan only has an applicable target as from 2023 (which is still a BRRD I target). ABB (on sub-consolidated level) has an applicable BRRD I MREL target (5.18%). Going forward, Crelan Group will receive a BRRD II target. While the BRRD I target compares the own funds and eligible liabilities to the TLOF amount (where TLOF stands for total liabilities and own funds), the BRRD II expresses the MREL target in terms of total risk exposure amounts and total exposure measure (TREA/TEM) which is more closely linked to the RWA and leverage exposure computation. However, these requirements can also be translated into a TLOF requirement.

In the context of the anticipated BRRD II MREL requirement for Crelan Group and the related subordination requirement, Crelan Group wants to strengthen its own funds and eligible instruments. In this regard, Crelan Group performed a first issuance for €300 mln in September 2022 as part of the senior non-preferred issuance program which was set up in 2022. The current MREL-plan still foresees a cumulative issuance of €2.5 bln (of which €2.2 bln issuances to strengthen the MREL ratio and €300 mln issuance to replace the 2022 issuance which will no longer be eligible as from Q3 2024) in 3 years. Crelan Group was able to stay in line with its Q1 2023 target in this program by issuing €500 mln of SNP debt in January 2023.

3.6. Estimated impact Basel IV

The Basel III finalisation package (often referred to as the 'Basel IV' regulation) starts applying as from 1 January 2025. The main impact for Crelan Group is coming from the output floor, while the other elements of the new regulation impact Crelan Group to a lesser extent.

Based on the bank's end 2022 balance sheet and on the draft regulatory proposals, the Basel IV impact for Crelan group is estimated at roughly €300 mln higher RWA corresponding with 4% RWA inflation and -0.7% points impact on CET1 ratio. This RWA inflation is the result of the changed regulation to calculate RWA for operational risk and credit risk under standardized approach.

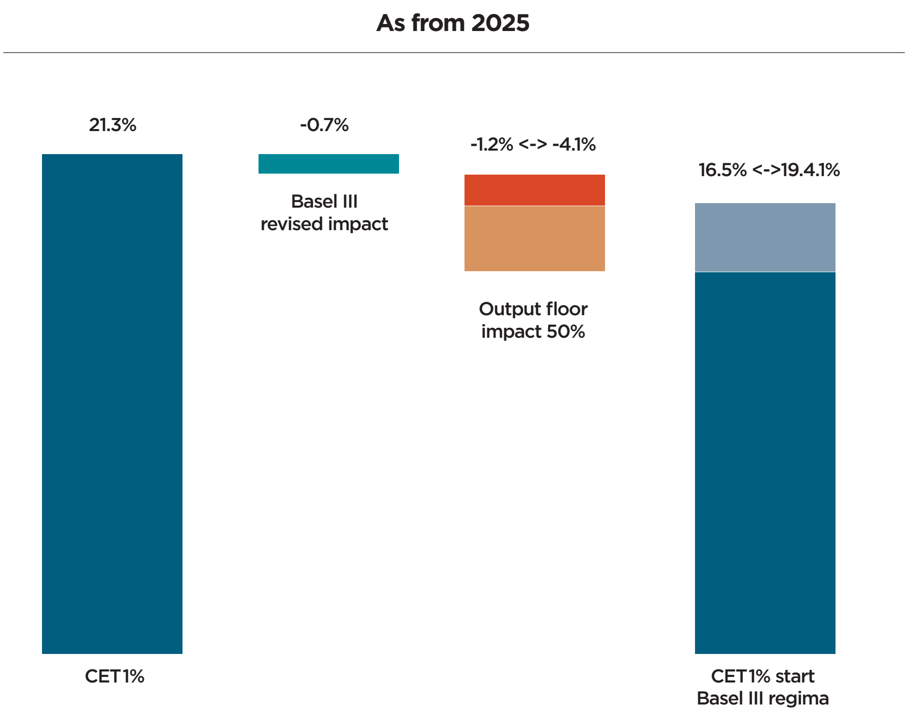
The impact of the Basel IV output floor introduction (50% floor at 2025) is estimated at €0.6 bln – 2.3 bln higher RWA corresponding with -1.2% – -4.1% points impact on CET1 ratio. This range reflects the remaining regulatory uncertainties that still exists.

The combination of regulatory changes in the RWA calculations and the introduction of the Basel IV output floor therefore results in a CET1 ratio decrease of –1.9% - 4.8% giving rise to a CET1 ratio varying between 16.5% - 19.4%.

Basel III finalization package has a long transitional phasing in until 2033 where the Basel IV output floor gradually evolves to 72.5% of the full standardized approach and transitional agreements are phase out. The fully loaded impact of Basel IV on CET1 ratio of Crelan group in 2033 could be significant given its focus on low-risk assets and the existing uncertainties. This Basel IV impact on capital ratios is a challenge for many European banks financing low-risk activities.

The bank is convinced that during this long transitional implementation period it will be able to absorb these potential impacts and to keep on operating at all times with a comfortable buffer above regulatory requirements.

Figure 17 – Basel IV impact assessment based on simulation on end 2022 balance sheet



4. Leverage risk

The leverage ratio is a supplementary measure to the Basel framework. It is defined as Tier 1 capital over the bank's total leverage exposure measure, which consists of both on- and off-balance sheet items. The aim is to constrain excessive leverage and to bring institutions' assets more in line with their capital. Qualitative information on the Leverage Ratio of Crelan Group is disclosed in template **LRA** in annex.

Crelan Group's leverage ratio according to current CRR legislation ('Delegated Act') at the end of December 2022 was at a level of 3.89%. The reported leverage exposure increased by €4.4 bln at the end of 2022 to a level of €55 bln, this increase in Leverage exposure is largely explained by the termination of the temporary relief measure of the central banks at the end of Q1 2022. The different Leverage ratio components at consolidated level can be found in the table below.

Table 13 - Leverage ratio components at consolidated level

Leverage Ratio Components (in '000 EUR)	31/12/2022
Total SFTs	151,155
Total Derivatives	335,501
Total Other assets	53,466,595
Total On-balance	53,953 251
Total Off-balance	1,213,844
Deducted from T1 fully loaded	-127,782
Deducted from T1 transitional	-127,782
Temporary CB exposure exemption	-
Total leverage exposure fully loaded	**55,039,313**
Total leverage exposure transitional	**55,039,313**
T1 capital fully loaded	2,141,393
T1 capital transitional	2,141,393
Leverage Ratio fully loaded	**3.89%**
Leverage Ratio transitional	**3.89%**
Leverage ratio (excluding the impact of temporary exemption of central bank reserves)	3.89%

Template **LR1** in annex shows the reconciliation with the financial statements, while **LR2** gives a detailed overview of the different components of the leverage ratio. A split up of the other on-balance sheet exposures can be found in annex **LR3**.

4.1. Description of the processes used to manage the risk of excessive leverage

The Leverage Ratio is a measure of the capital risk so that the risk of excessive leverage is covered by the institutions' capital risk management governance. Capital risk management involves the Board of Directors, advised by the Risk Committee, the Executive Committee, and the Risk Management and Finance departments.

The **Board of Directors** defines the strategic objectives of the bank, and the subsequent risk appetite, i.e. the aggregated level and types of risks the business lines and branches are willing to assume to achieve these objectives. This risk appetite is defined within Crelan Group's risk capacity, which is the maximum level of risk that Crelan Group can assume given its current level of resources before breaching regulatory constraints in terms of capital, including leverage, and liquidity requirements.

To increase efficiency and allow deeper focus in specific areas, the BoD has established specialized Board Committees. The **Risk Committee** is one of them, and, with regard to capital risk, is responsible for assisting the Board of Directors in defining the adequate level of capital that fits both the risk strategy and the risk appetite. This Committee provides assistance to the BoD in assessing the implementation of that strategy. Finally, this Committee monitors both the actual and forecasted solvency ratios, including the leverage ratio, which should be presented to it at each of its occurrence.

Crelan Group's **Executive Committee** develops, along with senior management and the CRO, the bank's risk appetite, taking into account the competitive and regulatory landscape, short and long-term strategy, exposure to risks and the ability to manage risks effectively. Moreover, the Executive Committee is responsible for ensuring that the bank's RAF is respected. This framework includes limits based on the Leverage Ratio.

The **Risk Management department** is responsible for supporting the Executive Committee for defining, implementing, monitoring and regularly reviewing Crelan Group's RAF (e.g. by translating Crelan Group's risk appetite into operational indicators and limits). In particular, the department should determine the capital at risk, which is a measure that determines the necessary excess capital under the most stringent regulatory capital constraint to absorb a 1/20-year shock.

Crelan Group's capital adequacy objective is to respect minimal capital requirements (economic and regulatory, including leverage ratio) at any time, under current and stressed market conditions. To ensure the permanent fulfilment of these requirements over the coming years, Crelan Group has fully integrated capital requirements (including Leverage ratio) into its RAF against which the strategic plan is tested in order to ensure the compliance to the stricter regulation and internal risk appetite statements over the full horizon of the plan.

Finance department is also responsible for monitoring financial figures and to detect unexpected punctual loss of such significance that it would harm the capital of the bank and, as such Crelan Group's solvency ratios, including leverage ratio.

Additionally, the monthly **Capital and Funding Committee** is established which is a satellite working group of the Balance Sheet Management Committee covering the matters concerning the capital of the bank, follow-up of the solvency ratios (including the leverage ratio) of the bank, anticipation and management of regulatory requirements. The CFO, CRO and senior management of the Finance and Risk departments are members of the Committee.

4.2. Description of the factors that had an impact on the leverage ratio

Main drivers of the leverage ratio:

Table 14 - Main drivers of the leverage ratio split by entity

KPI	Dec- 2022
Leverage Ratio	3.89%
T1 capital (€ mln)	2,141
Total Leverage Ratio exposure (€ mln)	**55,039**

As from Q2 2021, Crelan Group was allowed to exclude the central bank exposures from total leverage ratio exposure. This temporary relief measure was applicable until March 2022. When excluding the central bank exposure from total leverage exposure the leverage ratio requirement of 3% needed to be recalibrated. The recalibrated Leverage Ratio requirement of Crelan Group was 3.28% until March 2022. From Q2 2022 the exemption was no longer allowed. Hence the central bank exposures were again included in the leverage exposure of Crelan Group. Consequently, the leverage ratio exposure increased by €5,383 mln in Q2 2022 and the leverage ratio requirement was brought back to 3%, the same level as it was before the application of the central bank exemptions. This increase in Leverage Exposure was partially offset by the executed netting in the derivatives portfolio €-1,167 mln in Q4 2022.

Crelan Group has the ambition to drive the leverage ratio well above 4% by 2024..

5. Credit Risk

Crelan Group defines credit risk as the risk of loss associated with the obligor's incapacity to fully meet contractually agreed financial obligations.

The goal of credit risk management is to ensure that a (set of) credit event(s) would not significantly threaten the bank's solvency nor profitability. To reach this objective, credit risk exposures are maintained within strict boundaries. The effective management of credit risk is a critical component of a comprehensive approach to risk management and is essential to the long-term success of any banking organization.

General qualitative information about credit risk of Crelan Group can be found in template CRA in annex. For details on the exposures of Crelan Group that received moratoria measures in the context of Covid-19 or the loans under state guarantee we refer to templates **Covid1, Covid2** and **Covid3** in annex.

5.1. Credit Risk Management and Governance

Crelan Group's main business is to provide mortgage, professional, agricultural and consumer loans, with mortgage loans representing the most important share (see Table 2). These products are offered in Belgium only.

The management of Crelan Group's retail credit risk was last formalised in the course of 2022. As a result, at the moment there is one aligned charter for ABB and for Crelan. This common charter consists of the organisation, RAF, product approval processes and modelling requirements that must be followed internally to mitigate Crelan Group's retail credit risk exposures. This charter was completed by business and credit policies which provide the procedures for the day-to-day management of retail credit risks.

Given the good collateral coverage and the low probability of default of the loan portfolio, the risk profile of the total retail credit portfolio is low.

5.1.1. Governance

The governance of Crelan Group's retail credit risk management can be summarised as follows:

- Crelan Group's BoD and Executive Committee assume the responsibilities described in section 2.1 of this report;
- Crelan Group's Lending Risk Committee which scope covers the lending activities (among others): approval of the credit policies (acquisition, loan management, collections), follow up of credit review, steering of credit scoring and validation of methodology, principles of loan loss provisioning, governance on IRB models including yearly review & quarterly back testing, validation & follow up of operational triggers, follow up of the risk indicators & amount of provisions (specific or statistic) in order to respect the defined risk appetite for the lending activities. Its mission is to support the management of the bank's lending activities within all applicable regulatory limits and within the bank's RAF defined by the BoD;
- Credit business lines are responsible for the acquisition, management and recovery of retail credits. They act as the first line of defence in the management of retail credit risk. They are responsible to propose (or amend) retail credit products and policies;
- As a control function (independent from the business lines), Crelan Group's Risk Management department assumes the responsibilities described in section 2.1.2. They also act as Credit Risk Controlling Unit (CRCU);
- Crelan Group's modelling team sets up and maintains the appropriate risk indicators and models described below.

5.1.2. Risk Policy, limit framework and reporting

The purpose of credit risk management is to correctly identify and measure the credit risk on balance and off balance sheet, to monitor the credit risk and to take the necessary actions to keep the credit risk within the risk appetite so preventing one or more credit events to materially affecting the solvency or profitability of the bank.

The risks on Crelan Group's Belgium mortgage loans, personal loans, agricultural loans and professional credits are managed in four phases (acquisition, management, remedy and recovery).

Retail credits are accepted on the basis of a set of acceptance standards and policy rules. In the course of 2022 the credit acceptance policy of ABB and Crelan was harmonised. More details can be found in section 5.3.2.

Template **CQ1** in annex shows the credit quality of forborne exposures, while **CQ3** gives a detailed overview of the credit quality of performing and non-performing exposures by past due days. Performing and non-performing exposures and related provisions can be found in annex **CQ4**. Finally, Templates **CQ7** and **CQ8** show the collateral obtained by taking possession and execution processes. The **CQ7** and **CQ8** templates are empty because Crelan Group does not obtain collateral that remains recognised in the balance sheet.

In compliance with regulatory expectations, Crelan Group performs stress testing for retail credit risk. The main goal is to assess the sensitivity of credit losses for the existing credit portfolio as well as to assess the solvency of the bank under stressed situations.

The evolution of credit risk is actively tracked as part of the reporting for the Lending Risk Committee which reviews the bank's risk on a regular basis. All these principles lead to a highly effective risk management system with control processes that prevent undesired manipulations. This system is strongly integrated into the operations of the "Retail Credits" division and is subject to continuous monitoring.

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5.1.3. Portfolio

The Belgian loan portfolio consists mainly of mortgages (79%), professional (10%), agricultural loans (4%), consumer (4%) and other loans (3%) with mortgage loans representing the most important share.

Given the good collateral coverage and the low probability of default, the risk profile of the total credit portfolio is low.

5.2. Credit risk exposures

For the vast majority of Belgian credit loans, credit risk measurement is performed by means of Internal Rating Based (IRB) models at Crelan and ABB. A residual proportion of loans are still measured by the Standardised Approach. Europabank measures all its exposures with the Standardised approach. Crelan Group applies the Standardised approach for the investment portfolio and participations (investments), as seen in section 5.4.

The credit risk exposures are risk-weighted for 21% according to the Standardised Approach and for 79% according to the IRB. When only looking at the Retail portfolio, 94% is risk-weighted following IRB.

For on-balance sheet items, the net value is the gross carrying value of the exposure less allowances/ impairments. For off-balance sheet items, the net value is the gross carrying value (nominal amount) of the exposure less provisions.

In the application of article 442(d) of CRR, a geographical breakdown of the net value of the exposures by exposure class is provided in the **CQ4** templates in annex.

For the performing on-balance exposures in template **CQ4ONperC** 96.9% is with respect to Belgian counterparties. The most important countries are listed in this template and only 1% is reported in the category other countries.

For the performing off-balance exposures in template **CQ4OFFperC**, 97.8% can be attributed to Belgian counterparties. The most important countries are listed in this template and only 0.3% is reported in the category other countries.

Information on the industry or counterparty type of exposures is provided in template **CQ5** in annex, in accordance with Article 442(e). The main sectors are agriculture, forestry and fishing (15%), wholesale and retail trade (13%) and construction (14%).

Obviously, Crelan Group's retail portfolio is mainly concentrated towards households. These households are serviced by Crelan Group by means of mortgage loans, consumer loans and credit facilities to current accounts. Furthermore, Crelan Group has some exposure towards non-financial and financial corporations. These exposures correspond to our professional loan portfolio targeting farmers, self-employed clients, independents and micro/small enterprises. A diverse mix of industry sectors are served by Crelan Group.

Following article 442(f), net exposures are broken down by residual maturity and exposure classes in template **CR1A** in annex.

Approximately 78% of Crelan Group's portfolio has a maturity of more than 5 years. Since Crelan Group's portfolio is mainly focused on mortgage loans, a higher maturity is in line with expectations.

5.3. Credit quality

Article 442(g) and (h) require institutions to disclose a number of credit quality templates. Template **CRB** in annex, provides additional information on the credit quality of Crelan Group's assets. An overview of performing and non-performing exposures of Crelan Group at the end of 2022 is given in template **CR1** in annex. Templates **CR2**, **CR2a** and **CQ5** in annex provide information on this topic.

5.3.1. Definition of default

Crelan and ABB both have a definition of default for retail loans that is compliant with the harmonized definition of default formulated by EBA.

Both banks consider a client/facility to be in default if and if only one or more of the following conditions is fulfilled:

- The client/facility is in litigation. In such a case, the contract with the client has been cancelled, and actions such as claiming guarantees are taken with full focus on recovering the borrowed amount;
- The client/facility has more than 90 days past due of material arrears. The materiality threshold for the arrears is set €100 and at least 1% of the exposure;
- The client/facility is "unlikely to pay". The banks perceive indications that the client will most likely not be able to fully satisfy its credit payments without possible claim on the guarantees. Indications of unlikeliness to pay include bankruptcy, fraud, contagion through connected clients, and deterioration of credit worthiness of forborne loans.

In case a client/facility is in the 2 last categories, it is referred to a "possible loss". On the contrary, a credit/facility which is in litigation is by definition said to be doubtful.

When a client/facility becomes defaulted, it is considered to be impaired and thus a specific (collectively or individually assessed) provision has to be accounted for. At that moment an evaluation should always be made if this default has an impact on the estimated future cash flows of the financial asset, and if accordingly, an impairment loss should be recognised.

5.3.2. Acceptance policy

Crelan and ABB have harmonised their acceptance policies based on a best of both worlds approach. As a result, both banks now use a selective and prudent uniform acceptance policy. The new production of both banks was characterised by a high quality and the entire credit portfolio showed a good performance despite the current macro-economic challenges such as the energy crisis.

5.3.3. Credit quality stages

5.3.3.1. Performing – Stage 1

Under IFRS 9, within the segment of performing loans, a distinction is made between loans without any significant increase in credit risk since origination on the one hand and loans with a significant increase in credit risk since origination on the other hand. Loans that are in the performing segment without any significant increase in credit risk are categorised as Stage 1. For Stage 1, the impairments are recognized for a 12-month expected credit loss. If none of the qualitative or quantitative triggers as described in Stage 2 and 3 are triggered, a loan is categorised in Stage 1.

5.3.3.2. Underperforming – Stage 2

Crelan and ABB consider the following conditions, both quantitative as qualitative, to attribute to a significant increase in credit risk (SICR) and therefore the loans are categorized as Stage 2 (underperforming):

Triggers for both banks:

- Days past due greater or equal to 30;
- Negative listed in CKP [13] database;
- Forbearance measures on credit.

Specific triggers for ABB:

- Current PD rating in bucket 9.
- Current PIT [14] PD is above a factor 3 times PD at origination and absolute difference is above 67 BPS.
- Difference in current PIT PD to PD at origination is greater or equal than 2%-points.

Specific triggers for Crelan:

- Current rating downgraded outside RAF after the origination (rating C or lower).
- Rating downgrade resulting in a 12-month PD increase of at least 200% compared to origination.
- Transfer to the watch-list by decision of the credit committee, based on negative qualitative signals identified during the reviews and monitoring process of the portfolio.

The staging methodology is hence largely aligned in Crelan Group and will be further harmonized going forward.

If one single qualitative or quantitative trigger condition is met, the loan will be classified as Stage 2. Note that the criteria have been harmonized between both banks from a conceptual point of view end Q4 2022. Some differences remain due to technical differences in the tool and/or processes.

5.3.3.3. Non-performing – Stage 3

Stage 3 contains all loans in default; see section 5.3.1 for its definition. When a client/facility becomes non-performing, an impairment loss should be recognized. At that moment an evaluation should always be made if this default has an impact on the estimated future cash flows of the financial asset.

Furthermore, the default status is fully aligned with the 'non-performing' and 'impaired' statuses and hence with stage 3.

13 Database at the NBB listing all credits a natural person has across all financial institutions and companies that grant credit facilities.

14 Point-in-time

5.3.4. Specific and General credit risk adjustments

Based on the CRR definition, credit risk adjustments are the amount of specific and general loan loss provisions for credit risk that has been recognised in the financial statements in accordance with the applicable accounting framework. The Consolidated Financial Statements of Crelan Group are drawn up in compliance with the IFRS – including the International Accounting Standards (IASs) and interpretations as accepted within the European Union.

Under IFRS 9, the credit risk and the potential associated credit losses are captured through the expected credit loss principles and all credit risk adjustments are categorised as specific. There is no general loss allowance as defined under the Bank Accounts Directive (Council Directive 86/635/EEC).

All expected credit losses calculated through internally developed statistical models and other historical data are considered being collectively measured allowances. At ABB, only loans having a 'CX' status as part of the credit-impaired loans portfolio are having individually measured allowances.

At Crelan all loans in default (litigated in contentieux and not litigated in pré-ctx) have individually measured allowances.

Crelan Group calculates expected credit losses starting from the initial recognition of the loan on the balance sheet. For loan commitments, the date that Crelan Group becomes party to the irrevocable commitment, is considered to be the date of initial recognition for the purposes of applying the impairment requirements.

Based on the following key inputs:

- Exposure at default
- Loss given default
- Probability of default

expected credit losses are calculated as a probability-weighted outcome based on 3 scenarios: an up-turn scenario, a base scenario and a down-turn scenario.

Crelan Group uses a separate provision account, which reflects the impairment special depreciation, undergone by the underlying financial asset as a result of credit losses. The calculation of the expected losses also takes into account the impact of the time value and the related adjustment is recognised through the interest yield.

Negative differences between the calculated recoverable amounts and the carrying amount are recognised in the income statement as an impairment loss.

Each increase due to a downswing is recognised through the addition for impairment accounts in the income statement.

Each decrease due to objective indicators that show that the recoverable amount increases as a result of an improvement in the assessed recoverable cash flow, is accounted for through the write-back of impairments in the income statement account. However, it shall never lead to an amortised cost, which would be higher than the amortised cost if no impairment depreciation had taken place.

The provisions are directly booked against the receivables if there is no possibility of recovery.

5.3.5. Definition of Past due

The definition of days past due reflects the number of days between the date of reporting and the oldest unpaid date.

5.3.6. Definition of Forbearance

Forborne exposures are debt contracts for which forbearance measures have been taken. Forbearance measures consist of concessions towards a borrower facing or about to face financial difficulties. Forbearance measures can be taken only if there is a mutual agreement between the borrower and the bank on these measures.

The debt contract enters forbearance when one of the following measures has been taken:

- A modified facility was or would have been classified as default in the absence of modification. A modification means a change of terms and conditions to an existing contract;
- The use of embedded forbearance clauses in a credit contract for a borrower who is or would be considered as default without the use of these clauses;
- A refinancing, meaning the granting of new credits, used simultaneously with or close in time for the partial or total payment of principle or interest in other credits for which the borrower is unable to comply with under the current terms.

In case the forborne facility is considered non-default, the PD assigned by the model will be applied. However, it is expected that the assigned PD is higher than the PD assigned to borrowers/files with similar credits but without forbearance measures, reflecting the higher risk on default of the forborne facility.

In case the forborne facility is considered or becomes default, the PD has to be assigned according to the rules set out in the Definition of Default.

In case a facility is classified as forborne, a "forbearance flag" has to be attached to this facility. A facility is categorised for its entire amount and without taking into account the existence of any collateral.

In accordance with Crelan Group's IFRS 9 provisioning policy a facility tagged as "forborne" will always be allocated to Stage 2. This only applies to non-defaulted exposures, since defaulted exposures are always classified as Stage 3.

If a facility has been assigned the defaulted status (before or at the time of forbearance measures are granted), the forborne facility must remain defaulted for at least one year. Only upon strict conditions the facility can be reclassified as non-defaulted.

A forborne facility with a non-defaulted status will be tagged as forborne for at least two years after the forbearance measure has been granted, or after the facility becomes non-defaulted. This forborne tag can only be removed when strict extra criteria have been met.

At the end of 2022, forborne loans accounted for 1.28% of our total loan portfolio. More details concerning the credit quality of the forborne exposures can be found in template **CQ1** in annex.

5.3.7. Credit Risk Mitigation (CRM)

Both ABB and Crelan define in their credit policies the need to establish collaterals to mitigate the credit risk..

5.3.7.1. Policies and processes for collateral valuation and management

The collateral valuation process at Crelan Group is in line with the EBA Guidelines on Loan Origination and Monitoring. At the moment of establishing a mortgage inscription or mandate, a valuation of the underlying real estate is done.

Crelan Group relies on an external partner for the valuations. On the one hand, for residential properties the valuation of the real estate is done by means of a desktop valuation or a valuation based on advanced statistical models which are able to provide a reliable estimation of the property values. On the other hand, for commercial properties the valuation is done by an appraiser.

Once the collateral is established, a regular revaluation of the underlying real estate is done based on global statistics how Belgian's real estate market is evolving (so called indexation process). This valuation technique is applied on residential as well as commercial real estate, yet the valuation of commercial real estate is done in a more prudent way given the higher volatility.

For Counterparty credit risk only high-quality sovereign securities or cash are accepted as collateral, a daily valuation takes place combined with daily margin calls to and from counterparties.

5.5.3.7.2. Main types of collateral received

Based on the product there are different types of collaterals given.

Collateral for mortgage loans

The credit is typically secured by a mortgage (inscription or mandate) on immovable property (full ownership) in Belgium. The property should be normally marketable.

The mortgage that must be provided can be reused in the context of potential subsequent mortgage loans (and even used for other loans).

All collaterals complementing mortgage must be provided before the official registration of the loan.

Collateral for professional loans

These collaterals are the following:

- Tangible collaterals concern a property, movable or immovable, with an intrinsic value, in most of the cases a mortgage inscription or mandate;
- Personal guarantees consist of claims against a person;
- Moral undertakings provide no means of enforcement to the bank and rely on the honesty of those that have issued them.

Collateral for agricultural loans

They are similar to the professional loans with mortgages and mandates on the immovable properties (including land) and pledges on the movable assets (equipment, cattle, ...).

Collateral for consumer loans

For consumer credits transfer of debt collection or act of relinquishment of wages and other income is used as collateral. For clients who also have a mortgage loan, the mortgage can also be considered as collateral.

Valuation policy for non-performing loans

Clients with loans in arrears are a limited part of the bank's portfolio but applying an indexation approach might not be appropriate for these loans as the assessment of potential losses more heavily rely on the property values at this stage. Crelan Group therefore performs an external valuation at the moment of becoming doubtful for those properties for which no recent (i.e. ≤ 3 year) individual valuation is available. A yearly verification will be performed to ensure the last external valuation is less than 3 years old. In case of older external valuations, a (new) valuation will be performed.

5.3.7.3. CRM techniques

An overview of unsecured and secured exposures can be found in template **CR3** in annex.

5.3.8. Changes in the stock of credit risk adjustments

Since the start of IFRS 9 at the beginning of 2018, all credit risk adjustments are categorised as specific.

5.4. Standardised approach (SA)

5.4.1. Portfolios under the standardised approach

Crelan Group uses the standardized approach for determining the credit risk for a limited part of its portfolio. Europabank measures all its exposures with the Standardised approach as since they target a specific client segment (clients with a slightly higher risk profile). The standardised approach measures credit risk either pursuant to fixed risk weights, which are predefined by the regulator, or through the application of external ratings.

More specifically, the standardized approach is used to determine the credit risk of:

- Derivatives and repos;
- Investment portfolio;
- Participations;
- Other small portfolios.

These exposures are discussed in detail in this next section.

5.4.2. Exposures under the standardised approach

Credit risk exposures presented before and after CCF/CRM can be found in template **CR4** in annex.

The credit conversion factor converts the notional amount of credit lines and other off-balance sheet items to an exposure at default.

Exposures under the standardised approach broken down by risk weight can be found in template CR5 in annex.

5.4.2.1. Derivatives and repos

The exposure on derivatives and repos is calculated according to the standardized approach for counterparty credit risk (SA-CCR) and is therefore set out under the section 6 'Counterparty Credit Risk'.

5.4.2.2. Investment portfolio

The investment portfolio of Crelan Group serves as a liquidity buffer (HQLA) as well as a way to capture the interest rate and credit risk premium to generate profits. To make sure this remains within Crelan Group's risk appetite, risk management monitors its investment portfolio in terms of:

1) Adequacy of securities for calculation of the liquidity coverage ratio (see chapter 10 Liquidity Risk).
2) Adequacy of securities for calculation of the solvency ratio.

The BSRC received a delegation from the Executive Committee to manage Crelan Group's investment portfolio. Among others, it takes decisions regarding the issuer's eligibility and approves proposed investments and disinvestments. The BSRC works within the Risk Appetite context which has been approved by the BoD.

The expected credit losses of the investment portfolio under IFRS9 also falls within the scope of the BSRC. This committee is responsible for the model of expected credit losses of the investment portfolio including the management overlay. This committee discusses model design documents and model validation documents and takes model decisions (including staging logic).

The investment portfolio of Crelan Group mainly consists of high-quality sovereign and sovereign alike bonds (74%) and supra-national bonds (14%). It is further supplemented with covered bonds and corporate bonds.

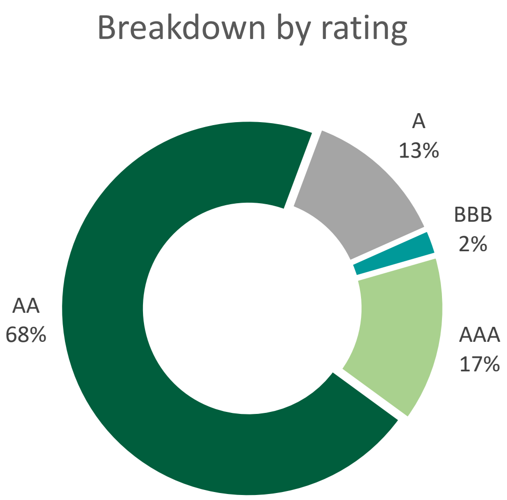
At the end of December 2022, the total investment portfolio amounted to €1.2 bln. The next table illustrates the different exposure classes in Crelan Group's investment portfolio:

Figure 18 - Different exposure classes of the investment portfolio

Exposure class	% of portfolio
Government bonds	74.3%
Multilateral Development Banks	13.8%
International Organisations	0.0%
Public Sector Entities	0.0%
Covered bonds	4.1%
Financial institutions	0.3%
Corporates	7.0%
Real Estate	0.4%
Funds	0.1%

Moreover, the credit ratings and market price changes of Crelan Group's positions are being carefully monitored to examine the vulnerability of the investment portfolio to a number of credit risk adverse developments.

Figure 19 - Investment portfolio
Breakdown by rating



Geographically, the investment portfolio mainly consists of securities issued by members of the European Union (94.3%).

Table 15 - Geographical breakdown of the investment portfolio

Geographical breakdown	% of portfolio
European Union	**94.3%**
Belgium	45.8%
France	18.6%
Supranational	13.8%
Austria	5.8%
Finland	4.6%
Netherlands	3.8%
Spain	2.1%
Ireland	0.0%
Belgium	45.8%
Other	**5.7%**
United States	2.7%
Norway	0.8%
Germany	0.7%
Canada	0.6%
Australia	0.5%

5.4.2.3. Participations

Crelan Group has a limited participations portfolio (€10 mln at the end of December 2022). These shares represent participating interests in non-consolidated subsidiaries (Beran NV), financial intermediary entities (e.g. Visa Belgium), private equity and funds.

5.4.2.4. Other small portfolios

Some other small portfolios are treated under the Standardised Approach. It concerns among others tangible assets and other receivables.

A very small part of the retail credits that because of their size do not longer qualify as "Retail" is allocated to the exposure class "Corporate" and treated following the Standardised Approach. Small retail portfolios such as tax credits, guarantees and negative current accounts are also treated under the Standardised Approach.

Deferred tax assets that rely on future profitability and arise from temporary differences below threshold is also part of the Standardised Approach.

As already mentioned, Europabank measures all its credit exposures with the Standardised approach (see 1.8.2).

5.5. Internal ratings based approach (IRB)

5.5.1. General

Within Crelan Group [15] both Crelan and ABB received the approval from the NBB/ECB to apply the (A)IRB approach to their Belgian retail credit activity. This is the most sophisticated approach available under the regulatory framework for credit risk and allows a bank to make use of internal credit rating models and subsequent internal estimates of risk parameters. These methods and parameters represent key components of the bank's internal risk management and process supporting the credit approval process, the economic capital, provisions and expected loss calculation and the internal monitoring and reporting of credit risk. ABB received NBB's permission in 2008 while Crelan in December 2011. For ABB the approval to use the IRB approach was reconfirmed by the ECB after the Targeted Review of Internal Models (TRIM) in 2017. In Q4 2022 IRB models for ABB were recalibrated towards the new definition of default while respecting the regulatory guidelines on internal modelling in line with the EBA repair program. The IRB landscape of Crelan and ABB will be harmonized in the next few years.

Qualitative information related to IRB approach applied at Crelan Group can be found in template **CRE** in annex.

15 Crelan Group receives a Permanent Partial Use (PPU) of the IRB approach. Exposures to corporates, central governments, central banks and institutions are excluded from the scope. In the same way, some specific retail products are also in PPU approach. Those products are the Biznes Fisc and the Budget +. They are capitalised in the standardised approach. For a view on the materiality of the scope of application of the IRB approach see template **CR6A**.

5.5.2. Internal credit rating models

To apply the IRB approach, both Crelan and ABB have developed internal predictive models in compliance with Basel's III Internal Rating Based Approach. The relevant parameters include the:

- Probability of Default (PD) of retail credits;
- Loss Given Default (LGD);
- Exposure At Default (EAD), including Credit Conversion Factor (CCF).

The input data of these models consist of product characteristics, socio-demographic data of applicants, financial data and external data that must meet certain quality criteria. Given the vast amount of available information it was possible by means of statistical techniques to develop rating models that are highly powerful in predicting future default behaviour.

PD models assign a score to each loan, based on product characteristics and borrower criteria. Based on these scores, PD classes are formed and a long-run PD is attached to each class. This long-run PD is the historic average default rate, corrected for being 'forward looking'. This way at Crelan, 11 PD classes are created, rating A+ being the class with the lowest risk and rating E with the highest risk. Rating classes F and Z contain defaulted loans. For ABB 10 PD classes are created, 1 being the class with the lowest risk and 9 with the highest risk. The 10th class contains defaulted loans.

The LGD models estimate the size of the loss for loans that default. A workout LGD approach is taken for that purpose. Levels of losses are discriminated thanks to several characteristics such as e.g. the value of the guarantee that backs the loan. LGD is constructed based on two separate elements: the probability of cure and the loss given recovery. The combination of both elements results in a final LGD grade, to which a correction is done to take into account downturn conditions.

The EAD is the amount due by the borrower at the time of default. This amount includes the outstanding capital at the time of default, past due capital repayments and interests and fines. For unused credit lines and offers in the pipeline, CCF models have been developed based on historical data. These models estimate the proportion of the off-balance sheet that will be drawn by the customer at time of default.

As part of the model development, there is a calibration process, linking the rating and the PD/ LGD. This calibration is revised and adjusted during the model review process.

5.5.3. Expected losses (EL)

These are the expected value of losses due to default over a specified horizon. EL is calculated by multiplying the Probability of Default (percentage) by the Loss Given Default (percentage) and the Exposure at Default (amount). It is considered as an expectation due the Probability of Default factor.

However, for the defaulted portfolio, the best estimate expected loss is based on the LGD estimate corrected for regulatory requirements when necessary.

PD, LGD, EAD and EL form the building blocks for calculating the capital requirements for credit risk under IRB approach.

5.5.4. Impairments

As of 2018, impairment losses are recorded according to IFRS 9 requirements (calculated on a lifetime expected credit loss (ECL)) for defaulted loans and on a 12-month or lifetime ECL basis for non-defaulted exposures, depending on whether there has been a credit risk deterioration and a corresponding shift from Stage 1 to Stage 2. Specific IFRS 9 models are used for this purpose which are in fact extension of the existing rating models (see section 0 for more information on the impairment stages).

5.5.5. Control mechanisms for rating systems

The 3 lines of defence principle is applied on the rating system. The Risk Analytics team is responsible for the development, maintenance and performance monitoring of the models in the IRB approach. Next to that, the Validation team acts as second line of defence, controlling and validating in accordance with internal guidelines the modelling activities performed by the Risk Analytics team. Finally, Crelan Group's internal audit is the third line of defence, performing internal audit on model related items following the audit process in place.

5.5.5.1. Risk Analytics team

The Risk Analytics team performs the modelling work related to the IRB rating system (e.g. model development). The team also controls its quality by performing a set of qualitative and quantitative controls on its performance. They can be grouped into 2 broad categories: model monitoring and stress testing.

A quantitative model review is performed by the modelling team every year. This review focuses on the quality of the estimates and compares them to the observations. In case of sub-optimal performance, actions are taken to remediate the identified issue. This exercise and its outcomes are independently validated (see 5.5.5.2 below) and should be endorsed by both the CRO and the LRC.

Stress testing covers both stressing of the model and comparison of model outputs to stress losses. The outputs of the model might be examined under conditions of stress, where model inputs and model assumptions might be stressed. This process can reveal model limitations or highlight capital constraints that might only become apparent under stress. Through a complementary programme of stress testing, the bank may be able to quantify the likely losses that the firm would confront under a range of stress events. Comparison of stress losses against model-based capital estimates may provide a degree of comfort of the absolute level of capital.

5.5.5.2. Validation

The model validation covers all Crelan Group's models. Peripheral modelling activities such as risk aggregations, time horizon scaling, model monitoring, model's stress testing and model's calibration also fall into the scope of the model validation. They ensure an adequate and proper level of independent control on the IRB rating systems.

The guidelines for model validation ensure compliance with regulatory requirements. Model validations take place in the case of a new model, model redevelopment or model significant changes.

A model monitoring validation also took place with different frequencies, depending on the model. For Pillar 1 models, the model monitoring is validated on a yearly basis.

The internal validation function is part of the Enterprise Risk Management team directly reporting to the CRO of Crelan Group. The model development of the IRB models is done by the Risk Analytics team which is also reporting to the CRO. Model development and internal validation have then two different reporting lines to the CRO. This is crucial in order to safeguard independence of the internal validation function.

The Validation Manager is responsible for the independent validation of models, but also peripheral modelling activities. The Validation Manager also sets up the validation process and criteria for models. The Validation Manager can be supported in the analysis of the different models by external specialists.

5.5.5.3. Audit

Internal Audit is an independent function that acts as third line of defence. The team performs audits on the IRB rating framework following the audit process and reviewing the compliance of the rating system with applicable requirements. Audit adds then an additional level of controls on the rating systems, as well as on the stakeholders involved (i.e. Risk Analytics team and Validation team). Internal Audit performs a follow-up of recommendations issued by supervisors.

5.5.6. Exposures using the IRB approach

In template **CR6AIRB** in annex, a more detailed view is given of how Crelan Group's credit portfolio is distributed over the PD ranges per exposure classes including information required for the calculation of risk-weights. In Crelan Group's internal rating system the rating class is the main driver to allocate a credit exposure in an EL grade (which combines PD and LGD parameter) as the LGD outcomes show less variation compared to the PD outcomes.

For retail exposures, the option included in Article 452(f) of the CRR allows us to provide a breakdown by a minimum relevant number of EL bands instead of the PD-scale proposed by the guidelines. The PD-scale presented in the template corresponds to the one used for regulatory calculations.

The exposure class 'retail' is split into "Retail secured by real estate property" and "Other Retail", identifying separately each of the categories of exposures to which the different correlations in article 154(1) to (4) correspond.

In templates **CR7** and **CR7A** in annex, the effect of the synthetic SRT on Crelan Group's RWA is shown.

In Q4 2020 ABB issued a synthetic securitisation with Significant Risk Transfer as explained in chapter 8 to support the growth of the loan portfolio while optimising the risk-return balance. After securitisation retail RWA decreased with €133 mln.

According to article 452(j) of the CRR, institutions using own LGD estimates for the calculation of risk-weighted exposure amounts, should disclose the exposure-weighted average LGD and PD in percentage for each relevant geographical location of credit exposures for all exposure classes specified in Article 147 and for each category of exposure to which the different correlations in Article 154 (1) to (4) correspond. As 99.3% of all IRB exposures are Belgian, Crelan Group decided not to disclose this data because of its immateriality.

Template **CR8** explains the main drivers of the evolution of IRB RWAs compared to the previous period (situation on 31/12/2022).

5.5.7. Estimates against actual outcome

Each year, all internal models are profoundly reviewed and if the performance of the models is no longer in line with quality levels, model adjustments/ redevelopments are done to ensure an appropriate quality level for the models used for credit risk management.

The results of the back-testing of PD per exposure class can be found in templates **CR9AIRB** in annex.

5.5.8. Regulatory floors

Crelan Group applies the regulatory 10% LGD floor for its mortgage loans.

5.5.9. Belgian specific regulations

As of Q2 2022 the macroprudential add-on on mortgage exposures is no longer applicable and was replaced by the Sector Systemic Risk Buffer (SSRB). The macroprudential measure imposes the constitution of a CET1-capital buffer in the form of a SSRB for Belgian residential real estate exposures of banks that use internal models for the computation of risk-weighted exposures (IRB banks). The targeted exposures are the same as the ones targeted by the previous measure applied until 30 April 2022, according to Art of the 458 CRR. That is, the relevant real estate exposures targeted by the measure are retail exposures secured by residential real estate located in Belgium. They also include exposures partially or fully secured by mortgage mandates and cover both defaulted and non-defaulted loans. This SSRB is computed by multiplying the risk-weighted assets (RWAs) related to the abovementioned relevant exposures by 9%. Contrarily to the previous Art. of the 458 CRR measure, this measure does not result in an increase of the RWAs but in the constitution of a specific CET1-capital buffer, called (sectoral) systemic risk buffer. The Overall Capital Requirements (OCR) for the SSRB of Crelan Group is at a level of 2.89% at the end of Q4 2022.

6. Counterparty credit risk

6.1. General

Crelan Group[16] incurs counterparty credit risk to high quality counterparties through its Treasury and ALM activities.

Crelan Group engages in different types of derivates in order to hedge its balance sheet risks and incurs counterparty credit risk on these derivatives. Next to derivatives, Crelan Group is also exposed to counterparty credit risk through (reverse) repurchase agreements, which it trades in context of its liquidity management.

Risk weighted assets on derivatives are calculated according to Chapter 6 of the CRR2, using the Standardized Approach for Counterparty Credit Risk (SA-CCR) as seen in template **CCR1** in annex. SFT's are risk-weighted following the Chapter 4 of the CRR2 using the Financial Collateral Comprehensive method. A breakdown by exposure class and by risk weight using the Standardized Approach is provided in template **CCR3** in annex. Template **CCR4** is not reported as Crelan Group only applies the Standardised approach to calculate counterparty credit risk (SA-CCR).

Qualitative disclosure template related to CCR, **CCRA** can be found in annex.

6.2. Governance

The governance of Crelan Group's counterparty credit risk management can be summarised as follows:

Crelan Group's Board of Directors and Crelan Group's Executive Committee assume the responsibilities described in section 2.1 of this report.

Crelan Group's BSRC receives a delegation from Crelan Group's Executive Committee to manage Crelan Group's counterparty credit risk. Among others, it is the responsibility of the BSRC to monitor the adherence to the RAF for counterparty credit risks that has been approved by the BoD. Besides that, it also monitors compliance to the operational limit framework and takes decisions regarding new or existing counterparties. Currently, ABB and Crelan both have a separate limit framework to monitor counterparty credit risk. However, Crelan Group will develop a joint counterparty credit risk framework in the course of 2023.

Crelan Group's Balance Sheet Management team, consisting of Treasury, ALM and Capital Market Execution, is the first line of responsibility for the management of counterparty credit risks.

As a monitoring & control function (independent from the business lines), **Crelan Group's Risk Management** department assists the bank's BoD, Executive Committee and BSRC in managing the bank's counterparty credit risk.

6.3. Risk policy, limit framework and reporting

6.3.1. Strategies and processes

For the derivatives and repo activities, it is Crelan Group's strategy to minimise credit risk by collateralising as much as possible to reduce the loss given default. At the same time, only well rated counterparties are used in order to reduce the probability of default. The increasing use of a qualifying central counterparty (QCPP) fits in this strategy as well.

Exposures to CCPs can be found in template **CCR8** in annex.

16 Europabank is not subject to counterparty credit risk

6.3.2. Limit framework

The basis of the limit framework is the RAF set by the Board of Directors. In the 2022, Crelan Group has set up a first version of the joint RAF including the most important financial indicators on a strategic level and the appropriate limits. In the course of 2023, Crelan Group will further develop its RAF and will include relevant limits for counterparty credit risk.

Based on the limits of the RAF, Crelan Group will develop a joint operational limit framework, which will be regularly followed up by the BSRC.

In the meanwhile, both banks will keep in place their current limit framework which will be monitored by the BSRC. The BSRC also approves individual counterparties and sets limits per counterparty.

6.3.3. Reporting and measurement systems

Crelan Group maintains two complementary reporting and measurement systems: regulatory and internal management.

Crelan Group measures its minimum regulatory requirements for counterparty credit risk according to the Standardised Approach for Counterparty Credit Risk (SA-CCR) on a quarterly basis. Besides that, Crelan Group is also subject to the large exposures limit framework described in part IV of the CRR2 regulation. On a quarterly basis, a large exposure report is submitted to Crelan Group's regulator.

Besides the regulatory measures, Crelan and ABB measure its counterparty credit risk exposures using an internal method. Currently, both banks each have a separate internal approach. However, Crelan Group will develop a joint counterparty credit risk exposure methodology in the course of 2023.

6.4. Policies for hedging and risk mitigation

Crelan Group has implemented collateral agreements with derivative and repo counterparties which allows to reduce the counterparty credit risk on these counterparties. Besides that, Crelan Group can apply netting under its derivatives contracts which means it is allowed to offset opposite derivative exposures. Crelan was allowed to use netting for regulatory purposes as from reporting date 31/12/2022. This netting contributes to the mitigation of counterparty credit risk. Additional qualitative information related to CRM techniques applied by Crelan Group can be found in template **CRC** in annex.

6.4.1. Netting

In the contractual documentation with all of its counterparties, Crelan Group has ensured it is allowed to reduce positions with positive market value by deducting those with negative value and only exchange the net amount. The netting that Crelan Group applies, is recognised from a regulatory perspective and is considered as a risk mitigant on all counterparties. It should be noted that the scope of netting as risk mitigant is broader than the scope of 'accounting offsetting' under IAS 32 – Financial Instruments – Presentation, which requires more conditions to be fulfilled.

6.4.2. Collateral

Policies and processes for collateral valuation and management

In order to mitigate the counterparty credit risk exposure on the derivatives and repo activity, Crelan Group has foreseen in the exchange of collateral in the contracts with its counterparties. It is Crelan Group's policy to implement collateral agreements with the following properties:

- Cash collateral or high-quality government/covered bonds (with application of haircuts). This ensures Crelan Group's ability to quickly realise the collateral with a minimum of loss upon counterparty's default;
- Daily measurement of exposure and exchange of collateral;
- No threshold and a minimum transfer amount of maximum €1 mln;
- Re-use of collateral is allowed, which greatly reduces the burden on Crelan Group's liquidity.

The back offices of both Crelan and ABB manage the collateral valuation and margin call process using front-to-back IT applications. It issues margin calls, reviews margin calls received by counterparties and involves middle office and risk management in case of more complex valuation discussions.

Main types of collateral

Crelan Group receives mostly cash collateral under derivative contracts, avoiding any concentration issues on that side. For repo/reverse repo transactions the bond leg of the transactions is restricted to high quality government or covered bonds. This strict policy in terms of eligible collateral may result in some concentration risk but Crelan Group believes this is acceptable given the quality of the issuers.

Composition of collateral

Template **CCR5** in annex presents the composition of collateral for counterparty credit risk exposures.

Impact given a credit rating downgrade

In the unlikely event that the bank was to be downgraded with 5 notches, ABB would need to post variation margin under the (currently uncollateralized) derivative positions with its subsidiary ABE SCF. This downgrade trigger is set by the rating agencies and ensures that the covered bonds issued by ABE SCF would not lose their triple A rating and/or ECB-eligibility when the bank is downgraded.

Crelan Group's collateral contracts with external counterparties do not foresee any additional posting of collateral in case its credit rating is downgraded.

6.5. Exposures to counterparty credit risk

6.5.1. Exposure at default

In this section, we give an overview of the exposure at default related to derivative and (reverse) repo transactions. The regulatory definition is used, that considers the nature of the instruments and simulates the exposure amount in case of counterparty default. This exposure is used to calculate the risk weighted assets and the capital requirements.

Repo & reverse repo

The regulatory exposure of the repo activity is calculated in the following manner:

- All transactions are grouped per netting set. The collateral received under the netting set is deducted from the exposure;
- Supervisory volatility adjustments are applied to non-cash securities received/posted under the repo transaction. These haircuts reflect the possible negative evolution of the securities exchanged.

On 31 December 2022, the regulatory exposure of the repo activity amounted to €167 mln::

- Of which €103 mln is caused by the difference between exposure and collateral received;
- Of which €64 mln is the result of the supervisory volatility adjustment applied to securities posted and received..

Derivatives

Crelan Group measures its minimum regulatory requirements for counterparty credit risk according to the Standardised Approach for Counterparty Credit Risk (SA-CCR). The exposure under SA-CCR consists of two components: the replacement cost and the potential future exposure.

- The replacement cost represents the loss that the bank would face if a counterparty were to default at the present time. As Crelan Group can apply netting under its derivative contracts, it is legally allowed to offset positive and negative derivative market values in the calculation of the replacement cost;
- The potential future exposure is a risk factor and reflects the possible negative evolution of the transaction value in case of counterparty default;
- The current exposure and the potential future exposure are summed and are multiplied by the regulatory 1.4 alpha factor. The outcome of this calculation gives the exposure at default per counterparty.

The aggregated results as of 31 December 2022 are as follows:

- The replacement cost amounts to €609 mln. The largest part of this amount (€532 mln) stems from the high collateral requirements of the central counterparty LCH Clearnet;
- The total potential future exposure amounts to €160 mln;
- After applying the regulatory alpha factor of 1.4, we arrive at a total exposure at default of €1,077 mln. This reflects the exposure under stressed market conditions and assuming the simultaneous default by all counterparties.

Table 16 - Derivatives collateral Crelan Group

In mln €	Variation Margin	Initial Margin
Bilateral	240.02	0
Centrally cleared	1,130.41	532.1

Crelan Group has very high standards regarding the quality of its counterparties, none of the derivatives or repos is past due or impaired.

6.5.2. Concentration risk

Crelan Group follows the regulatory requirements regarding the limitation of large exposures, where exposure to a group of affiliated counterparties may not exceed 25% of the eligible capital. Due to diversification of counterparties, the concentration risk at Crelan Group is very low: there are no exposures on connected client groups that exceed 10% of eligible capital.

6.5.3. Credit quality step per product

In the table below, the total exposure after collateral is split per product type and per credit quality step. The credit quality step is a function of the rating assigned to the counterparty. We show transactions with the QCCP separately as they are treated differently in capital regulations as well.

Table 17 - Credit quality step Counterparty Credit Risk

Product	Quality step	Portion of notional amount 31/12/2021
Derivatives	1st step	0.0%
	2nd step	9.4%
	3th step	0.0%
	QCCP	90.6%
SFTs	1st step	0%
	2nd step	100%
	QCCP	0%

6.5.4. Wrong way risk exposures

Wrong way risk arises when the exposure on a counterparty is positively correlated with the likelihood of default of that same counterparty, i.e. the exposure on a counterparty will increase when the credit quality of the counterparty decreases.

Two types of wrong way risk can be distinguished:

(i) Specific wrong way risk

(ii) General wrong way risk

Specific wrong way risk can arise from the structure of the transaction, for example when the exposure on a counterparty is collateralised by securities issued by the same counterparty. Crelan Group occasionally incurs a small amount of wrong way risk in its repo activity. From time to time, repos are traded for which the exposure is collateralized by securities issued by the same counterparty. This wrong way risk is limited as the securities received as collateral are covered bonds. These bonds offer an additional security as they are covered by residential mortgages. Due to the additional security from the covered bonds, the CRR (Article 207) does not consider this as wrong way risk. However, to be conservative, we do apply an additional risk add-on in the internal risk calculation. Crelan Group incurs no specific wrong way risk on its derivative portfolio as only cash collateral is exchanged.

General wrong way risk arises when general market factors influence the exposure and creditworthiness of counterparties. Crelan Group monitors general wrong way risk by taking into account a risk factor in its derivative exposure calculation. This risk factor reflects the potential negative evolution of the transaction under stressed market circumstances. These exposure amounts and limits are governed by the BSRC.

6.5.5. Credit valuation adjustments

Credit valuation adjustment (CVA) is the risk of loss caused by changes in the credit spread of a counterparty of derivative transactions due to changes in its credit quality.

Since the implementation of Basel III in 2014, the capital requirement for this risk is integrated in the risk volumes (see template **CCR2** in annex).

Most derivatives are cleared trough the qualifying central counterparty, LCH Clearnet. As limited credit risk in incurred on the clearing house, cleared positions are excluded from the CVA RWA calculation. Asides cleared transactions, Crelan Group holds a limited amount of bilateral OTC derivatives. These bilateral derivatives are only executed with high-quality counterparties with a minimum rating of A- at inception.

The high degree of clearing and the high credit quality of bilateral counterparties, results in a low CVA risk. On the 31 December 2022, the total CVA RWA amounted to €62.7 mln. Crelan Group measures its own funds requirements for CVA risk according to the Standardised method (article 384 of the CRR).

6.5.6. Default fund contribution (DFC)

The 'risk exposure amounts for contributions to the default fund of a CCP' refers to the own funds requirements for the exposures arising from its trade exposures to a central counterparty and its default fund contribution. The calculation is based on Article 308 of the CCR.

As Crelan Group is not a direct clearing member for derivatives and executes it trades through clearing brokers HSBC and ABN Amro, it does not need to contribute to the default fund.

On the other hand, ABB acts as a direct clearing member of LCH for repos and therefore pays a default fund contribution for repos. Although ABB had no repos outstanding with LCH at the end of 2022, it is still required to post a minimum default contribution amount. At the end of December 2022, the default fund contribution amounted to €2.5 mln which resulted in a risk weighted amount of €50,000.

7. Use of ratings from external credit assessment institutions (ECAI)

Retail credit risk weights are determined based on articles 123 to 127 of the CRR.

Risk weights for non-retail credit risk exposures (counterparty credit risk and investment portfolio) are determined based on external ratings. Exposure classes involved are: "Central governments or central banks", "Regional governments or local authorities", "Public sector entities" "Multilateral Development Banks", "International organisations", "Institutions" and "Covered bonds".

In order to apply the Standardised Approach, Crelan Group uses the external ratings. The lower of the available ratings is used to determine the risk weight. In terms of use of the ECAIs, Crelan Group follows the standard classifications published by the EBA.

The ratings of all counterparties and listed securities are systematically monitored by Risk Management as part of the tracking of credit risk.

In terms of eligibility for investments, one of the criteria is that the rating should be minimum BBB. The higher the rating, the higher the amount that can be invested. Besides the investment policy, Crelan Group uses ratings from ECAIs as an eligibility criterion for derivatives or repo transactions, where a minimum of A- is required. It is important to note that Crelan Group does not rely solely on ECAIs; it also follows the market news and market indicators such as CDS spreads to follow up on its investments and counterparties, see template **CRD** in annex.

There are also "passive" counterparties which have a rating of at least BBB+. With these counterparties, there is still a very limited number of open positions from the past, but no new trades are allowed unless new trades actively reduce exposure. These counterparties are monitored closely.

8. Securitisation risk

8.1. Crelan Group as investor

Crelan Group has no investments in external securitisation positions in 2022.

8.2. Crelan Group as originator

Within Crelan Group, Crelan (including Europabank) does not act as an originator while ABB uses ABE SCF as an entity to attract structural long-term funding. Additionally, as from Q4 2020 ABB uses CASPR S.à.r.l, a Luxemburg SPV, to generate some RWA relief over its mortgage loan portfolio. All two entities are fully integrated in the ABB consolidation scope hence in the Crelan Group scope as well (see section 1.8.2).

Even if governance and risk policies for these activities are integrated in the overall ABB risk framework, ABE SCF, being a credit institution, has its own risk charter, CRO, committees and risk reporting.

In December 2017, ABB performed a restructuring of its securitisation entities in order to cope with a change in legislation in Europe which does not allow ABE SCF to hold more than 10% RMBS issued by SPV Royal Street as collateral for the issued covered bonds. Since that date ABE SCF buys mortgage loans to be used as a collateral for the covered bonds. As an alternative to buying loans from ABB, ABE SCF can also grant a secured loan to ABB (backed by a pool of mortgages on ABB's balance sheet) and use that asset as collateral to issue covered bonds.

In template **SECA** in annex, the qualitative disclosure requirements related to Crelan Group's securitisation exposures can be found.

Royal Street 1

Since June 2021 Royal Street 1 is fully unwounded. The entity still exists and is incorporated in the consolidated Crelan Group scope.

CASPR S.à.r.l

In December 2020, ABB originated a synthetic securitisation transaction. This was done to support the growth of the loan portfolio while maintaining the envisaged solvency levels (as set in the RAF of the bank). Within the Synthetic SRT securitisation the mezzanine tranches are sold (resulting in a significant risk transfer) while the first loss and the senior tranche are retained.

The first loss tranche is fully deducted from CET1 capital. As a result, only the retained senior tranche needs to be risk weighted. The RWA of the retained senior tranche amounts to € 61 mln at the end of 2022. This senior tranche RWA is measured according to SEC-IRBA method as all underlying credits are IRB exposures. Adjustments are made for maturity mismatches between the credit protection and the underlying exposures, and the Senior tranche risk weight is floored at the weighted-average risk weight that would be applicable to the underlying exposures had they not been securitised. The final risk weight of the senior tranche equals 15% which corresponds with the risk weight floor applicable under the securitisation framework.

See templates **SEC1, SEC3** and **SEC5** in annex for more quantitative information.

9. Market risk

For market risk, Crelan Group differentiates between the market risk that is related to the ‘trading book’ (regulatory classification), and interest rate risk related to the ‘banking book’. The trading book includes all financial instruments that are used in the context of specific trading activities. Crelan Group does not carry out any trading activities for its own account. The financial instruments falling under the ‘trading book’, mainly concern the transactions for retail clients who want to purchase and sell Eurobonds or EMTNs on the primary or secondary market. The banking book includes all other financial instruments that do not belong to the trading book. These mainly concern the bank’s retail business. Crelan Group has little to no appetite for trading risk.

9.1. Interest Rate Risk Banking Book (IRRBB)

Interest rate risk in the banking book is defined as the risk to both the net interest income and the economic value of an institution arising from adverse movements in interest rates that affect interest rate sensitive instruments. It includes gap risk, basis risk and option risk.

The banking book of Crelan Group (including its branches) mainly consists of retail loans, loans towards the agriculture and professional sector and investments on the asset side of the balance sheet and retail deposits and non-retail funding (including covered bonds and EMTNs) on the liability side of the balance sheet. Generally speaking, instruments on the asset side have a longer duration than those on the liability side. This gives rise to gap risk.

Mortgage loans represent the largest share of loans on the asset side. They can have fixed or variable interest rates. In Belgium, rate resets of variable rate mortgages are linked to the evolution of OLO bonds. The resulting new interest rate of the mortgage is capped by law to protect the customer. These features of variable rate mortgages give rise to both basis risk and (automatic) option risk.

Other important types of option risk are prepayments of retail loans and the pricing of non-maturing deposits (regulated savings accounts benefit from a rate floored at 11 bps in Belgium).

9.1.1. IRR Management and Governance

Interest rate risk in the banking book is extensively covered in Crelan Group’s RAF:

- The sensitivity of net interest income is used as one of the elements to define strategic risk appetite statements on capital and earnings;
- The regulatory outlier tests are included as strategic risk appetite statements;
- Dedicated functional risk appetite statements set limits on the EVE and NII sensitivity of Crelan Group’s banking book;
- Operational indicators are used to monitor all subcomponents of interest rate risk (basis, option and spread risks).

All (internal and regulatory) measures related to interest rate in the banking book are compared with their limits in the IRRBB dashboard. This dashboard therefore provides a comprehensive overview of all subcomponents of IRRBB, both from a value and an earnings perspective. It is discussed at the BSRC on a monthly basis.

The following measures are included:

- Internal EVE sensitivity to parallel shocks and to a steepening and a flattening shock;
- Internal NII sensitivity to parallel shocks and to a steepening and a flattening shock;
- Dedicated measures for cap risk, OLO basis risk and Euribor basis risk;
- Regulatory EVE and NII sensitivities.

Crelan Group applies the following hedging policies to mitigate the interest rate risk in its banking book:

- To keep the overall interest rate risk position (of assets + liabilities) within the internal and regulatory limits, the bank is actively managing a portfolio of interest rate swaps within its banking book activities. Production of retail assets (including pipeline) and liabilities is hedged to keep Crelan Group's exposure levels within the desired range. The non-linear effect of prepayments for different rate shocks is considered in this hedging process;
- The swaps used to hedge the overall position are included in a macro hedge accounting model.
- Cap risk embedded in variable rate mortgage loans is hedged via an active purchasing policy of market caps and swaptions. These derivatives are also included in a macro hedge accounting model;
- OLO basis risk embedded in variable rate mortgage loans is hedged via the maintenance of an OLO portfolio: declining OLO spreads generating lower revenues on mortgage loans are then compensated by capital gains on OLOs.

IRRBB measures are calculated based on cash flows derived from contractual features of interest rate sensitive instruments. For a number of instruments, behavioural models are needed to translate client behaviour into cash flows. These behavioural models have largely been aligned in 2022. More details related to this topic can be found in template **IRRBBA** and **IRRBB1** in annex.

9.1.2. Exposure to IRR in the banking book

The table below shows the changes in economic value of equity (= value sensitivity) for the 6 supervisory interest rate shocks and the changes in net interest income (= NII sensitivity) for the supervisory up and down shocks. Last period refers to Q4 2021.The parallel up shock causes the largest decline in value. The decline represents approximately 2% of Tier 1 capital, which is a level well below the 15% threshold.

NII sensitivity is negatively impacted by the 11 bp floor on regulated savings accounts in the down shock scenario. The new EBA threshold for NII sensitivity (defining a 'large decline' of net interest income) will enter into force mid-2023.

Table 18 - Interest rate risks of banking book activities

Supervisory shock scenarios	a	b	c	d
	Changes of the economic value of equity		Changes of the net interest income	
	31/12/2022	31/12/2021	31/12/2022	31/12/2021
1 Parallel up	-39.5	-230.1	42.4	48.2
2 Parallel down	13.0	-8.0	-159.4	-76.0
3 Steepener	-20.3	-86.1		
4 Flattener	9.7	-13.5		
5 Short rates up	2.6	7.0		
6 Short rates down	-6.7	-0.6		

9.2. Market Risk Trading Book

The market risk in Crelan Group's trading book is the risk of loss arising from adverse movements in interest rates, market prices or exchange rate fluctuations of the trading book.

9.2.1. Description of trading activities and policies of hedging and risk mitigation techniques

The dealing desks serve internal or external clients. None of the activities these dealing desks conduct is intended to profit, from short term movement in the markets or from bid-offer spreads. Crelan Group has the following dealing desks:

EMTN hedging/Performance swaps: Crelan Group is offering externally issued EMTNs to its retail clients. However, before the takeover of ABB by Crelan Group, ABB issued EMTNs for its own retail clients but also for retail clients of some AXA Group entities (e.g. ABB). Intermediation activities fully hedged these EMTNs' payoffs in the market via performance swaps. However, some residual positions can come to exist after the issuance, during the lifetime of these EMTNs. This occurs when clients sell their EMTNs back to Crelan Group before its maturity. Positions bought back from clients are unwound in the market when the total open position per strategy reaches a tradable amount.

Eurobond sale desk: make primary and secondary Eurobond emissions available to retail customers via their home banking.

Moreover, the trading book is subject to materiality thresholds that have been introduced by the NBB in 2015 in the framework of the new Belgian bank legislation. The 'Non-Risk-Based Ratio' for Crelan Group, which is based purely on volume, is well below the threshold defined by the NBB. The 'Risk-Based Ratio', which reflects the underlying risks, is also remarkably lower for Crelan Group than the regulatory threshold. This can be explained by the limited market risk strategy for its trading book resulting in low Market Risk Weighted Assets.

Furthermore, Crelan Group's risk limit framework ensures that the VaR with a 99% confidence level and a holding period of 1 day does not exceed 0.25% of T1 capital as requested as well by the Belgian banking law.

9.2.2. Market Risk Management and Governance

Crelan Group's Board of Directors defines the risk appetite and other key metrics that set the levels of acceptable market risk that can be engaged by Crelan Group's business lines and branches. It also provides the final validation for any proposed organizational and reporting structures setup for the management of this risk. Although it regularly reviews risk reports, Crelan Group's BoD delegates its day-to-day management of market risks to Crelan Group's Executive Committee.

Crelan Group's Executive Committee is also responsible for ensuring that market risk management strategies are implemented and followed. It ensures that the bank's market risk appetite is respected. It reviews and coordinates the work done by the various departments and committees involved in the management of all risks, including market risks.

Crelan Group's BSRC receives a delegation from Crelan Group's Executive Committee and is responsible for ensuring that market risk management strategies are applied. This committee reviews market risk reports, monitors compliance with agreed risk appetite limits, guarantees the adequacy of the risk infrastructure and pre-validates and maintains risk indicators and models. Afterwards, the reports and main conclusions are sent for validation and endorsement to Crelan Group's Executive Committee and BoD. The BSRC focuses both on the banking and trading book activities.

Crelan Group's Financial Services Business Lines (Structuring activities, Eurobond Sales and Treasury) form the first line of responsibility for the management of market risk (respect market risk vs. PARP charter). These tree business lines fall under the supervision of the BSRC.

Crelan Group's Risk Management department also independently ensures that all sources of market risk are identified, analysed, reported and managed on a daily basis.

Middle Office (MO) is responsible for the support of non-retail transactions and more precisely for their correct independent valuation, the development, maintenance and execution of hedge accounting solutions, the validation of the accounting P&L and related non-GAAP measures and for the production of economic reports.

Audit has a standing invitation to all BSRC meetings. It is the responsibility of the Internal Audit Department to periodically review the entire market risk management.

In terms of risk policy, Crelan Group maintains a very conservative approach to market risk of its trading book.

Market risk exposures are the object of a continuous follow-up. These exposures are compared to an overall economic capital limit covering all of Crelan Group's market risks. This risk appetite limit is completed by different VaR and sensitivity limits. Alert triggering and escalation processes are also used by Crelan Group's Risk Management department to ensure that Crelan Group remains within its conservative risk appetite for market risk.

To meet the Basel III minimum regulatory capital requirements, Crelan Group uses the Standardised Approach defined in Title IV of the CRD/CRR regulation to measure, monitor, report and manage its market risks. This approach measures the following components of market risks:

- General interest rate risk
- Specific interest rate risk
- Foreign exchange risk

The standardised approach for foreign exchange risk applies to all bank positions meaning positions from both Crelan Group's trading and banking books.

Template **MR1** in annex provides the quantitative and template **MRA** qualitative disclosure requirements for market risk at the end of December 2022.

9.2.3. Exposures to market risk

Crelan Group's market risk consists mainly of interest rate risk. In addition, the equity risk arising from the emission of Euro Medium Term Notes (EMTN) is low, since Crelan Group hedges this exposure in the financial markets. Furthermore, Crelan Group is not involved in any trading activities related to commodities.

Crelan Group is also offering externally issued EMTNs towards retail clients. During the period of commercialization Crelan Group temporarily bears the market risk as Front office agrees on a forward sale with the external issuer 6-8 weeks before the issuance of the note. Crelan Group currently calculates the VaR for third party EMTN issuances in a conservative way.

The activities mentioned in the previous paragraph are closely monitored by the Risk Management department from Crelan Group within a very strict limit framework. The VaR for all activities related to the trading book is limited to €5.8 mln. Crelan Group relies on Chiron by Yields for a historical VaR model 99.5% on a 10-day horizon. The historical model is based on a 2-year time series of scenarios with a weighted factor (decay) of 0.99. The VaR for all trading book activities at the end of 2022 is equal to €0.61 mln and therefore well below the predefined limit.

Finally, this model is subject to the appropriate yearly back testing and validation by an external auditor to preserve the accuracy and relevance of the model.

9.2.4. Procedure and methodologies used for the classification of the transaction in the regulatory categories

Risk Management is responsible for the prudential definition of the boundary between trading and banking book.

The Market Risk Charter details the content of the trading book (which meets prudential definition of the boundary (see CRR article 4 (85), (86)). All changes to it need to be approved by the BSRC via a charter update and a dedicated presentation.

Furthermore, all new products, instruments and services or modifications to existing products, instruments of services are covered by the product approval process, which includes the analysis of the product sponsor, Compliance department as well as Risk Management. Those analyses ensure that all new trading activities, services or instruments launched comply with law, regulation and internal risk framework. Middle office is responsible for the daily valuation (MTM) of all the products in the trading book and must ensure together with MO the feasibility of market transactions and of BSRC decisions.

Crelan Group has no proprietary trading activities, only "client servicing" trading activities as detailed above.

Furthermore, Crelan Group holds some positions booked in 'held-for-trading' by the accounting. Those positions have a presumption to be part of the trading book due to their 'held-for-trading' accounting classification but were not included in the trading book because they all hedge banking book positions (see art. 2 § 2, ii of the Royal Decree [17]).

9.3. Currency Risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument fluctuates due to changes in exchange rates. Crelan Group operates a policy to minimise exposure to currency risk. Any material residual positions are hedged systematically. This risk is followed up and hedged on a monthly basis in the BSRC.

If foreign exchange positions capital requirements do not exceed 2% of the bank's total own funds, no own funds requirements for foreign exchange risk need to be calculated (article 351 of the CRR). At the end of 2022, Crelan Group did not exceed this 2%.

9.4. Prudent valuation

9.4.1. Regulation

CRR Article 34 states that all assets measured at fair value have to be taken into consideration for applying the standards of article 105 of the CRR which refers to the prudent valuation.

Hence, the Regulatory Technical Standards applies to all fair valued positions regardless of whether they are held in the trading book or banking book.

In this regards Crelan Group has developed a governance structure that screens all current procedures, policies, calculations, methodologies, etc. and makes sure that these are in line with the provisions set out by the European Union in light of the Prudent Valuation standards.

9.4.2. Framework

While Crelan applies the simplified approach for prudent regulation, ABB applies the core approach. In the COREP reporting, the ABB sub-consolidated reporting therefore still applies the core approach. The framework below describes the framework for the core approach.

Due to the role of the Middle Office (MO) within the calculation, monitoring, etc. of the Prudent Valuation, it is this unit that is responsible to review and eventually update the governance documentation at least on a yearly basis.

On top of this responsibility, it is MO's task to make sure that all actions related to the Prudent Valuation are executed within the governance framework. In case additional actions need to be taken to alter policies, calculations, etc. within the governance framework and within the scope of MO's tasks, they will be updated accordingly.

Applied methodologies

ABB uses the core approach to calculate the additional value adjustments for all the valuation positions in the scope of the regulatory standards for prudent valuation. These valuation positions include all financial instruments or commodities or portfolios of financial instruments or commodities held in both trading and non-trading books, which are measured at fair value. More specifically for ABB this comprises all positions in derivatives, fixed income instruments and EMTNs.

17 Royal Decree approving the regulations of April 1, 2014 of the National Bank of Belgium on proprietary trading activities.

The above mentioned is correct for those AVA's calculated within the scope of MO (i.e. Market Uncertainty and Close-Our-Cost AVAs), except for the AVA for operational risk. The latter is determined as being 10% of the sum of the Market Uncertainty (MU) and Close-Out-Cost (CoC) AVA.

Use of market data

ABB makes use of the following market data providers: Bloomberg and Tradeweb.

On the one hand Bloomberg and Tradeweb are used as data source for the calculation of the market uncertainty adjustment for derivatives. On the other hand, the close-out cost adjustment is calculated based on data coming from Bloomberg only. The market uncertainty adjustment for fixed income positions is also calculated based on data coming from Bloomberg only.

Review and approval process

The documents related to the prudent valuation are reviewed at least on an annual basis. This review and update process mainly focusses on the business-as-usual processing within the Prudent Valuation framework.

Any significant changes to the applied methodology will be validated by Risk Management and be approved by the BSRC. This review and approval process for specific changes runs alongside the yearly review process but is more based on an ad-hoc approach.

9.4.3. Systems and controls requirements

Independency

Market prices and marking to model inputs are regularly verified for accuracy and independence by MO at least on a monthly basis. This verification is done independent from Front Office who benefit directly from the trading book. The latter guarantees the requirement with regard to the independent price verification process linked to the fair-value of each position taken into account for the prudent valuation calculation.

Next to this, any changes executed by MO within the independent price verification process that imply changes in the models (i.e. marking to model) or relevant market data (i.e. direct or indirect market data that affect mark to market or marking to model) proposed by MO run through a verification and validation process with the approval by Risk Management before putting it into production. Presentation of these results are also discussed and presented to the BSRC.

On top of that, the effective monitoring, AVA calculation execution and reporting is as well done by Middle Office as an independent control unit.

Controls, valuation and processing

An overview of the validated pricing models and market data for each product type is maintained on a regular basis.

The performance of the model is monitored by Middle Office on a regular basis and at least on a half-yearly basis a report including an analysis and conclusion of this performance has to be sent to Risk Management for approval.

This official half-yearly review is subject to external audit and Risk Management approval. Middle Office also conducts this Valuation check on a more frequent basis for internal use.

This check also guarantees that the valuations provided by ABB, which are valued with certain pricing models, are in line with the market. This gives a good view on potential valuation model and/or market data issues which can then result in a model improvement, methodology changes or another transformation of market data to improve the ABB valuations. This valuation check will therefore also include a market data and valuation model assessment, next to the above stated goals.

It is therefore Risk Management's responsibility to provide their opinion on the numbers, the used market data and the suitability of the valuation models and techniques. This will be included in their validation report. After the formulation of this opinion, either positive of negative, this will be presented to the BSRC for approval.

In the end, it will hence be a Middle Office task to transform these opinions into actions to improve the valuation either by more accurate market data or a new/changed valuation model. The latter may not only be derived from this official half-yearly review, but as well from the non-official and more frequent review executed by Middle Office.

10. Liquidity risk

Liquidity risk is defined as the risk of not being able to quickly and easily increase the cash position to absorb shocks as a result of financial and economic stress.

Crelan Group's Risk Taxonomy considers the following two aspects of liquidity risk which all fall within the scope of liquidity risk management:

- Short Term Liquidity Risk defined as the risk that the bank cannot meet its financial liabilities when they come due (within a month), at a reasonable cost and in a timely manner. It results from short term cash and collateral positions (intra-day, overnight, one day to one month);
- Structural Liquidity Risk defined as the risk that the bank cannot meet its financial liabilities when they come due on a medium- and long-term horizon (more than one month), at a reasonable cost and in a timely manner.

Crelan Group shows a strong liquidity position at the end of December 2022, with an LCR of 196% (coming from 178% at the end of 2021) and NFSR of 149% (compared to 142% in Q4 2021) with:

- Stable retail deposit base with little name concentration (very granular) and with 77% covered by the deposit guarantee scheme;
- Retail funding gap increasing by €1.2 bln explained by a high level of loan production and increasing loans portfolio only partially funded by net new money via retail deposits;
- An inaugural €300 mln Senior Non-Preferred (SNP) debt issuance, successfully confirmed by a 2nd issuance in Jan-23 of €500 mln EUR with a participation of more than 80 investors;
- First (€1.25 bln) covered bond issuances under "Crelan flag" confirming the effectiveness of this funding tool;
- Reduced amounts of collateral swap in conformity with the SREP recommendation (from € 2.1 bln at the end of 2021 to €1.1 bln per December 2022).

10.1. Liquidity Risk management and Governance

More details concerning Liquidity Risk Management can be found in template **LIQA** in annex.

10.1.1. Governance

The governance of Crelan Group's liquidity risk can be summarised as follows:

- Crelan Group's BoD and Crelan Group Executive Committee assume the responsibilities described in section 2.1 for the management of liquidity risk;
- Crelan Group's BSRC manages the structure of the bank's balance sheet, aiming to optimise its liquidity position. Consequently, it applies and implements liquidity risk management strategies. It reviews liquidity risk reports and monitors compliance within agreed limits by following relevant liquidity indicators. The BSRC is assisted in this work by the Balance sheet management team and the Financial Risk team;
- The functional management of the bank's structural liquidity belongs to its BSM department. BSM reports on the Bank's structural liquidity risk to its senior management. It ensures that BSRC decisions pertaining to the management of structural liquidity risk are implemented. It also develops, calibrates, and maintains Crelan Group's liquidity risk indicators;
- The Treasury Department is responsible for the liquidity of the bank up to one year. This department also acts as the central team in the liquidity management of the group units (Crelan, ABB, SCF, etc.);

- The Financial Risk department independently ensures that all sources of liquidity risk are identified, analysed, reported, and managed.

10.1.2. Declaration on the adequacy of liquidity risk management arrangements (pursuant to Article 435 of the CRR) as part of the 2023 ILAAP submission:

In conclusion, the view of the management body is that Crelan Group has an adequate level of liquidity, both from a normative and economic point of view. Crelan Group shows throughout the ILAAP that it has a strong liquidity risk framework which allows to identify, measure, mitigate, monitor and report liquidity risks. This will allow Crelan Group to pursue its intended business strategy while at the same time ensuring a sound liquidity position, even under a prolonged period of adverse developments.

In a normal market environment, all internal and regulatory indicators are expected to remain above the RAF alert level over the next 3 years. This confirms that the strategic plan, which foresees a strong increase in retail loan production over the next years, is feasible from a liquidity risk perspective. Under the severe stress scenarios of the ILAAP stress test, the LCR drops below the internal and regulatory limits. However, there are sufficient reliable mitigating actions available to restore the LCR above the limits in a timely fashion.

10.1.3. Risk policy, limit framework and reporting

The integration of ABB into the Crelan Group structure has resulted in a suitable framework for liquidity risk which is based on both regulatory and internal indicators.

In order to evaluate and manage its consolidated liquidity risk, it monitors two kinds of indicators:

1. Internal indicators: Internal Liquidity Stress indicator (ILS);
2. Regulatory indicators: LCR, NSFR and ALMM.

All these indicators are underpinned by a common approach: guarantee that Crelan Group's liquidity buffer is sufficient to cope with a range of stress events. More specifically, the own Internal Liquidity Indicator has been designed to ensure that Crelan Group maintains an adequate liquidity cushion to be able to withstand combined idiosyncratic and market stresses over a three-month time horizon.

Those key liquidity indicators have been used to define the risk appetite statements.

Figure 20 - Crelan Group's risk appetite statements for liquidity

Crelan Group Risk Appetite Statements for Liquidity				
Indicator	**Strategic or functional RAS**	**Standard**	**Monitoring**	**Alert**
LCR	**Strategic**	**> 130%**	**< 130%**	**< 125%**
NSFR	**Strategic**	**> 120%**	**< 120%**	**< 112%**
ILS	**Strategic**	**> €1.3 bln**	**< €1.3 bln**	**< €1 bln**

- Internal Liquidity Stresses (ILS)

In the beginning of 2022, ABB and Crelan (including Europabank) have set up a joint economic liquidity indicator, called the Internal Liquidity Stress indicator (ILS). The purpose of the ILS is to determine the amount of liquidity, measured in High Quality Liquid Assets (HQLA), required to withstand a stress. The internal liquidity stress methodology is derived from the regulatory Liquidity Coverage Ratio (LCR) reporting requirements.

It contains a stress scenario which is measured of a three-month time horizon. The scenario assumes a financial market stress in which the interest rates decrease by 125 bps. This will result in more collateral outflows. Secondly, the scenario assumes a widening of credit spreads on bonds by 150 bps, which will decrease the value of the bond portfolio.

Besides the financial market stress, the ILS also assumes an idiosyncratic crisis. This will lead to retail and wholesale clients to change their behaviour resulting in potential outflows. The idiosyncratic stress applies outflow rates on deposits which are 50% higher than those of the regulatory LCR indicator, it assumes extra outflows for pipeline loans and limits the inflows to the principal payments on retail loans.

The HQLA buffer to withstand this stress scenario is also forecasted over the three-month time horizon. After subtracting the stressed outflows from the HQLA buffer, the ILS foresees the possibility of mitigating actions. These are actions that can boost the liquidity of the bank within the projected three-month time horizon. This is mainly composed of the ability for ABB to issue new retained covered bonds.

Table 19 - ILS19

in '000 EUR	ILS	Limit	Buffer
End of December 2022	3,882,958	1,300,000	2,582,958

- Regulatory Indicators

Crelan Group monitors the LCR, NSFR and ALMM of the Basel III framework.

LCR (Liquidity Coverage Ratio) became binding in October 2015 while NSFR (Net Stable Funding Ratio) became binding with the introduction of the CRR II in June 2021. ALMM (Additional Liquidity Monitoring Metrics) is reported to the regulator since April 2016.

- ILAAP (Internal Liquidity Adequacy Assessment Process)

Crelan Group is required to produce, at least once per year, a clear and formal statement on the assessment of the liquidity adequacy named the ILAAP exercise. The ILAAP contains all the qualitative and quantitative information necessary to underpin the risk appetite, including the description of the systems, processes, and methodology to measure and manage liquidity and funding risks and is part of the Supervisory Review and Evaluation Process (SREP).

In the 2022 submission of the ILAAP several new liquidity indicators were introduced.

- Both an updated regulatory and a new economic counterbalancing capacity indicator were introduced. Measuring the bank's buffer of liquid assets as a EUR amount and as a percentage of the total balance sheet.

- To complement the regulatory NSFR, an economic way of measuring stable funding was also developed. This new economic NSFR measures funding in a less stringent way than the regulatory one.

- The implementation of an economic asset encumbrance ratio in order to supplement the normative encumbrance metrics (narrow and broad AER). The regulatory AER are only calculated from an entity individual level (ABB solo and Crelan solo), and therefore give no view on the encumbrance position on a consolidated basis. The economic asset encumbrance ratio is calculation on the highest consolidation level (i.e. Crelan consolidated).

10.1.4. Policies for hedging and risk mitigation techniques

As part of the ILAAP process the integration of all Crelan Group entities will result in the drafting of a consolidated liquidity contingency plan. This plan will allow the bank to establish a special task force which, during systemic or idiosyncratic liquidity crises, must immediately intervene and take appropriate action. This will lead to a stronger awareness of liquidity risk at all management levels, as well as a more rigorous follow-up. Regular forward-looking projections of the main liquidity ratios will support the active management of the liquidity risk within Crelan Group.

10.2. Liquidity Buffer assessment

Crelan Group enjoys a very robust liquidity position as demonstrated by its strong liquidity buffer that clearly exceeds regulatory and internal limits.

Both BIII indicators are well above the minimum requirements at the end of 2022 (100% limit) thanks to a comfortable stock of liquid assets and a solid financing structure.

Table 20 - Liquidity ratios

Ratio	31/12/2022	Limit
LCR	196%	100%
NSFR	149%	100%

10.2.1. LCR

The LCR disclosure template, **LIQ1** in annex, gives an overview of the calculation of the LCR buffer and ratios. Template **LIQB** in annex is a complementary table to **LIQ1** which provides qualitative information on LCR.

The liquidity buffer as reported in **LIQ1** is made up of central bank cash deposits and bonds. Apart from a small amount of Level 2A and 2B assets, the bond portfolio consists mainly of Level 1 LCR eligible assets, of which the bulk has a central government or supranational organisation as its issuer. The main contributors to the outflows are the outflows for retail funding, the outflows for non-retail deposits and the foreseen outflows for loans in the pipeline. The main contributor to the inflows is the foreseen repayments of retail loans.

In the calculation of the LCR ratio, both the additional collateral needs resulting from an adverse market scenario as well as callable excess and due collateral have to be accounted for as additional outflows.

Crelan Group adds an additional outflow corresponding to collateral needs that would result from the impact of an adverse market scenario on the credit institution's derivatives transactions, financing transactions and other contracts if material. This additional outflow is calculated based on the application of the Historical Look-back Approach.

10.2.2. NSFR

The NSFR disclosure template (see template LIQ2 in annex) gives an overview of the calculation of the NSFR of Crelan Group. The main sources of stable funding for the Bank are Retail deposits (€42,074.8 mln on 31 December 2022) and covered bonds (€5,880.3 mln on 31 December 2022).

10.2.2.1. Covered Bonds

ABB created ABE SCF for the purpose of issuing covered bonds. Its principal business activity is to issue covered bonds to refinance residential mortgage loans.

ABE SCF has silently bought a portfolio of Belgian residential mortgage loans directly from ABB (the "Spot Sale"). Given that the balance of a portfolio of residential mortgage loans typically decreases every month because of scheduled redemptions and prepayments, ABE SCF will need to buy on a monthly basis additional residential mortgage loans (the "Forward Sales") in order to keep the balance of the Belgian residential mortgage loans at the required amount.

The required amount is the one requested in order to maintain at minima the 105% regulatory level as defined in the French law + 2% as buffer.

In order for ABE SCF to mitigate the prepayment and interest rate risk arising from the Belgian mortgage pool now directly owned, several Asset Swaps were set up between ABB and ABE the asset side of SCF. There are as many Asset Swaps as there are Covered Bonds Series and Subordinated OC Loans outstanding against the Belgian residential mortgage loans.

Covered bonds are sold on the market to investors or subscribed by ABB (retained on ABB's balance).

As of December 2022, the stock of covered bonds amounted to €9,250 mln of which €5,750 mln are placed in the market and €3,500 mln are retained by ABB and hence eliminated in the consolidated balance sheet.

The strong underlying quality of ABB's retail mortgage portfolio in Belgium is the ideal collateral for a covered bond program. This program enables the bank to manage its liquidity risk. It provides ABB with diversification in funding sources and minimises funding concentrations in time buckets. The covered bond program gives ABB access to the covered bond market, allowing ABB to reduce the cost of long-term institutional funding. This program offers the bank access to funding markets that remain open in times of market stress.

Disclosures ABE SCF covered bond issuance can be found on ABB's website.

These disclosures detail the structure of the securitisation and covered bonds issuance, the risk factors, ABB's involvement in them and its governance. A quarterly investor report completes the information in the above disclosure, by providing the markets with relevant quantitative information.

All covered bonds are rated AAA by Moody's.

11. Assets encumbrance

Qualitative information on asset encumbrance of Crelan Group and information on the impact of the business model on assets encumbrance and the importance of encumbrance to the institution's business model can be found in template **AE4** in annex.

11.1. Sources of encumbrance of assets

The total amount of encumbered assets of Crelan Group is €10.23 bln (template **AE1** in annex) and the 6 sources of encumbrance are:

- ECB funding: €1.5 bln is encumbered at the ECB for TLTRO, covered by debt securities and retained covered bonds.
- Derivatives: €0.58 bln cash is given as collateral for derivatives.
- Covered bond: €6.4 bln mainly mortgages are encumbered for the covered bonds sold to the market.
- CASPR synthetic securitisation: the cash hold by Crelan Group that securitised the sold CLNs is considered as encumbered (€44 mln).
- Collateral swaps: €1.4 bln given retained covered bonds in a collateral swap.
- Other sources: €84 mln cash for different counterparties (Visa, Mastercard, Tax authorities ….).

Template **AE3** in annex provides following Article 443 CRR the medium value of both the carrying amount of the selected financial liabilities and the carrying amount of matching liabilities, contingent liabilities or securities lent.

11.2. Unencumbered assets

The total amount of unencumbered assets is €43 bln of which €954 mln unencumbered debt securities, available to use as collateral and which can be easily encumbered. The other unencumbered assets mainly consist out of mortgages (€35 bln), which could be encumbered if needed (new RMBS, new Covered bonds…). Crelan Group has also a large, unencumbered amount (€6.5 bln) of loans on demand (ECB deposit, cash, …) which is a buffer for liquidity outflows. Only a small part of other assets (€285 mln) is not available for encumbrance: tangible assets (property, plant and equipment), goodwill, tax assets, accounting specific amounts (fair value of the hedged items for interest rate risk). More details concerning the encumbered and unencumbered assets can be found in template **AE1** in annex. The annex **AE2** shows that Crelan also has €1.37 bln received assets, which are unencumbered and can be used in transactions.

12. Non-financial risks

12.1. Operational Risk

Crelan Group defines operational risk, as the risk of loss resulting from inadequate or failed internal processes, or from employees or systems. The failure or inadequacy may result from both internal and external causes.

In the Basel framework, operational risk is divided into 7 categories:

i. **Internal Fraud:** fraudulent financial reporting, improper or fraudulent financial activity as well as misappropriation of assets and other internal frauds.

ii. **External Fraud:** theft and fraud as well as information system fraud.

iii. **Employment Practices and Workplace Safety:** employee relations, diversity and discrimination, safe environment, loss of key staff and talent management.

iv. **Clients, Products and Business Practices:** suitability, disclosure and fiduciary, improper business or market practices, incl. advisory activities, breach of regulation and legislation, unauthorized activity, product flaws

v. **Damage to Physical Assets:** natural disasters, vandalism, terrorism, etc.

vi. **Business Disruption and Systems Failures:** system disruptions and breach of information security

vii. **Execution, Delivery and Process Management:** data entry errors, accounting errors, failed mandatory reporting, negligent loss of client assets, etc.

Qualitative information on Crelan Group's operational risk can be found in template **ORA** in annex.

12.1.1. Integration & migration

The actual context, the execution of the integration and migration plan, is a potential source for important operational risks. To ensure the necessary follow-up, a specific governance is put in place: To assure the oversight and the quality at the first line, a 2nd and 3rd line follow-up (internal control) is foreseen. Seen the nature and size of this program, an external party, experienced in mergers, supports the CRO in the second line follow-up. At Board level, a dedicated committee, ABARC (= Risk Committee members + Audit committee members), is created to allow to focus on the risks linked to the integration & migration. Specific instruments are created, dedicated to the follow-up of risks related to the Integration & Migration program: a risk register and a Key Risk Indicator (KRI) dashboard. Each of these are at least quarterly assessed at ABARC level. The Risk Management Department also provides his second opinions to the ABARC on specific topics (infrastructure readiness, status at cut-over, migration approach,…). Finally, there is also a quarterly reporting on the status of the integration and migration program to ECB in place.

12.1.2. Risk management and Governance

12.1.2.1. Governance

Crelan Group's Executive Committee delegates to the Audit, Risk, and Compliance Committee (ARCC) the following responsibilities with regards to operational risk: the implementation of the operational risk management framework, giving guidelines to embed it in Crelan Group's business-as-usual activities and reviewing and validating all important decisions or information relating to Crelan Group ORM (ORM Charter, economic capital results , methodology, processes, reporting, documentation, etc.).

All business lines and entities within Crelan Group have full ownership of the operational risks they face in the practice of their activities.

The Operational Risk management team, the Compliancy team and the Security & Privacy team ensure that Operational Risks are identified, assessed, measured and mitigated in accordance with the Crelan Group standards.

For the regulatory capital calculation for Operational Risk, the Standardised Approach (TSA) is used.

Crelan's management used an annual recurring High Level Risk Self Assessment (HLRSA) to identify, analyse, assess, decide on and mitigate its material operational risks. The HLRSA provides Crelan's senior management with an indication on the most significant operational risks faced by Crelan.

Crelan's management used KORI (Key Operational Risk Indicators) to measure the operational risk level and LDC (Loss Data Collection) to follow up on Operational Risk Events.

12.1.2.2. Risk policy, limit framework and reporting

For the regulatory capital Crelan Group applies the Standardised Approach.

For its economic capital, Crelan uses an annual process based on risk assessments, that identify and quantify the relevant and material operational risks faced by Crelan in the coming year.

As in past years, the focus for 2022 remained on detecting and preventing fraud and cyber risks (hacking, phishing and cyber/virus-attacks), regulatory risks (related to MIFID, AML, GDPR, ...) and people risks (key employee exposure, loss of staff, ...).

The team of Operational Risk continuously works on 'risk awareness' within the entire organisation (by organising training courses for the different business lines, participating in major projects and product launches, by establishing a network of risk correspondents). In 2022, a lot of effort was spent on integrating the methodology, charter and approach on Operational Risk Management. Besides this, efforts continued for further optimisation of both the 'Loss Data Collection' process and the 'High Level Risk Self Assessment (HLRSA)' process, with a specific focus on a structural framework for 'risk responses' (action plans, risk acceptance). The team of operational risk uses an RDF (Risk Decision Form), in which the playing field for operational risk in Crelan Group's processes is defined and monitored.

12.1.2.3. Operational risk mitigation

Decisions regarding risk topics are made in the ARCC. Different options are possible:

- Accept the risk as the current situation already balances control cost and efficiency with desirable risk level;
- Transfer the risk (e.g.: insurance contract establishments for fire incidents, cyber incidents and agent fraud);
- Mitigate the risk with action plans to strengthen the process and to reduce the risk to a lower/ acceptable level. These action plans are defined by the business, challenged and monitored by the operational risk team and reported quarterly to management;
- Avoid the risk by eliminating the activity that carries the risk (if possible).

The Crelan team of Internal Control performs 2nd line monitoring of the key controls, covering the main risks in our processes.

12.1.3. Requirements for Operational risk

Crelan uses the Standardised Approach (TSA) for calculating capital requirements for operational risk as discussed in section 12.1.2.1. This approach considers the various business lines with a specific beta factor. For Crelan the relevant business lines and their beta factor are:

Table 21 - Beta factors for operational risk

Business Line	Beta factor
Trading and sales	18%
Retail Banking	12%
Commercial Banking	15%
Payment and settlement	18%
Retail Brokerage	12%

The own funds requirements are calculated as the 3-year average of the sum of the capital charges across each business line. Negative capital charges can offset positive capital charges without limit. For the requirement in 2022, the relevant business lines are based on the year-ends of 2020 to 2022.

The TSA method results in an Own Funds requirement of €97.7 mln with a corresponding RWA of €1,222 mln at the end of 2022 as seen in template **OR1** in annex.

Table 22 - Crelan Group's total operational risk exposure amount (RWA)

Item	Dec-2022	Of which Crelan (including Europabank)	Of which ABB
Operational risk (€ mln)	**1,222**	**639**	**583**

12.2. Compliance Risk

Compliance risk represents the risk that an institution and/or its employees will be sanctioned at the judicial, administrative, or regulatory level due to non-compliance with the rules of integrity and legal and regulatory conduct, with the consequence, loss of reputation and possible financial harm. This loss of reputation may also be the consequence of non-compliance with the internal policy in this area, and with its own values and rules of conduct in terms of the integrity of the institution's activities. A loss of reputation can undermine the credibility of the institution and its employees. Credibility represents the fundamental element to be able to be active in the financial sector.

The risks of "compliance" can be multiple:

- Damage to reputation, which tarnishes the image of Crelan;
- Negative publicity that damages customer confidence;
- Legal sanctions, including against natural persons whose liability would be called into question;
- The administrative penalty, which may lead to limitations or withdrawals of approvals or licenses;
- The financial loss that the bank may incur as a result of non-compliance with applicable banking laws, external regulations issued by the supervisory authorities (NBB/FSMA) as well as codes of conduct or standards of good practice applicable to the banking sector.

Compliance risk management at Crelan Group is based on a general integrity policy, a Compliance charter, policies regarding the Compliance domains and a whistleblowing policy. These documents are reviewed on a regular basis to take into account the constant evolution of the regulatory framework and due to changes observed in public opinion.

The organization and operation of the Compliance department are as follows:

Compliance Officer (CO) who coordinates and supervises the Compliance function. The CO therefore assumes overall responsibility for the compliance of Crelan and its subsidiaries and ensures the execution of the integrity policy.

A team of several Compliance advisers and collaborators, with a certain specialization in particular:

- A group, mainly in charge of recurring activities related to the prevention of money laundering and terrorist financing (AML/CFT);
- A team dedicated to formulating opinions and carrying out more specific or ad hoc analyses and which also deals with other sub-areas such as MiFID, investor and consumer protection, etc;
- A group dedicated to monitoring activities.

Compliance Correspondents within several departments of the bank where they exercise their main function.

The operation of this structure is detailed in the yearly Compliance Report.

The Compliance Department intervenes in several key activities of the bank using policies, procedures and second line controls. As there are: the prevention of money laundering and terrorist financing, including in the field of granting and managing credits, sanctions and embargoes, compliance with legal and regulatory requirements regarding MiFID, market abuse, the conflicts of interests, product governance etc. …

Crelan Group has an overall framework (policies & procedures, training, controls) in place to ensure that it is in compliance with all material requirements of the Financial Services and Markets Authority (FSMA) and the National Bank of Belgium (NBB), and any other domestic or foreign regulators. Meeting all requirements and expectations in the Compliance domain proved to be challenging and there are certain specific issues and identified weaknesses for which action plans and remediation plans are being executed:

- Management of potential conflicts of interest in the remuneration of tied agents;
- AML transaction screening and KYC procedures;
- Sales tool for invest products.

For an AXA Bank legacy file (MiFID I inspection in ABB in 2017) an amicable settlement was reached for €500,000 and a publication on the FSMA website (31/05/2022). Pursuant to the 2017 inspection, ABB had remediated all identified gaps by June 2019 as ABB adapted and strengthened its arrangements, systems and procedures relating to the adequacy of the service provided, internal control, data archiving and product governance.

12.3. Security Risk

Crelan Group defines security risk as a potential threat or vulnerability that could compromise the Crelan Group's operations, assets, or reputation.

The Security and Privacy team is led by the CSO (Director Security) and is part of the 2nd line of defence. The CSO reports to the CRO.

The Security and Privacy team, i.e. responsible for security risk, is divided into 3 divisions:

1. Governance Risk & Compliance & Operational;
2. Technical & Physical Security;
3. DPO Office (Privacy) – with a direct line to the CRO.

Security Risk Management activities are centralized in the Governance Risk and Compliance team, performed by the Security Risk Expert. The Security Risk Expert is responsible for overall security risk management coordination throughout the Security and Privacy team.

The mission of Security Risk Management to identify, assess, and manage the bank's risk exposures in a manner that supports the achievement of its strategic objectives while protecting the bank's reputation and franchise. We will do this by providing independent and objective risk management advice, developing, and implementing effective risk management policies, procedures, and controls and by continuously monitoring and reporting on the bank's risk profile.

The roles and responsibilities include, but are not limited to:

- Identifying potential security risks to the organization's assets, including physical assets, intellectual property, and sensitive information;
- Assessing the likelihood and impact of identified risks;
- Include all identified security risks in the risk register;
- Prioritizing risks based on the likelihood and impact of the potential threat;
- Developing and implementing a risk management plan that includes measures to mitigate or eliminate the identified risks;
- Monitoring and reviewing the effectiveness of the risk management plan and making changes as needed;
- Communicating with management and other stakeholders about the status of security risks and the effectiveness of risk management measures;
- The Security Risk Management team is responsible for implementing the risk management plan and monitoring its effectiveness, but it may also involve other departments and employees in risk identification, assessment, and mitigation.

The governance framework that drives Security Risk Management:

Figure 21 - Security Risk governance framework

Furthermore, 'security risk awareness' is continuously highlighted within the entire organisation. End of 2022, a new phishing simulation and security e-learning tool was launched to continuously train internal and external staff on security practices. To guide internal and external staff, the focus in 2023 will be to further merge the different security policies and procedures into one and to establish a new general security risk reporting on different levels based on a brand new risk register.

In collaboration with Operational Risk and in order to increase (security) risk awareness within Crelan Group, a company-wide 'High level Risk Self-Assessment exercise' (see section 12.1.2.1) is conducted on a yearly basis.

Security Risk Management uses the risk appetite framework as incorporated by Operational Risk in their ORM Charter.

In 2023, the security team will continue to develop the new security control framework which will help to further comply with industry standards, regulations and improve the security posture of Crelan Group. The security team communicates regularly with management and other stakeholders about the status of risks and the effectiveness of the controls.

Crelan Group conducts regular assessments on its security posture. These assessments are conducted by independent teams who review the bank's ISMS policies and procedures, assess the effectiveness of controls, and ensure compliance with used standards and regulations. This process helps identify vulnerabilities, areas for improvement and demonstrates to customers and supervisors that Crelan Group takes security seriously, and it is an important aspect of the overall security strategy. It helps the bank to be aware of current threats and adjust the security measures accordingly.

13. Other risks

13.1. Business Risk

Crelan Group defines business risk as the risk due to potential changes in general business conditions, such as market environment, client behaviour and technological processes. This can affect results if the bank fails to adjust quickly to these changing conditions. The definition includes Strategic risk and Technology risk.

Several processes take part in the mitigation of this specific risk. First, targets for volumes and margins for the year are defined by both Crelan Group's Executive Committee and BoD. Sensitivity analyses are performed on these targets based on scenarios whose business risk is one. Then, there is a close monitoring of the objectives that leads, if necessary, to their review by Crelan Group's Executive Committee. This review also takes into account competitors thanks to benchmarking exercises performed on a regular basis. In addition to this follow-up, the more specific BSRC regularly monitors and manages from an ALM perspective the margins of all the assets and liabilities of the bank.

Crelan Group has also implemented strong governance regarding the commercial products. Crelan Group's Executive Committee has delegated the management of specific risks to specialised sub-committees. The launch of a product or a significant modification to an existing one should go through a rigorous Product Approval and Review Process (PARP), where the business risk is taken into account through an in-depth analysis of commercial margins and potential adverse events that can affect them.

Economic capital is calculated based on a scenario approach (e.g. deterioration of margins or miss of a technology).

13.2. Model Risk

Crelan Group defines model risk as the risk of losses arising from decisions based on incorrect or misused model outputs and reports. It is a material risk, hedged by processes.

Model risk is mitigated thanks to processes and indirectly by capital through add-ons in the IRB retail credit risk. In order to better mitigate model risk, Crelan Group put in place a model risk management framework. Crelan Group's model risk management framework is documented in a model risk management policy and is closely aligned to the overall risk management framework of the bank.

13.3. Reputation Risk

The reputation risk is the risk that an event will negatively influence stakeholders' perceptions of Crelan Group and its subsidiaries (Crelan, Europabank and ABB).

The responsibility of this risk belongs to the Board of Directors and Management Board. They are assisted in this task by various departments among which the Bank's Marketing & Communication department and the Compliance and Risk Management departments.

While Crelan and ABB work on the integration of the two banks with the goal to continue all banking activities under the Crelan logo (foreseen for spring 2024), the two brands will continue to exist side by side. During this period, ABB will continue to protect the AXA brand and will align with AXA Group's reputation team on certain reputation risks.

Crelan Group has defined processes to handle reputation risk, which ensures a prompt and appropriate reaction in case of materialization of the risk.

13.4. Political and Regulatory risk

The Financial Risk Team monitors closely all countries in which Crelan Group or one of its subsidiaries has an exposure due to investment portfolio, derivative activities, repo activities, ….

To ensure a clear view on the regulatory environment Crelan Group has defined a Regulatory Watch framework, which mainly consists of a Regulatory Watch inventory and its respective correspondents. Political and regulatory risk can materialise in multiple ways. A specific case for ABB is related to withholding tax. ABB is a well-established covered bond issuer via its French subsidiary AXA Bank Europe SCF. The issued covered bonds are secured by mortgage loans which were tacitly sold by ABB to AXA Bank Europe SCF. There is a very low fiscal risk identified linked to the tacit sale. Based on solid external opinions, ABB has strong arguments to qualify the fiscal risk as very low. In line with this assessment Crelan Group has not booked any provision for the risk . The auditors have not objected to such assessment and resulting accounting treatment.

13.5. Environmental, Social and Governance (ESG) Risk

ESG risks include those related to climate change impacts mitigation and adaptation, environmental management practices and duty of care, working and safety condition, respect for human rights, anti-bribery and corruption practices, and compliance to relevant laws and regulations. Climate change and the response to it by the public sector and society in general have led to an increasing relevance of ESG factors for financial markets. It is, therefore, essential that financial institutions are able to measure and monitor the ESG risks in order to deal with transition and physical risks.

Crelan Group defines ESG risks as the risks of any negative financial impact on the institution stemming from the current or prospective impacts of Environmental, Social and/or Governance factors on its counterparties, invested assets or own assets & operations. The main focus of Crelan Group in 2022 is to improve the treatment of climate and environmental risks (C&E risks). Climate & environmental risks (see template Qualitative-Environmental risk in annex) are the risks of any negative financial impact on the institution stemming from the current or prospective impacts of climate change or environmental degradation on its counterparties, invested assets or own assets & operations. Climate and environmental risks can be subdivided into physical and transition risks:

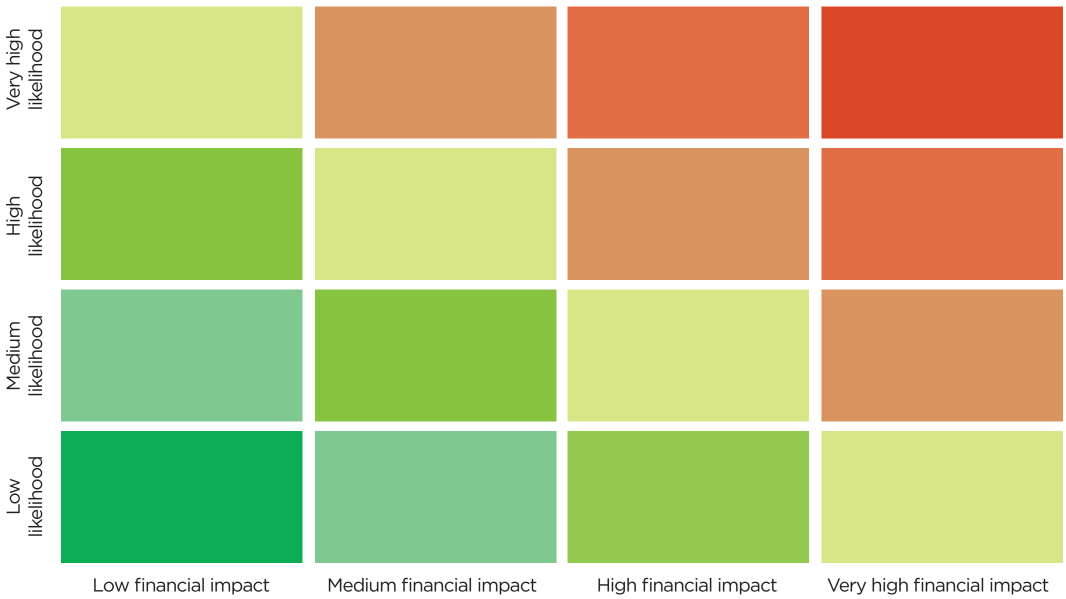
- Physical risks are the risks of any negative financial impact on the institution stemming from the current or prospective impacts of a changing climate on its counterparties, invested assets or own assets & operations. This includes more frequent extreme weather events (acute physical risks) gradual changes in climate (chronic physical risks) and environmental degradation.
- Transition risks refer to the institution's financial loss that can result, directly or indirectly, from the process of adjustment towards a lower-carbon and more environmentally sustainable economy on its counterparties, invested assets or own assets/operations. Transition risks can be subdivided into policy & regulation risks, technology risks and market sentiment & demand risks (see template 1.CC Transition risk-Banking b. in annex for more details concerning the non-financial corporation exposures of the Group).

Social risks (see template Qualitative-Social risk in annex) are the risks of any negative financial impact on the institution stemming from the current or prospective impacts of changing expectations about relationships with employees, suppliers, clients and society as a whole on its counterparties, invested assets or own assets & operations. Governance risks are the risks of any negative financial impact on the institution stemming from the current or prospective impacts of changing expectations about corporate governance on its counterparties, invested assets or own assets & operations.

Throughout 2022 (and continuing in 2023), Crelan Group made progress in setting out its C&E strategy, improved the governance of C&E risks, performed a comprehensive materiality assessment of C&E risk drivers and improved the overall risk management of C&E risks.

- Materiality assessment: following the yearly review of the bank's risk taxonomy, a risk assessment takes place to determine the materiality of identified risks. As part of this process, an ESG risk materiality assessment is carried out based on expert judgement. For this exercise, Risk Management develops a number of plausible C&E risk scenarios for financial risks which are then discussed within the respective risk teams. Separate sessions are organized per financial risk (credit, market and liquidity risk). The same exercise is carried out by Operational Risk Management for operational risks. The materiality assessment considers two axes, namely likelihood (low, medium, high, very high) and financial impact (low, medium, high, very high) over the short (0 to 3 years), medium (4 to 10 years) and long-term (beyond 10 years). Where applicable, ongoing actions & existing processes are considered in these discussions as risk mitigants.

Figure 22 - Risk matrix C&E risk



The 2022 exercise was performed mainly in a qualitative manner but towards the future more quantitative data will become available to support the assessment process.

Today, Crelan's stakeholders, including the regulator, have increased the focus on the C&E pillar of ESG (e.g. in the context of the EU Green Deal). Hence, as mentioned above, the risk identification and assessment exercise of 2022 focused on C&E risks.

As a financial institution, Crelan Group considers itself materially exposed to C&E risks. In the short and medium-term, it is expected that the main impact on the bank will stem from:

- Increasing energy prices (retail and professional portfolio): potential impact on PD (increasing costs resulting in lower disposable income) and collateral value (less energy efficient real estate becoming less attractive).
- A good proxy for transition risk with respect to the portfolio collateralised by real estate is the energy performance of the collateral. The figures below show the gross carrying amounts of loans collateralised with commercial and residential immovable property and of repossessed real estate collaterals for all counterparty sectors, including non-financial corporates and households.

- Where possible, the level of energy efficiency has been estimated. For this estimation the actual EPC value was used (when available) in combination with the rating classes per region in Belgium. In case there is no actual EPC label the estimated EPC label was used. EP grade information is provided in the figure below

Figure 23 - Portfolio per EP score

Counterparty sector		Total gross carrying amount (in € mln)							
		Level of energy efficiency (EPC label of collateral)						Without EPC label of collateral	
		0; <= 100	> 100; <= 200	> 200; <= 300	> 300; <= 400	> 400; <= 500	> 500		Of which level of energy efficiency (EP score in kWh/m² of collateral) estimated
Total EU area	43,777.80	495.63	1,073.03	8,223.84	30,035.87	780.78	1,355.34	37,744.44	95%
Of which Loans collateralised by commercial immovable property	5,124.61	14.66	29.92	401.01	3,274.47	15.67	32.79	4,962.84	73%
Of which Loans collateralised by residential immovable property	38,653.25	480.97	1,043.11	7,822.83	26,761.39	765.12	1,322.55	32,781.66	99%
Of which Collateral obtained by taking possession: residential and commercial immovable properties	-	-	-	-	-	-	-	-	0%-
Of which Level of energy efficiency (EP score in kWh/m² of collateral) estimated	35,931.59	0.18	-	6,977.39	28,954.02	-	-	35,931.59	100%
Total non-EU area	73.68	0.88	1.17	38.17	29.68	2.26	0.58	66.02	99%
Of which Loans collateralised by commercial immovable property	0.12	-	-	-	-	-	-	0.12	0%
Of which Loans collateralised by residential immovable property	73.56	0.88	1.17	38.17	29.68	2.26	0.58	65.90	99%
Of which Collateral obtained by taking possession: residential and commercial immovable properties	-	-	-	-	-	-	-	-	0%
Of which Level of energy efficiency (EP score in kWh/m² of collateral) estimated	65.08	-	-	36.39	28.69	-	-	65.08	100%

For collateral where the EPC label is available, the latest accessible EPC label has been used. When a property or loan covers multiple buildings with different EPC labels, the loan is divided over the according collateral and its value. In case where an EPC label is missing, an estimation was done based on the NUTS score and the type of property (see also template **2.CC Trans-BB.RE collateral** in annex)

Figure 24 - Portfolio per EPC grade

Counterparty sector		Total gross carrying amount (in € mln)						
		Level of energy efficiency (EPC label of collateral)						
		A	B	C	D	E	F	G
Total EU area	43,777.80	423.94	921.27	3,987.67	22,042.17	11,354.59	2,616.08	619.24
Of which Loans collateralised by commercial immovable property	5,124.61	13.52	28.34	170.11	2,280.45	1,123.41	141.78	10.90
Of which Loans collateralised by residential immovable property	38,653.25	410.41	892.93	3,817.57	19,761.72	10,231.17	2,474.30	608.34
Of which Collateral obtained by taking possession: residential and commercial immovable properties	-	-	-	-	-	-	-	-
Of which Level of energy efficiency (EP score in kWh/m² of collateral) estimated	35,931.59							
Total non-EU area	73.68	0.88	0.91	12.46	23.77	24.81	7.26	2.65
Of which Loans collateralised by commercial immovable property	0.12	-	-	-	-	-	-	-
Of which Loans collateralised by residential immovable property	73.56	0.88	0.91	12.46	23.77	24.81	7.26	2.65
Of which Collateral obtained by taking possession: residential and commercial immovable properties	-	-	-	-	-	-	-	-
Of which Level of energy efficiency (EP score in kWh/m² of collateral) estimated	65.08							

Note that Crelan Group has no exposure to the top-20 carbon intensive firms in the world (see template **4.CC Transition-toppollutcomp** in annex).

- Extreme flooding (retail and professional portfolio): potential impact on PD (reparation costs decreasing disposable income) and collateral value (damaged collateral and less interest in high-flood risk areas for future buyers). From a physical risk perspective, the following figure shows what exposures are considered prone to physical risks. Crelan Group has identified drought and heat risk together with flood risk as physical risks. Drought and Heath risk was determined based on the NACE code mapping set by the ECB. Sector codes A, B, C, D, E, F, G, H and L are in scope of Drought and Heath risk. Flood risk was determined based on open-source data curated by Belgian (FOD opendata.bosa.be), Flemish (geopunt), Brussels (geobru) and Wallonian (geoportail wallonie) governments. In case an address could be mapped with information from the open sources the flood risk label was assigned based on these open data sources.

Figure 25 - Acute and chronic physical risks

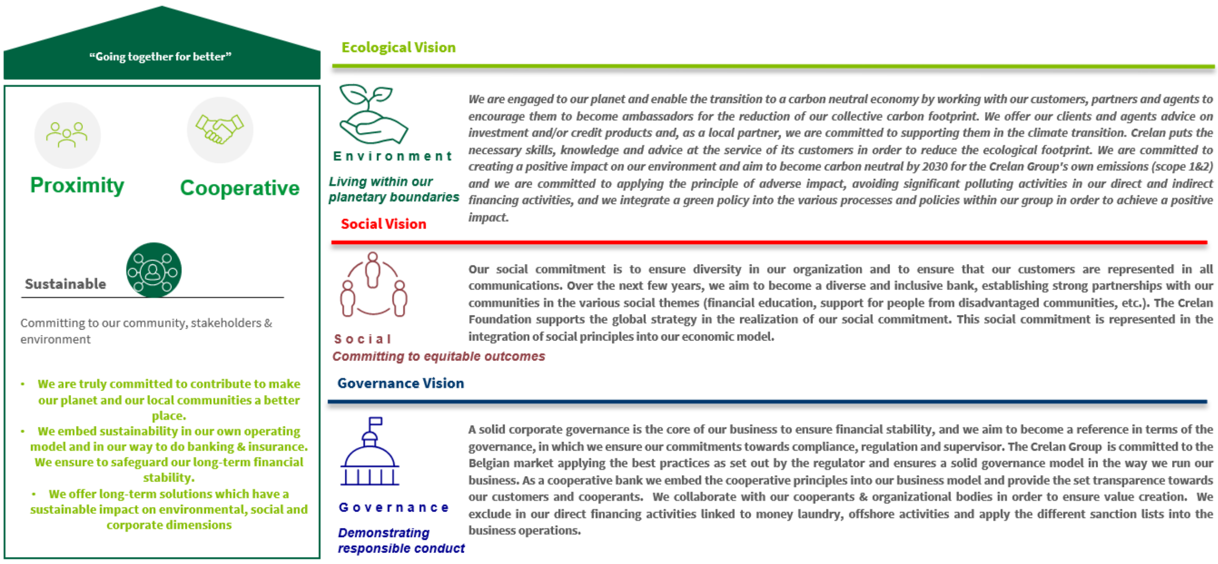
Geographical area subject to climate change physical risk - acute and chronic events		Gross carrying amount (€ mln)		
		of which exposures sensitive to impact from chronic climate change events	of which exposures sensitive to impact from acute climate change events	of which exposures sensitive to impact both from chronic and acute climate change events
A - Agriculture, forestry and fishing	745.79	214.00	186.78	6.47
B - Mining and quarrying	1.21	-	-	1.21
C - Manufacturing	205.33	-	-	205.33
D - Electricity, gas, steam and air conditioning supply	11.12	-	-	11.12
E - Water supply; sewerage, waste management and remediation activities	12.12	-	-	12.12
F - Construction	581.14	-	-	581.14
G - Wholesale and retail trade; repair of motor vehicles and motorcycles	569.11	-	-	569.11
H - Transportation and storage	62.83	-	-	62.83
L - Real estate activities	633.66	-	-	633.66
Loans collateralised by residential immovable property	38,726.81	66.59	48.72	5,146.27
Loans collateralised by commercial immovable property	5,124.73	471.79	317.34	1,550.02

At the end of 2022 Crelan Group was not able to distinguish acute and chronic physical risk, as a result all physical risk was reported as 'acute and chronic' physical risk. For drought and heat Risk an exemption was made for the agricultural sector. Given that it is a strategic sector for Crelan Group, a subdivision is performed into chronic and acute physical risk. Based on the type of activity a split was made between acute, chronic and 'acute and chronic'. Cultivation of crops (annual or multi-annual) is considered as subject to acute physical risk. Livestock, plant propagation, hunting, forestry, fisheries and aquaculture is considered as subject to chronic physical risk. For more details, the bank refers to template **5.CC Physical risk** in annex.

Regulatory changes (professional portfolio): new regulation on C&E topics (e.g. carbon tax) can lead to lower profit margins or obligate business to invest in cleaner technologies, new production methods etc... Some sectors are more sensitive to these new regulations than others (e.g. carbon intensive sectors).

- Business model and strategy: in 2022, Crelan Group set out its initial ESG strategy for the bank (including the C&E strategy). This strategy is presented to the ExCo and BoD of the bank in 2023. Sustainability has been identified as a strategic pillar with the Crelan Group strategy. The figure below gives an overview of the sustainability strategy of the bankRisk management: Climate-related and environmental (C&E) risks have been included in the bank's risk taxonomy and in the RAF 2023. Hereby, they are considered as a driver of the four main risks, namely credit, operational, market and liquidity risk.

Figure 26 - Sustainability strategy



Crelan's BoD have approved this overall vision regarding ESG, including the environmental aspect. This vision is in line with the overall strategy of the bank. As a next step, the bank is currently in the process of defining the different commitments, targets & objectives towards the global ESG vision as well as the relevant engagements. This will be finalized & set for BoD approval by June 2023. In the sustainability report, Crelan provides already a global overview on the different elements regarding the implementation of the sustainability vision, and the realized activities.

Crelan Group has recently developed a Green Bond Framework under which Crelan Group will be able to issue Green Bonds and sustain its business model. This Framework is being developed in alignment with the International Capital Markets Association (ICMA) Green Bond Principles, 2021 (GBP) which are voluntary process guidelines for best practices when issuing or borrowing Green Bond Instruments. Crelan Group intends to further align its Green Bond Framework with the European Green Bond Standard (EUGBS). Once enforced, the EUGBS will serve as an alternative standard to the current market practice of GBP. The current proposal of the EUGBS is being taken into account, where possible, in Crelan Group's Green Bond Framework. Green loans of Crelan Group disclosed in the table below follow the criteria as laid down in the Green Bond Framework which will be rolled out in the first semester of 2023. In this framework 'green buildings' are defined as loans with collaterals which have an EPC label A or higher. Additionally, the loans for new constructions are taken into account (as from 2021 for Brussels, 2017 for Flanders and 2015 for Wallonia). More details can be found in template **10.Other mitigating actions** in annex.

Figure 27 - Green loans

Type of financial instrument	Type of counterparty	Gross carrying amount (€ mln)
Loans (e.g. green, sustainable, sustainability-linked under standards other than the EU standards)	Financial corporations	-
	Non-financial corporations	188.04
	Of which Loans collateralised by commercial immovable property	82.88
	Households	3,395.51
	Of which Loans collateralised by residential immovable property	3,362.89
	Of which building renovation loans	-
	Other counterparties	49.18

- Governance (see template Qualitative-Governance risk in annex): In order to strategically embed ESG sustainability in the operating model of Crelan Group, a dedicated governance has been set up at the group level which ensures oversight, reporting, commitment and embedding of the different elements of the ESG action. This governance consists of 3 main elements:

  - ESG Office: Crelan has set out in its organigram a dedicated ESG office, whose responsibility consists of setting out the ESG strategy, follow up on the progress of the regulatory and non-regulatory ESG requirements, coordination, oversight and reporting on the broad scope of ESG implementation and embedding the ESG mechanism within the organization.

  - ESG SteerCo: In order to ensure adequate monitoring of the progress of the implementation & execution of the different actions related to the ESG program, an ESG steerco was established. The program focuses on both the strategic, operational & regulatory workstreams. The steerco members are related to the different relevant domains and two members of the ExCo also participate. The domain owners have been selected in function of the impact, and the frequency of the steerco has been set on a monthly basis. However, if required, a sub-steerco has been organized for the deliveries in a shorter timeframe such as the ECB climate stress test or ECB thematic review on climate self-assessment. At steerco level, the main responsibilities are to provide direction of the program, follow up on progress, making sure that decisions are taken by the right person, escalation and monitoring of the aspects of the ESG program.

  - ESG Workstreams: In order to follow up on the different elements, a subset of workstreams have been defined to ensure the adequate execution and implementation of the regulatory and non-regulatory aspects of the ESG framework. These streams are the operational implementation on the group level to align both entities Crelan & ABB.

    The operational streams are responsible to take into consideration the following elements:

    - Regulatory: the implementation of the different regulatory requests impacting the domains, such as reporting requirements, EPC value, supervisory expectations…
    - Non-regulatory: the impact of the definition of the strategy on the domain

The following governance for embedding follow-up of C&E risk in existing Committees was approved:

Figure 28 - Governance monitoring C&E risk

Committee name	Owner/SPOC	Topics to be presented	Recurrence
Risk Com. (incl. ExCo & BoD presentations)	**Owner:** ERM **SPOC:** ERM & relevant teams below for specific input	• LRC topics • Potential ESG regulatory breaches • Status update implementation of C&E ECB action plan • Spread traditional and green emissions • **Once per year**: Update ESG status report, incl. materiality assessment	Quarterly
LRC	**Owner**: Credit risk & policy	• EPC value % collected and distribution of collection • Flood risk (% of collaterals in high, medium, low risk) • Professional loan exposure to energy /carbon intensive industries • Outcomes ad-hoc exercises (e.g., energy crisis assessment)	Quarterly
CFC	**Owner:** ERM & ALM	• Quarterly follow-up of Regulatory Watch, incl. sust. Finance topics • Size & evolution asset pool available for green issuance	Quarterly
BSRC	**Owner**: ALM	• Green bond framework update & evolution on the market (incl. spread) • **Once per year**: Evolution of C&E risks in the investment portfolio (yearly)	Quarterly
ARC	**Owner**: Compliance, ORM, Risk reporting	• Compliance status update regarding ESG regulations • Update implementation internal controls around C&E risks • Discussion of ESG risks in alerting zone • Ad-hoc topics (C&E risk impacts on BCP, reputation,...) • **Once per year**: Update on public disclosures	Quarterly
CIRC	**Owner**: Compliance	• Compliance MiFID II sustainability preferences	Monthly
Renumeration committee	**Owner**: ESG office	• Review & validation of ESG component of STIC	Annually

- Risk management: Climate-related and environmental (C&E) risks have been included in the bank's risk taxonomy and in the RAF 2023. Hereby, they are considered as a driver of the four main risks, namely credit, operational, market and liquidity risk.
  - From a credit risk management point of view, Crelan Group includes C&E risks in borrower and transaction due diligence on the two following aspects:
    - At loan application stage for real estate financing, a fire insurance (including flood insurance) is requested - considering that loans which are not covered by fire insurance may be at risk in case of unforeseen events (which are likely to increase in frequency and severity due to increasing physical risk). The coverage is not complete at this stage on all Crelan Group's entities. The objective is to have a compete monitoring of those after the 2024 IT migration;
    - For the agricultural portfolio - the financing provided by Crelan Group never goes beyond the duration of environmental licenses granted to the counterparties by the government.

Crelan Group includes C&E risk in portfolio and analysis and monitoring through a stress-test on energy prices on the mortgage portfolio: an exercise was performed where the fixed costs of a retail client were increased with €300/month to calculate the 'eligible income' for the mortgage. This resulted in 6% of Crelan Group's portfolio falling below the required threshold. If this full group would pass to stage 2 exposures, this would result in an extra provision of €12 mln (sufficient buffers in place). Additionally, the government provides some support to households and today the bank does not see a significant fluctuation in NPL rates or Stage 2 percentage because of increased energy prices;

- From an operational risk point of view, a C&E risk assessment was carried out for the operational risk sphere, covering both physical and transition risk. Furthermore, a check was done to ensure existing procedures have been sufficiently broadly defined to cover also C&E risks. Findings indicate that C&E risks are indeed covered by existing risk categories (internal processes, people, systems or external events);
- From a market risk point of view, Crelan Group currently does not monitor the effect of C&E factors on their current market risk positions and future investments on an ongoing basis. However, two C&E risk metrics have been proposed for inclusion in the Risk Appetite Framework of 2023 & 2024 related to its investment portfolio (sectoral limits & ND gain score for sovereign holdings). Additionally, its stress testing framework incorporates two C&E-driven scenarios. In the scenario focusing on physical risk, sovereign bond valuations are impacted;
- For liquidity risk, A stress test was conducted covering this topic through a transition risk stress scenario. No net cash outflows or depletion of liquidity buffers resulted;
- Crelan Group updated its stress testing framework in March 2023 and improved the physical and transition short term scenarios, by making a clear link with the NGFS scenarios and adding Crelan specific shocks. These scenarios are used in the ICAAP and ILAAP of 2023. In addition, a long-term transition risk scenario was added to the stress testing framework.

• Exclusion of sectors: Crelan Group excludes different sectors from the credit policy. The exclusion criteria are linked to environmental, social and governance aspects. An overview is provided in the figure below:

Figure 29 - Exclusion criteria

EXCLUSION CRITERIA		
Human rights	Human beings	Health and environment
Exclude companies that violate ILO or OECD guidelines such as child labour, forced labour, discrimination...	Exclude companies involved in arms production, gambling, illegal acitivities, etc.	Exclude companies related to the tabacco sector, uncertified palm oil, illigal deforestation, coal

• Sustainability is also part of the product offering regarding investment products: Crelan Group distributes the products of the partners Amundi, AXA Invest Management and Econopolis manages the Crelan Fund. These partners offer a diverse product range in line with the sustainability criteria, in which most of the funds are SFDR 8 & 9.

13.6. Pension Risk

Actuarial Management of the ABB pension plans are done by AB and regular reporting on valuation / risk is provided as well as the determination of the assumptions (via the AXA Group Policy). Assets are managed by AXA Belgium via Group insurance contracts (Branch 21). The Crelan Group pension funds are managed actuarially by Willis Towers Watson.

The annual IAS 19 calculations mitigate this risk. In addition, on an annual basis, the Balance Sheet Management team calculates the sensitivity of the OCI to changes in interest rates and inflation.

Moreover, the operational risk associated to the pension plans and fund is reviewed during the annual operational risk assessments.

13.7. Step-in Risk

Step-in risk is the risk that banks prefer to support certain entities in financial distress, rather than allow them to fail and face a loss of reputation, even though the bank has neither ownership interests in such entities nor any contractual obligations to support them.

Crelan Group performed an assessment of its step-in risk. The analysis is based on the 5-step process described by the Basel Committee in the guidelines on the identification and management of step-in risk. The conclusion of this assessment is that no material step-in risk is identified and therefore, no mitigation is foreseen.

14. Remuneration risk

Crelan Group defines its remuneration risk as the risk that its overall remuneration policy does not support its business strategy, risk tolerance objectives, values, long-term interests or that it encourages excessive risk-taking. It is a material risk hedged through processes.

In 2022, an overarching remuneration policy was set up for the identified staff. This remuneration policy is established in accordance with the strategy, objectives, values and long-term interests of the bank. It also contains measures to avoid conflicts of interest. The remuneration policy is aligned with the appropriate and effective management of risks and thus forms an important element of good governance, both with regard to employees and effective and non-effective managers see more details in template REMA in annex.

14.1. Remuneration Committee

The Remuneration Committee, composed of non-executive directors, advises the BoD on remuneration issues and is chaired by an independent director within the meaning of Article 3, 83° of the law of April 25, 2014 on the status and supervision of credit institutions and listed companies.

The Remuneration Committee is composed in such a way that it can give a sound and independent opinion on the remuneration policy and its incentives for risk management, equity requirements and liquidity position.

The proposals of the Remuneration Committee, without prejudice to the powers of the General Meeting, include the pecuniary status of the executive and non-executive directors of the bank and its subsidiaries, as well as the pecuniary status of persons responsible for independent control functions and the so-called "identified staff" (see section 14.2).

The Remuneration Committee makes sound and independent judgments on remuneration policies, practices and related incentives, taking into account risk control, net equity requirements and liquidity position, and does so specifically by:

- Providing advice to the Board on remuneration policies, especially for employees whose work has a material impact on the bank's risk profile, as well as ensuring that remuneration policies are gender neutral and support equal treatment of all employees;
- Preparing the Board's decisions on remuneration, taking into account the long-term interests of shareholders, investors and other parties with an interest, as well as the public interest;
- Monitoring the remuneration of employees responsible for independent control functions;
- Overseeing all major retention, severance and welcome arrangements.

The Remuneration Policy is approved by the Board of Directors after advice from the Remuneration Committee.

Without prejudice to the tasks of the Remuneration Committee, in order to promote sound remuneration practices and policies, the Risk Committee examines whether the incentives provided by the remuneration system take appropriate account of the bank's risk management, equity needs and liquidity position, as well as the likelihood and the spread over time of the profit. The Risk Committee also provides input for the identification of the Identified Staff. The Risk Committee further gives and advice on whether or not to activate any malus or clawback mechanism.

The compliance function analyses the consequences of the remuneration policy for the institution's compliance with laws and regulations, internal policy and risk culture, and reports all identified compliance risks and non-compliant issues to the Executive Board.

In accordance with its role, the compliance function provides effective input for the determination of bonus pools, performance criteria and the award of rewards when it is concerned about their effect on employee behaviour and the risk level of the activities performed. The compliance function also provides input for the identification of the Identified Staff.

14.2. Definition of "Identified Staff"

Taking into account Article 67 of the Law of 25 April 2014 on the status and supervision of credit institutions and the implementing decrees and Delegated Regulation (EU) No. Commission Regulation 604/2014 of 4 March 2014, the Board of Directors within the Bank has determined the perimeter of the Identified Staff as follows:

- Category 1: the members of the Board of Directors;
- Category 2: the members of Higher Management;
- Category 3: employees determined in accordance with the Delegated Regulation and other regulations with a position that involves risk-taking;
- Category 4: the employees responsible for the independent control functions;
- Category 5: employees determined in accordance with the Delegated Regulation, whose total remuneration places them at the same remuneration level as senior management and persons with a position that involves risk-taking.

14.2.1. Remuneration "Identified Staff"

The remuneration policy is structured in such a way that the global remuneration package is divided in a balanced way into a fixed and a variable component.

The composition of the global package is designed in such a way that it does not encourage taking exceptional risks. The fixed part is structural enough to reward the identified staff members for their work, seniority, expertise and professional experience.

Fixed salary

The base salary of the Identified staff is determined taking into account the organizational responsibilities, as described in the job description, and the positioning against an external benchmark. The basic salary may also include benefits in kind.

Decisions regarding the evolution of the fixed remuneration of Identified staff are based on performance reviews (evaluations) and positioning against an external benchmark. Individual increments are awarded based on the following principles:

- Fair treatment;
- Strict delegation rules; and,
- A systematic double check by line management and the HR department.

Each year, Crelan and ABB determine the available budget for the evolution of the fixed remuneration, whereby the results of both entities (compared to the objectives set) are the determining factor. When the results are negative or significantly lower than the objectives, the evolution of the fixed remuneration can be limited to the regulatory, legal or contractual increases.

Variable remuneration

The variable remuneration for the Identified staff is determined according to the rules stated in the Remuneration Policy and is aligned to all risks and to the performance of the institution, the business unit and individual performance.

The performance of the team of which the member of the Identified Staff forms part and assesses his or her individual performance on the basis of a mandatory annual individual assessment by the hierarchical manager on at least the following elements:

- Qualitative achievements of the established objectives;
- Professional behaviour with regard to the values, compliance requirements and procedures, aligned with the values of the Group;
- Contribution to risk management, including operational risk;
- The employee's leadership capabilities (if applicable).

The Board of Directors, after advice from the Remuneration Committee, will carry out an additional assessment for all members of the Identified Staff, taking into account:

- The contribution to the permanent supervisory framework;
- Involvement in material risks and associated decisions;
- Where applicable, possible incidents during the year and the corrective measures for this.

This assessment can have an impact on the variable remuneration.

The variable remuneration for each Identified Staff is limited to the maximum of €50,000 and 50% of the fixed remuneration.

This limitation of the ratio between the fixed and variable remuneration also applies to variable remuneration awards when the objectives are exceeded (above target).

In accordance with the Law of 25 April 2014 on the status and supervision of credit institutions and stockbroking firms, the variable remuneration for the Identified staff above €50,000 consists of a deferred part (deferral) of at least 40% (possibly rising to 60% for the highest variable remuneration).

Where applicable, the deferred schedule is as follows:

- The vesting of the deferred variable remuneration for the members of the Executive Committee and, in case they are not part of the Executive Committee, senior management is spread over 5 years, with 1/5th of the deferred portion being acquired annually;
- For all other members of the Identified staff, vesting is spread over 4 years, with 1/4th of the deferred portion vesting annually.

At least 50% of the variable remuneration (both the non-deferred and the deferred part), is composed of an appropriate balance between:

- Financial instruments linked to shares, or equivalent instruments ("non-cash instruments"); and if necessary;
- Other capital instruments as provided for by the Law.

These instruments are subject to an appropriate retention policy, which means that the holder of the instruments must retain ownership of them, and which aims to align incentives with the long-term interests of Crelan and AXA Bank.

The other 50% of the variable remuneration will, where appropriate, be paid in cash or – in accordance with § 284 of the EBA guidelines – in other benefits that do not meet the criterion of financial instruments.

All variable compensation may be reduced (malus) or recovered (clawback) by up to 100% within the maximum deferral period subject to the following terms and conditions. After advice from the Risk Committee and the Remuneration Committee, the Board of Directors will decide to reduce (malus) or reclaim (clawback) the unvested and paid parts of the variable remuneration of all or certain (possibly former) Identified Staff if the Bank or the affected business unit has a diminished or negative financial return or if one of the following cases is discovered:

- Identified staff does not comply with applicable standards of expertise and professional integrity;
- the Identified staff is involved in a special mechanism that has the aim or effect of promoting tax fraud by third parties;
- any circumstance that implies that the payment of the variable remuneration would violate the Bank's sound remuneration policy, risk management strategy or its low to medium risk profile.

The remuneration of the members of the Executive Committee consists of a fixed basic remuneration and a variable component. For the variable remuneration, the Board of Directors, on the proposal of the Remuneration Committee, annually proposes an amount based on both quantitative and qualitative criteria. This variable part may not exceed 30% of the fixed base remuneration, unless the Board of Directors, with a prior decision on the proposal of the Remuneration Committee, grants a specific exception.

Severance payments are calculated on the basis of basic remuneration, excluding the variable component, and are limited to a maximum of 9 months' remuneration. In the event of an acquisition or merger, this remuneration may be increased by 3 months. If the severance payment is more than 12 months, or more than 18 months on the reasoned opinion of the Remuneration Committee, the General Meeting must give its prior approval. Notwithstanding, a non-competition clause may be negotiated on the basis of a reasoned opinion of the Nomination Committee, in which case, to compensate for the possible loss of income, a compensation of maximum 6 months may be granted.

The non-executive directors are entitled to an annual fixed remuneration paid in monthly instalments. This fee covers all costs, including travel costs, and its size depends on the role of the non-executive directors in the various specialized committees.

The bank paid the following fees in 2022:

Table 23 - Director fees in 2022

Total remuneration (€ mln)	Fixed remuneration	Variable remuneration
Directors of Crelan Group	3.74	0.57

More details about the fixed and variable remuneration of Identified Staff can be found in the templates **REM1-REM5** in annex.

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