中国建设银行(欧洲)有限公司
China Construction Bank (Europe) S.A.

Pillar III
Disclosure Report 2020

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1. Introduction

This report presents the Pillar 3 disclosures of China Construction Bank (Europe) S.A. (hereinafter “CCBEU” or “the Bank”) for the financial year ending 31 Decemeber 2020, as required by the Basel III framework, enforced in the European Union by the Directive 2013/36 (“CRD IV”) and the Regulation 575/2013 (“CRR”).

In December 2016, the European Banking Authority has published the “Guidelines on disclosure requirements under Part Eight of Regulation (EU) no 575/2013”, amended on the 9th of June 2017 (hereinafter “EBA/GL/2016/11”), enhancing the consistency and the comparability of the banks regulatory disclosure by defining specific fixed format templates for quantitative information. The CSSF has adopted these guidelines through the Circular 17/673.

CCBEU Pillar III disclosure report follows the guidelines and the recommendations described in the EBA/GL/2016/11.

2. General requirements for disclosure

The Bank has adopted a formal policy, the Pillar 3 Disclosure Report Policy, setting out the contents of the Pillar 3 Disclosure document.

The information disclosed in the present document covers the statements of CCBEU including its five branches located in France, Netherlands, Italy, Spain and Poland. The Bank has not sought any exemption from the disclosure requirements on the basis of materiality or on the basis of proprietary or confidential information.

This disclosure is made annually and published as soon as practicable after the publication of its Annual Report and Financial Statements. CCBEU will reassess the frequency of disclosure in light of any material change in its business structure, the approach used for the calculation of capital or regulatory requirements.

3. Risk Management Objectives and Policies

Overview

CCBEU, headquartered in Luxembourg, is a wholly-owned subsidiary of China Construction Bank Corporation. On 11 July 2013 the Bank was granted its Banking License (n° 20/13) as a credit institution by the Luxembourg Ministry of Finance. It is authorized to provide all services detailed in the law of 5 April 1993 on the financial sector (the “Banking Law”). The Bank focuses on providing products and services to its customers targeted as Chinese customers investing in Europe, European customers with a business interest in China and European customers with a good reputation in Europe.

The Bank defines its risk appetite as the level of risk that the organisation would like to accept in pursuit of its strategic objectives. The Bank considers a conservative risk appetite approach and focused its activity on credit risk exposure related to medium and large corporate clients and financial institutions with a low risk profile, according to the established business plan.

The Bank concentrates its activities in the two following business lines:

- *Commercial and Institutional Banking*: the Bank’s credit granting activity focuses essentially on syndicated and bilateral loans to corporate clients. Institutional banking includes interbank borrowing and lending and EMTN issuing for funding purposes. Institutional banking lending is not present in the Bank’s balance sheet as at 2020 year-end.

- *Capital market trade activities:* FX transactions (spot, forwards and swaps) and interest rate swaps represent the main operations carried out by the Bank with CCBC Group counterparties only. In this context, Treasury & ALM Department operates within limits defined according to the Risk Strategy of the Bank. The current operational framework is limited to FX funding swaps as well as IRS carried out for hedging purposes. At the year end, and throughout the year, the Bank did not engage or promote securitization activities or vehicle. Therefore the Bank has no appetite towards any risk stemming from securitization activity.

Considering the business model described above, material risks the Bank is (or could be) exposed to, are mainly credit risk, market risk, operational risk, liquidity risk and concentration risk.

Internal Governance

A Board of Directors (BoD) is leading the Bank, and meets regularly. It is composed by seven members as of December 31st, 2020: one Chairman, two Independent Directors, two Executive Directors that are part of CCBEU’s Authorised Management and two non-Executive Directors.

Authorised Management (“AM”) of CCBEU, in charge of the daily business, is composed by four members as of December 31st 2020: one General Manager/Chief Executive Officer and three Deputy General Managers. At branches level, the Authorised Management is composed by five Branch Managers and five Deputy Branch Managers.

The Audit Committee ("AC") has been set up by the Board of Directors in order to assist the Board of Directors and to provide it with independent assurance and advice in the following areas: financial statements, internal control, and controls performed by the independent external auditor of the Bank.AC members are selected according to different criteria that are in line with the respect of diversity and equality. Their experience, professional background and reputation both within CCB Group and/or within the Luxembourgish market are elements taken into consideration during the selection process.

Roles and responsibilities, meetings frequency and voting arrangements are detailed in the Audit Committee Terms of Reference Procedure.

The following chart shows the governance structure implemented by the Bank in its full configuration:

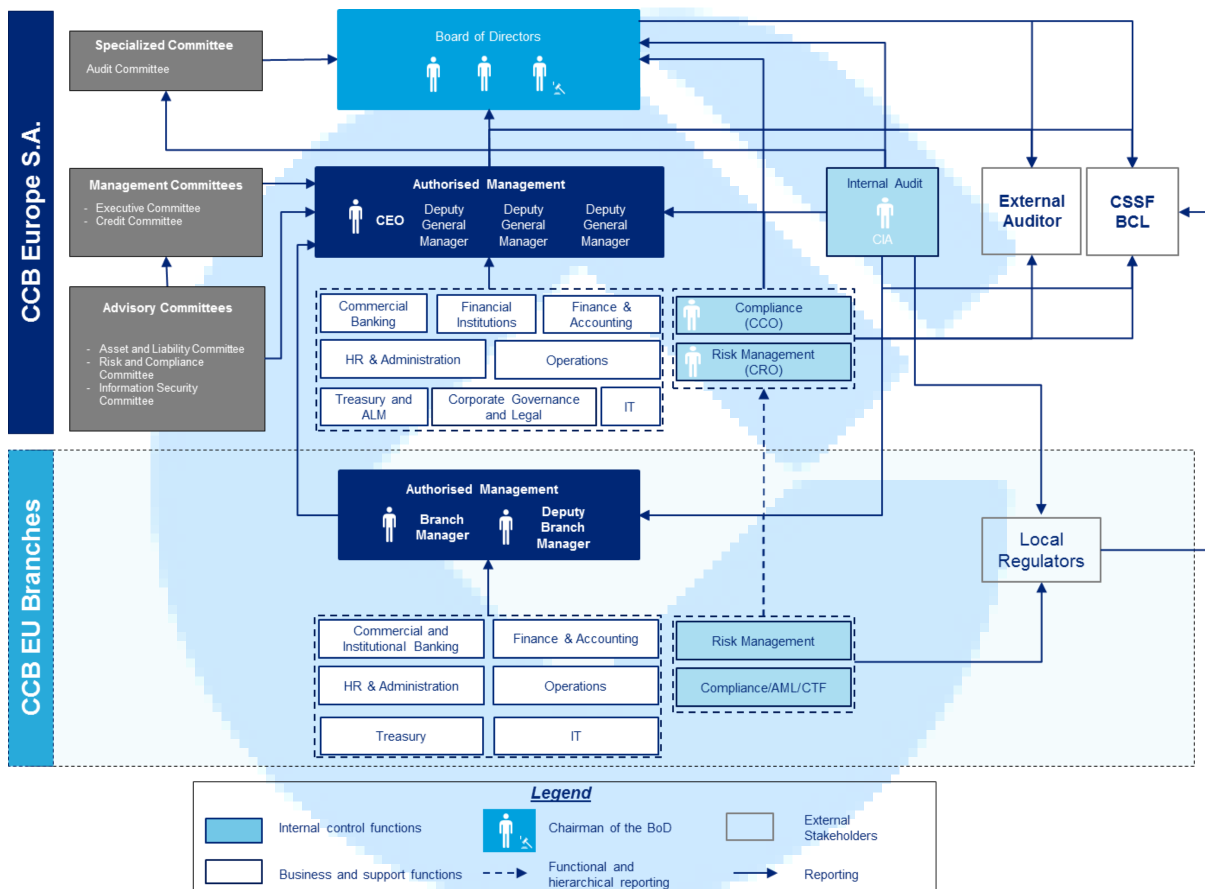


Figure 1: Governance structure

Additionally to the AC, other bodies composing the governance structure of the Bank are detailed in the following sections:

Board of Directors

The Board of Directors ("BoD") defines the institution-wide risk appetite and approves the Risk Appetite Statement, which is developed in collaboration with the Authorised Management ("AM") and the Risk Management Department ("RMD"). The AM and RMD translate the BoD's expectations into targets and constraints for departments to follow.

Additionally, the BoD is responsible for the following:

- approval of decisions related to dividends, distributions, reserves and repatriations of capital and submission to shareholders for their approval;
- approval of changes to the Bank's capital structure and submission to the shareholder for its approval;
- delegation to the AM of the responsibility for designing and implementing an adequate organizational structure to monitor the Bank's risk exposure and to check that it has adequate internal own funds to face identified risks;
- approval of the Bank's policies and risk models, annual report and financial statements, regulatory documents, such as ICLAAP Report and Recovery Plan

The BoD is supported by several specialized Committees, as described in the following sections.

Authorized Management

By delegation of the BoD, the AM has the responsibility for designing and implementing an adequate organizational structure to monitor the Bank risk exposure and to check that it has adequate internal own funds to face identified risks. It approves the Bank's procedures and checks the adequacy of internal own funds to cover its risk exposures. The AM review the prudential ratios on regular basis and make suggestions related to dividends, distributions, reserves and repatriations of capital to the BoD.

The AM is currently supported, in its daily business, by three advisory committees (Asset and Liabilities Committee, Risk & Compliance Committee and Information Security Committee) and two management committees (the Executive Committee and the Credit Committee).

Executive Committee

The Executive Committee ("ExCo") is a management committee of the Bank and is endowed with decision-making powers on the approval or rejection of proposed projects/transactions related to the day-to-day management of the Bank. The ExCo takes the responsibility for all the decisions referring to daily management, except for those that fall under the specific competence of the Credit Committee of the Bank.

Credit Committee

The Credit Committee is a management committee, endowed with decision-making powers in relation to the credit risk management of the Bank. More in detail, the Credit Committee is responsible for:

- facilitating the effective management of the credit risk by the Bank;

- executing credit and credit concentration risk policies, guidelines and standard proposals according to the Bank's risk appetite, including approving limits within the Delegation of Authority document ("DoA");
- executing the credit risk procedure;
- making recommendations to the ExCo and the BoD on the credit risk policy and procedure as well as the strategy of the Bank, where appropriate;
- reviewing material credit events and assess their impact on the credit portfolio;
- reviewing and approving client limits;
- deciding on credit applications;
- reviewing and deciding on breaches of credit limits within the DoA.

Asset and Liability Committee

The Asset and Liability Committee ("ALCO") is in charge of supporting and informing the ExCo in assessing the different types of risks to which the Bank is exposed. More specifically, the ALCO's role is to:

- supervise the Bank's ALM and offer solutions to align the operations with the business strategy;
- monitor interest rate sensitive balance sheet items and the related KRI, proposes KRI updates or changes in their risk appetite and/or capacity. Propose limits to Interest Rate Risk ("IRR") gaps or sensitivity, along with entity level KRI to Branches;
- monitor the liquidity position and ratios of the Bank, propose indicators update and; limits to liquidity gaps or KRI to be applicable to Branches at single entity level;
- monitor the funding interdependencies with China Construction Bank Luxembourg Branch ("CCBLUX") as well as with any other entities of CCB Group;
- monitor the capital position of the Bank and ensure that capital management activities are maintained in accordance with the risk appetite;
- monitor FX risk, the volatility of FX rates and their impact on the Bank's net profit. Propose limits to currency gaps along with entity level (FX) KRI to Branches;
- analyse the asset and liability evolution against the business plan;
- monitor the Bank's profitability against budget figures and evaluate the impact of potential drivers for earnings volatility;
- analyse business lines and products development from marketing perspective if it has significant impact on ALM;
- any other material issues concerning ALM.

Risk and Compliance Committee

This committee is in charge of assisting the ExCo in assessing key regulatory risks, compliance topics and any other risk matter not discussed during ALCO meetings. Similar to the ALCO, it has no decision-making power.

More specifically, the Risk and Compliance Committee is in charge of:

- assisting the ExCo in facilitating the effective, sound and prudent day-to-day management of risk and compliance issues by the Bank;
- reviewing the compliance related policy and other compliance related matters if requested by any of its member;
- reviewing the clients' on-boarding which cannot be approved by the Chief Compliance Officer based on the comprehensive analysis performed (e.g. breach of internal rules, transaction outside risk universe, appetite and tolerance defined by the Bank);
- reviewing remedial actions of significant weaknesses and significant issues;
- reviewing the risk management related policy and other risk management related matters if requested by any of its member;
- proposing to the ExCo new Key Risk Indicators, with relevant risk appetite, tolerance and capacity thresholds for existing and/or new material risk the Bank is or might be exposed to;
- reviewing the appropriateness of list of scenarios included in the stress testing programme as well as assumptions, results, limitations and implications of the stress testing program, and challenge of the key modelling assumptions and scenario selection, if not already discussed during ALCO meetings;
- reviewing the status of any project in which Risk Management or Compliance departments are involved (e.g. AnaCredit);
- analysing the operational risk events occurred during the quarter as well as the situation year to date.

Since December 2019, this Committee has been also extended to risk and compliance officers operating at European branches, as well as Branch Management in charge of local control functions.

The Information Security Committee, led by the Information Security Officer ("ISO"), was moved outside the RCC starting from the third quarter 2020 and set up as satellite committee to the ExCo.

Any relevant topic discussed during this Committee is then addressed to the ExCo for information and for decision taking, if needed.

Risk Management Framework

The Bank established a comprehensive risk management framework based on the three lines of defence model (figure 2 below). Its objective is to enable the BoD and Authorised Management of the Bank to monitor the overall consolidated risk profile of CCB (Europe) S.A. in order to detect at an early stage any developments that could jeopardize the interests of the Bank and allow the deployment of suitable mitigating actions.

The BoD has adopted a low risk appetite approach in any of the Bank's operations. KRI and set of thresholds within each area of material risk identified have been defined and implemented, in both BAU and stress situations. The Risk Appetite Statement, embedded part of the Risk Strategy, outlines all levels and types of risk that the Bank is willing to assume within its risk capacity to achieve the strategic objectives defined in the business plan. In accordance with CSSF Circular 11/506, as amended, the Bank has developed a stress testing program, annually reviewed and validated by the AM and the BoD with the purpose of setting a robust capital and liquidity structure able to maintain the viability of the Bank in case unlikely but realistic events took place.

The responsibility of the Risk Management Department is to monitor the overall risk profile of the Group and the respect of the annually reviewed Risk Appetite Statement defined by the BoD. It also produces regular risk reporting to the AM and to the BoD to ensure adequate risk oversight by governing bodies.

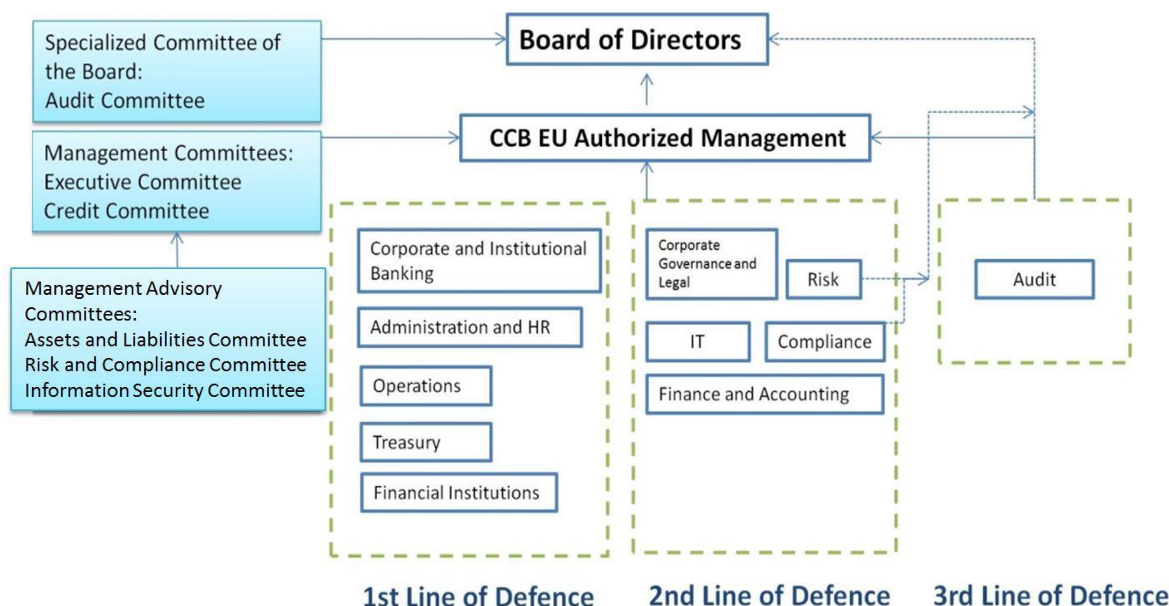


Figure 2: three lines of defence model

This model relies on the following stakeholders:

- the first line of defence is formed by managers and staff who are responsible for identifying and managing risk as part of their accountability for achieving objectives. Collectively, they have the necessary knowledge, skills, information, and authority to implement the relevant policies and procedures of risk control. These departments have a full understanding of the Bank, its objectives, the environment in which it operates, and the risks it faces;
- the second line of defence provides the policies, frameworks, tools, techniques and support to enable risk and compliance to be managed in the first line, conducts monitoring to judge how effectively they are doing it, and helps ensure consistency of definitions and measurement of risk. This line of defence monitors and facilitates the implementation of effective risk management practices and assists the risk owners in reporting adequate risk related information;
- Internal Audit is the Bank's third line of defence. Sitting outside the risk management processes of the first two lines of defence, its main roles are to ensure that the first two lines are operating effectively and advise how they could be improved. Tasked by, and reporting to the BoD / Audit Committee, it provides an evaluation, through a risk-based approach, on the effectiveness of governance, risk management, and internal control to

the organisation's governing body and senior management. It can also give assurance to regulators and external auditors that appropriate controls and processes are in place and are operating effectively.

4. Own Funds

Since the opening of the Bank, its own funds have been composed by Common Equity Tier 1 (CET1) instruments only. During the first half of 2020, the Bank has underwritten a subordinated borrowing agreement with China Construction Bank Corporation, Luxembourg Branch ("CCBLUX") for an amount of EUR 70 m., eligible as Tier 2 Own Funds. In the second half of the year, CCBEU received a further capital injection of EUR 350 m. The capital structure as of 31 December 2020 is as follows:

	Common Equity Tier 1 capital: instruments and reserves	
1	Capital instruments and the related share premium accounts	550,000,000
	of which: Instrument type 1	550,000,000
	of which: Instrument type 2	0
	of which: Instrument type 3	0
2	Retained earnings	-23,128,779
3	Accumulated other comprehensive income (and any other reserves)	1,213,692
3a	Funds for general banking risk	0
4	Amount of qualifying items referred to in Article 484 (3) and the related share premium accounts subject to phase out from CET1	0
5	Minority interests (amount allowed in consolidated CET1)	0
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	0
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**528,084,912**
	Common Equity Tier 1 (CET1) capital: regulatory adjustments	
7	Additional value adjustments (negative amount)	0
	Intangible assets (net of related tax liability) (negative amount)	-288,744
9	Empty set in the EU	0
10	Deferred tax assets that rely on future profitability excluding those arising from temporary difference (net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)	0
11	Fair value reserves related to gains or losses on cash flow hedges	0
12	Negative amounts resulting from the calculation of expected loss amounts	0
13	Any increase in equity that results from securitised assets (negative amount)	0
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	0
15	Defined-benefit pension fund assets (negative amount)	0
16	Direct and indirect holdings by an institution of own CET1 instruments (negative amount)	0
17	Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where those entities have reciprocal cross-holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	0
18	Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	0
19	Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	0
20	Empty set in the EU	0
20a	Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative	0
20b	of which: qualifying holdings outside the financial sector (negative amount)	0
20c	of which: securitisation positions (negative amount)	0
20d	of which: free deliveries (negative amount)	0
21	Deferred tax assets arising from temporary difference (amount above 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)	0

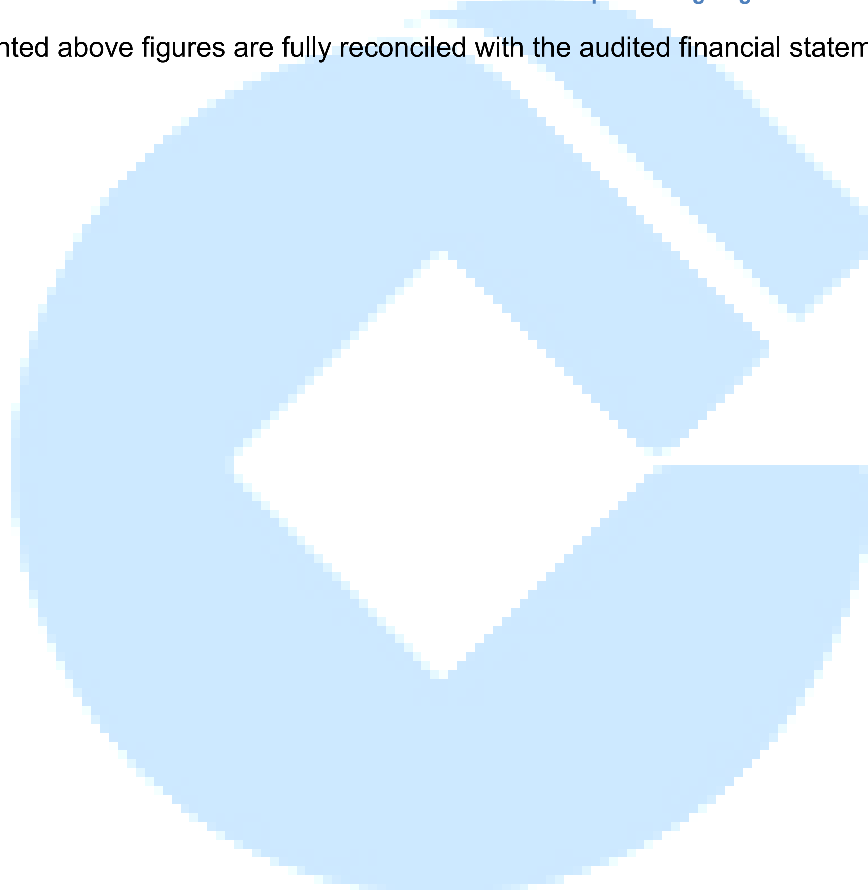
22	Amount exceeding the 15% threshold (negative amount)	0
23	of which: direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities	0
24	Empty set in the EU	0
25	of which: deferred tax assets arising from temporary difference	0
25a	Losses for the current financial year (negative amount)	0
25b	Foreseeable tax charges relating to CET1 items (negative amount)	0
26	Regulatory adjustments applied to Common Equity Tier 1 in respect of amounts subject to pre-CRR treatment	0
26a	Regulatory adjustments relating to unrealised gains and losses pursuant to Articles 467 and 468	0
26b	Amount to be deducted from or added to Common Equity Tier 1 capital with regard to additional filters and deductions required pre-CRR	0
27	Qualifying AT1 deductions that exceed the AT1 capital of the institution (negative amount)	0
28	Total regulatory adjustments to Common Equity Tier 1 (CET1)	-288,744
29	**Common Equity Tier 1 (CET1) capital**	**527,796,168**
	Additional Tier 1 (AT1) capital: instruments	
30	Capital instruments and the related share premium accounts	0
31	of which: classified as equity under applicable accounting standards	0
32	of which: classified as liabilities under applicable accounting standards	0
33	Amount of qualifying items referred to in Article 484 (4) and the related share premium accounts subject to phase out from AT1	0
	Public sector capital injections grandfathered until 1 January 2019	0
34	Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interest not included in row 5) issued by subsidiaries and held by third parties	0
35	of which: instruments issued by subsidiaries subject to phase-out	0
36	**Additional Tier 1 (AT1) capital before regulatory adjustments**	**0**
	Additional Tier 1 (AT1) capital: regulatory adjustments	
37	Direct and indirect holdings by an institution of own AT1 instruments (negative amount)	0
38	Holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross-holdings with the institution designed to artificially inflate the own funds of the institution (negative amount)	0
39	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	0
40	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	0
41	Regulatory adjustments applied to Additional Tier 1 capital in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase-out as prescribed in Regulation (EU) No 585/2013 (i.e. CRR residual amounts)	0
41a	Residual amounts deducted from Additional Tier 1 capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to article 472 of Regulation (EU) No 575/2013	0
41b	Residual amounts deducted from Additional Tier 1 capital with regard to deduction from Tier 2 capital during the transitional period pursuant to article 475 of Regulation (EU) No 575/2013	0
41c	Amounts to be deducted from added to Additional Tier 1 capital with regard to additional filters and deductions required pre-CRR	0
42	Qualifying T2 deductions that exceed the T2 capital of the institution (negative amount)	0
43	Total regulatory adjustments to Additional Tier 1 (AT1) capital	0
44	Additional Tier 1 (AT1) capital	0
45	**Tier 1 capital (T1 = CET1 + AT1)**	**527,796,168**
	Tier 2 (T2) capital: instruments and provisions	
46	Capital instruments and the related share premium accounts	70,000,000
47	Amount of qualifying items referred to in Article 484 (5) and the related share premium accounts subject to phase out from T2	0
	Public sector capital injections grandfathered until 1 January 2019	0
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interest and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third party	0
49	of which: instruments issued by subsidiaries subject to phase-out	0
50	Credit risk adjustments	0
51	**Tier 2 (T2) capital before regulatory adjustment**	**0**
	Tier 2 (T2) capital: regulatory adjustments	
52	Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount)	0

53	Holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross-holdings with the institutions designed to artificially inflate the own funds of the institution (negative amount)	0
54	Direct, indirect and synthetic holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	0
54a	Of which new holdings not subject to transitional arrangements	0
54b	Of which holdings existing before 1 January 2013 and subject to transitional arrangements	0
55	Direct, indirect and synthetic holdings of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amounts)	0
56	Regulatory adjustments applied to Tier 2 in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amounts)	0
56a	Residual amounts deducted from Tier 2 capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to article 472 of Regulation (EU) No 575/2013	0
56b	Residual amounts deducted from Tier 2 capital with regard to deduction from Additional Tier 1 capital during the transitional period pursuant to article 475 of Regulation (EU) No 575/2013	0
56c	Amounts to be deducted from or added to Tier 2 capital with regard to additional filters and deductions required pre-CRR	0
57	Total regulatory adjustments to Tier 2 (T2) capital	0
58	Tier 2 (T2) capital	0
59	**Total capital (TC = T1 + T2)**	**597,796,168**
59a	Risk-weighted assets in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amount)	0
	Of which:… items not deducted from CET1 (Regulation (EU) No 575/2013 residual amounts) (items to be detailed line by line, e.g. Deferred tax assets that rely on future profitability net of related tax liability, indirect holdings of own CET1, etc.)	
	Of which:…items not deducted from AT1 items (Regulation (EU) No 575/2013 residual amounts) (items to be detailed line by line, e.g. Reciprocal cross-holdings in T2 instruments, direct holdings of non-significant investments in the capital of other financial sector entities, etc.)	
	Items not deducted from T2 items (Regulation (EU) No 575/2013 residual amounts) (items to be detailed line by line, e.g. Indirect holdings of own T2 instruments, indirect holdings of non-significant investments in the capital of other financial sector entities, indirect holdings of significant investments in the capital of other financial sector entities, etc.)	
60	**Total risk-weighted assets**	**1,671,240,657**
	Capital ratios and buffers	
61	**Common Equity Tier 1 (as a percentage of total risk exposure amount)**	**31.58%**
62	**Tier 1 (as a percentage of total risk exposure amount)**	**31.58%**
63	**Total capital (as a percentage of total risk exposure amount)**	**35.77%**
64	Institution-specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements plus a systemic risk buffer, plus systemically important institution buffer expressed as a percentage of total risk exposure amount) [1)]	
65	of which: capital conservation buffer requirement	2.5%
66	of which: countercyclical buffer requirement	0.029%
67	of which: systemic risk buffer requirement	0
67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	0
68	**Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)** [2)]	**27.08%**
69	[non-relevant in EU regulation]	
70	[non-relevant in EU regulation]	
71	[non-relevant in EU regulation]	
	Amounts below the thresholds for deduction (before risk-weighting)	
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	0
73	Direct and indirect holdings of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	0
74	Empty set in the EU	0
75	Deferred tax assets arising from temporary difference (amount below 10 % threshold, net of related tax liability where the conditions in Article 38 (3) are met)	0

	Applicable caps on the inclusion of provisions in Tier 2	
76	Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)	0
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	0
78	Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap)	0
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	0
	Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2014 and 1 Jan 2022)	
80	- Current cap on CET1 instruments subject to phase-out arrangements	0
81	- Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	0
82	- Current cap on AT1 instruments subject to phase-out arrangements	0
83	- Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	0
84	- Current cap on T2 instruments subject to phase-out arrangements	0
85	- Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	0

Table 1: Own funds disclosure: Annex IV of Commission Implementing Regulation N°1423/2013

The presented above figures are fully reconciled with the audited financial statement of the Bank.



5. Capital requirements

The Bank has adopted the following approaches for regulatory capital calculations:

Risk Type	Approach
Credit and Counterparty Risk	Standardised Approach
Market Risk (limited to the FX risk)	Standard Approach
Operational Risk	Basic Indicator Approach

Table 2: Overview of approaches used for calculation of own funds requirements

The following table details the risk weighted exposures as well as the capital requirements of the Bank as at 31 December 2020:

Capital Requirements	RWA	Pillar I minimum capital requirement (8%)
Capital requirements for credit risk	**1,580,458,729**	**126,436,698**
Institutions	169,379,246	13,550,340
Corporates	1,368,524,550	109,481,964
Exposures in default	-	-
Other Items	42,554,931	3,404,395
Capital requirements for market risk	**4,691,149**	**375,292**
Capital requirements for operational risk (BIA)	**75,533,541**	**6,042,683**
Capital Requirements for Credit Valuation Adjustment (CVA)	**10,557,237**	**844,579**
Total	**1,671,240,657**	**133,699,253**
Eligible Capital	**597,796,168**	
Total Capital available after minimum requirement	**464,096,915**	

Table 3: Calculation of capital requirements

As a result of the 2020 ICLAAP, the Bank determined its additional Pillar II capital needs as detailed below:

Pillar II Risks	Capital needs (EUR)
Market Risk - IRRBB	4,954,318
Concentration Risk	38,794,955
Stress Test	7,176,138
Total	**50,925,411**

Table 4: Pillar II requirements

6. Exposure to Credit Risk

Credit risk can be defined as the risk of financial loss, to earnings and capital, arising from a borrower, guarantor or counterparty that may fail to meet their obligations in accordance with agreed terms. Counterparty risk is the risk that a counterpart to a transaction defaults at the time the transaction is in-the-money. This is a contingent risk since any loss is contingent on a counterparty defaults as a result of its credit deterioration (i.e. credit risk) and the transaction with that counterparty being in-the-money to the Bank (i.e. market risk) at the time of default.

The principles governing the loan granting activity of the Bank are embedded in the Credit Risk Policy, whilst the Credit Risk Procedure details authorities, roles and responsibilities and the process underlying the credit risk management framework. The credit risk process may be summarised in the following phases:

- Risk identification: this phase involves the identification of the counterparty and the type of product related to a prospect credit file;
- Risk measurement and approval: during this phase, the credit risk of the client is assessed and allocated a credit rating. Afterwards, a credit facility might be accorded by the Bank through a decision of the Credit Committee;
- Risk monitoring and control: in this phase, the monitoring of the credit risk evolution of a debtor or counterparty is performed. Currently the Bank monitors the creditworthiness of its customers through the annual revision of the credit rating and the asset risk classification, held on quarterly basis.
- Risk report: during this phase, the main characteristics of the loan portfolio of the Bank are summarised and reported to the relevant stakeholders.

The credit risk process phases are described in the Credit Risk Procedure.

The Bank also follows counterparty and country/region limits defined by CCB Group and internal policies.

The following table shows the breakdown of exposures by classes as at 31 December 2020:

Exposure class	Gross exposures
Central Government and Central Banks	1,663,936,373
Corporate	1,370,969,967
Institutions	105,454,270
Other items	42,209,543
Total	**2,157,494,304**

Table 5: Detail of exposures to different classes (source: CoRep)

The following tables provide a breakdown of the Bank's corporate portfolio by country/region and industry of exposure:

Country/Region	Exposure	Weight
Italy	443,950,879	25.66%
Poland	276,224,481	15.97%
Netherlands	269,293,707	15.57%
Spain	247,741,629	14.32%

Country/Region	Exposure	Weight
France	246,623,386	14.26%
Germany	68,089,105	3.94%
Ireland	48,943,277	2.83%
China	47,680,288	2.76%
Luxembourg	45,472,586	2.63%
Hong Kong	24,879,225	1.44%
Austria	11,014,330	0.64%
Grand Total	**1,729,912,893**	**100.00%**

Table 6: Corporate Loans by Country/Region

Industry	Exposure	Weight
Agriculture, forestry and fishing	13,951,218	0.81%
Manufacturing	381,014,381	22.03%
Electricity, gas, steam and air conditioning supply	261,318,760	15.11%
Construction	33,349,867	1.93%
Wholesale and retail trade; repair of motor vehicles and motorcycles	36,418,039	2.11%
Transportation and storage	68,307,343	3.95%
Information and communication	168,334,754	9.73%
Financial and Insurance activities	423,492,323	24.48%
Real Estate activities	87,065,195	5.03%
Professional, scientific and technical activities	99,370,269	5.74%
Administrative and support service activities	107,389,816	6.21%
Human health and social work activities	49,900,928	2.88%
Grand Total	**1,729,912,893**	**100.00%**

Table 7: Corporate Loans by Industry

Residual Maturity	Outstanding Amount in cv EUR	Weight
<1Y	375,173,715	34.7%
1-5Y	666,063,741	61.7%
5-10Y	14,960,915	1.4%
>10Y	23,568,581	2.2%
Grand Total	**1,079,766,952**	**100%**

Table 8: Corporate Loans per residual maturity

As of the end of December 2020, the Bank had no exposures classified as non-performing. The risk classification of the corporate portfolio as of the end of 2020 was as follows:

Asset Risk Classification EBA	Asset Risk Classification CCB	Credit Stage (IFRS 9)	Exposure	Weight
Performing	**Normal**	1	1,566,063,346	90.53%
		2	18,547,950	1.07%
	Special Mention	2	145,301,597	8.40%
Performing Total			**1,729,912,893**	**100.00%**
Grand Total			**1,729,912,893**	**100.00%**

Table 9: Asset classification as of end 2020

Credit Risk Mitigation

The type of collaterals accepted by the Bank to mitigate its exposure to credit risk are financial guarantees, receivables, commercial and residential property, eligible collaterals according to the criteria specified in the Eurosystem legal framework for monetary policy instruments, and any other collaterals listed in the Credit Risk Procedure and the Collateral Management Procedure of the Bank. The latter defines the management principles, criteria of classification, acceptance requirements, revaluation and review process as well as maintenance workflow and loan to value standards. As shown in the table below, the majority of the Bank's corporate loan portfolio is secured by several types of credit protection instruments, most of which are financial guarantees provided by CCB Group branches.

The Legal Department involvement in the collateral management workflow ensures the initial validation of the collateral agreement and all other legal documents that may be needed in relation with the proper establishment of the security, takes the necessary actions for releasing the collaterals, when needed, ensures the enforceability of the collateral and assists and advises Corporate department on any collateral related legal matters and/or documents necessary to be clarified or received.

The following table summarises the amount of collateral received by the Bank as at 31 December 2020.

Cash deposited at the Bank and guarantees received from CCB Group entities are the only techniques used as credit risk mitigation ("CRM") for regulatory purposes.

Type of Guarantee_L1	Type of Guarantee_L2	Exposure	Weight
Secured	Corporate Guarantees	376,404,583	22.89%
	Financial Guarantees - CCB Group	286,941,001	16.59%
	Commercial Buildings	60,476,873	3.50%
	Aircrafts	42,906,840	1.35%
	Industrial Buildings	9,636,120	0.56%
	Demand Deposit	195,740	0.01%
Secured Total		**776,561,157**	**44.90%**
Unsecured	Unsecured	953,351,737	55.11%
Unsecured Total		**953,351,737**	**55.11%**
Grand Total		**1,729,912,893**	**100.00%**

Table 10: breakdown by collateral type

Additionally, in order to control and monitor its concentration risk, the Bank has defined a set of indicators based on the client rating, industry and geographical location.

Specific and General credit risk adjustments

The Bank is prudent in making collective and individual impairment assessments to provide adequate provisions for possible or actual losses. Periodically, the Bank classifies its credit risk bearing assets into five different categories. Impairments are put aside for each exposure following the IFRS 9 provisioning framework, using a model developed by the Group.

Country/Region	Impairment	Weight
Austria	48,569	0.8%
China	16,144	0.3%
Germany	291,056	4.7%
Spain	496,743	8.1%
France	2,243,312	36.4%
Hong Kong	144,525	2.3%
Ireland	1,192,125	19.4%
Italy	482,835	7.8%
Luxembourg	127,750	2.1%
Netherlands	841,617	13.7%
Poland	273,600	4.4%
Grand Total	**6,158,280**	**100%**

Table 11: IFRS 9 impairment breakdown by country/region

Industry	Impairment	Weight
Administrative and support service activities	680,586	11.1%
Agriculture, forestry and fishing	65,378	1.1%
Construction	67,210	1.1%
Electricity, gas, steam and air conditioning supply	217,993	3.5%
Financial and insurance activities	963,421	15.6%
Human health and social work activities	49,689	0.8%
Information and communication	140,553	2.3%
Manufacturing	1,226,788	19.9%
Mining and quarrying	0	0.0%
Professional, scientific and technical activities	287,111	4.7%
Real estate activities	1,216,943	19.8%
Transporting and storage	989,288	16.1%
Wholesale and retail trade; repair of motor vehicles	253,320	4.1%
Grand Total	**6,158,280**	**100%**

Table 12: IFRS 9 impairment breakdown by industry

7. Exposure to Counterparty Credit Risk

The counterparty risk of the Bank originates from OTC derivatives transactions, which consist of FX Swaps to cover the FX exposure originated by loans granted in USD as well as Interest Rate Swaps used to partially reduce the interest rate risk exposure related to the EMTN issuance. Counterparties of the OTC derivatives transactions are CCBC Luxembourg and London branches.

The counterparty credit risk arising from OTC derivative transactions is mitigated according to the rules defined in the EMIR document. In order to fulfil the obligation arising from non-cleared OTC derivative contracts, the Bank entered into an ISDA Master Agreement, together with a credit support annex, i.e. the VM CSA. The derivatives portfolio is daily revaluated and collateral exchanged if the minimum transferable amount is reached. The only form of collateral accepted by the Bank is cash denominated in one of the eligible currencies, i.e. EUR and USD. The collateral posted by the Bank as at 31 December 2020 amounted to USD 5 m.

The Bank decided to apply the original maturity method (article 275 of the CRR) for calculating the exposure value related to its derivatives portfolio.

	Risk Weight		RWA
Counterparty	**20%**	**50%**	
CCB LONDON BRANCH	5,180,483		1,036,096
CCB LUXEMBOURG BRANCH	8,705,233		1,741,046
Grand Total	**13,885,717**		**2,777,143**

Table 13: Exposure value of the Derivatives portfolio per risk weight (standardized approach)

	less than 3 months		> 1 year to 5 years	
Type of derivative	Notional Amount	Fair Value	Notional Amount	Fair Value
FX swaps	263,681,360	4,792,674	0	0
IRS	0	0	294,518,705	268,829

Table 14: Derivatives portfolio details

Considering the limited volume, the intragroup counterparty and the nature of the collateral of the OTC derivatives transactions, the exposure to general and specific wrong way risk of the Bank is considered as having a marginal impact on its risk profile.

8. Exposures to Market Risk

Market risk is the risk of changes in the market prices, interest rates, currencies or other economic factors that will cause a reduction in the value of assets or portfolio of assets. Market risk can arise from open market positions (either long or short) or imperfectly hedged positions.

The main types of market risks considered as material for the Bank are Interest Rate Risk on Banking Book (“IRRBB”) and Foreign Exchange (“FX”) Risk. The general framework related to market risk is detailed in the Market Risk Policy.

Interest rate risk on Banking Book (IRRBB)

IRRBB refers to the current or prospective risk to the Bank’s capital and earnings arising from adverse movements in interest rates that affect its banking book positions. The business model of the Bank is asset driven and consists of mid-to-long term commercial loans or committed facilities to corporate clients and money market transactions.

At the current stage, the Bank does not have any exposure or appetite for trading book activities as defined by the BCBS[1]. All transactions are expected to be held until maturity except potentially the Available-For-Sale (“AFS”) securities portfolio, which could be partially or totally liquidated in case of urgent liquidity needs. As at year-end 2020, the Bank does not own a securities portfolio.

The main interest rate risk drivers are detailed below:

Gap risk/Repricing risk

This risk is related to the timing mismatch in the maturity and repricing of assets and liabilities short and long-term positions. Repricing risk represents the most important component of the interest rate risk of the Bank.

Yield curve risk

Yield curve risk arises from changes in the slope and the shape of the yield curve. As per its balance structure and business model, the Bank is currently exposed to this interest rate risk driver.

Basis risk

Basis risk arises from hedging exposure to one interest rate index with exposure to a rate that reprices under different conditions. The Bank’s balance sheet structure is composed by floating rates exposures in its asset side, while most of its liabilities are remunerated at fixed rate; on the liabilities side, the most important item, i.e. the EMTN issuance, has been partially swapped to three month refixing period to ease the liabilities overall sensitive to interest rate movements. All above considered, the Bank’s exposure to the basis risk could be considered as immaterial.

Option risk

Risk arising from options (embedded and explicit), where the institution or its customer can alter the level and timing of their cash flows, namely the risk arising from interest rate

[1] Banking Committee on Banking Supervision

sensitive instruments where the holder will almost certainly exercise the option if it is in their financial interest to do so (embedded or explicit automatic options) and the risk arising from flexibility embedded implicitly or within the terms of interest rate sensitive instruments, such that changes in interest rates may affect a change in the behavior of the client (embedded behavioral option risk). At the current stage, the Bank does not contract significant volume of products with embedded options. Thus this risk is considered as marginal for the Bank.

The Bank measures its exposure to interest rate risk in the banking book, in terms of both potential changes to economic value, and changes to expected Net Interest Income ("NII") over one year time horizon. The following assumptions are:

- The analysis is performed on each asset and liability subject to interest rate risk. Any non-interest bearing assets and liabilities (including capital and reserves) are excluded;
- the non-maturing assets and liabilities are considered to be activated at day 1;
- the behavioral and automatic optionality embedded in assets or liabilities are considered as having a marginal impact and therefore not considered;
- the time buckets used are in line with the BCBS Standards ;
- changes in the level and the shape of the yield curves are simulated as per the scenarios described below;
- forthcoming transactions are excluded;
- the EV analysis is performed on a deal by deal basis;
- the NII analysis is performed per time bucket;
- nominal and interest accrued are included in the calculation;
- future cash flows of each instrument are discounted to present value by using yield curves for each individual currency.

The Bank has selected the following measures in order to assess its exposure to the interest rate risk:

Earning measure	Static gap analysis, using the time buckets as defined by the BCBS Standards, is used to calculate the NII impact.
Economic value measures	Static Capital at Risk (Economic Value of Equity or EVE); Modified duration of equity.

Table 15: IRRBB methodologies

Considering its balance sheet structure, the Bank focuses its analysis on the impact on earnings. The outcome considered for the assessment is the worst negative results applying the scenarios listed below:

IRRBB internal scenarios – without floor

I. parallel shock up: immediate 100 bps

II. parallel shock down: immediate 100 bps

IRRBB supervisory scenarios[2]– with floor

A. parallel shock up: immediate 200 bps

B. parallel shock down: immediate 200 bps

[2] The shocks under scenarios 1 to 6, as per Annex III of EBA/GL/2018/02 are presented in Annex 5 of the present document.

1. parallel shock up per significant currencies

2. parallel shock down per significant currencies

3. steepener shock: short rates down and long rates up

4. flattener shock: short rates up and long rates down

5. short rates shock up

6. short rates shock down

Positions are managed and monitored by the Treasury and ALM Department. As at 31 December 2020 the EMTN issue on liabilities side was partially swapped to floating rate. Risk Management Department is performing a weekly control of the interest rate position per currency through an interest mismatch analysis report.

Relevant risk appetite and capacity thresholds are set as follows:

Methodology	Risk Appetite	Risk Capacity
EVE	9 %	10 %
One year NII	5 %	7 %

Table 16: IRRBB Risk Appetite Statement - internal scenarios

Any risk threshold shown in the above table is referred to the eligible Own Funds of the Bank.

The table below summarises the results of the stress test scenarios aforementioned as at 31 December 2020:

Scenario		NPV impact (EVE)		NII impact	
		Amount (EUR)	% of Own Funds	Amount (EUR)	% of Own Funds
I.	+100 bps immediate shift of the curve	-1,035,284	0.2 %	4,852,182	0.8 %
II.	-100 bps immediate shift of the curve	512,575	0.1 %	-4,852,182	0.8 %

Table 17: IRRBB internal scenarios and outcomes

According to Circular 08/338, as amended by Circulars 16/642 and 20/762, the Bank performs the regulatory interest rate stress test scenarios according to the methodology defined in that Circular and with the same frequency as that of ALCO meetings. Stress test results, well below the regulatory threshold of 20% for scenarios A and B and of 15% of early warning for scenarios 1. to 6., are showed in the table below:

Scenario		NPV impact (EVE)		NII impact	
		Amount (EUR)	% of Own Funds	Amount (EUR)	% of Own Funds
A.	+200 bps immediate shift of the curve	-2,070,569	0.3%	9,704,365	1.6%
B.	-200 bps immediate shift of the curve	814,613	0.1%	-4,954,318	0.8%
1.	Parallel shock up per significant currencies	-2,070,569	0.3%	9,704,365	1.6%
2.	Parallel shock down per significant currencies	814,613	0.1%	-4,954,318	0.8%

3.	Steepener shock: short rates down and long rates up	475,931	0.1%	-4,923,132	0.8%
4.	Flattener shock: short rates up and long rates down	-1,871,373	0.3%	8,267,897	1.4%
5.	Short rates shock up	-2,406,131	0.4%	10,785,412	1.8%
6.	Short rates shock down	817,036	0.1%	-4,986,047	0.8%

Table 16: IRRBB Regulatory Stress Test (CSSF Circular 20/762)

As shown in tables 17 and 18, the worst outcome of the scenarios is reduction of EUR 2,4 m. of Bank's EVE and a contraction of EUR 4.9 m. on NII. Both are in line with CCBEU's risk appetite for IRRBB.

Foreign Exchange Risk

FX Risk relates to the effect of unexpected exchange rate changes. In particular, it is defined as the possible direct loss (as a result of an unhedged exposure) or indirect loss in the Bank's cash flows, assets and liabilities, net profit and, in turn, its capital, from exchange rate moves. FX risk arises from open or imperfectly hedged positions, in particular, foreign currency denominated assets and liabilities leading to fluctuations in profits or values as measured in local currency.

The Bank's appetite for FX risk is rather limited. According to its business model and balance sheet structure, the Bank's FX strategy is to hedge its FX exposures arising from loan granted in USD through the use of FX swaps executed with Group entities (CCB Luxembourg and London branches). The residual FX exposure generated by interest accruals on corporate loans denominated in foreign currencies is hedged on end-of-month basis.

9. Operational Risk

According to the Banking Committee on Banking Supervision (BCBS), Operational Risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk, but excludes strategic and reputational risk.

For the calculation of regulatory requirements for Operational risk, the Bank has adopted the Basic Indicator Approach.

The Bank monitors the operational risk, based on a common set of procedures and criteria implemented at Group level. In general, the Bank seeks to mitigate operational risk by implementing a strong control environment and managing risk proactively. The Bank understands the existence of operational risk as a major risk source it is exposed to.

The operational risk framework includes the setup of an internal events database where information on internal loss or near-miss events are collected so that the Bank can learn from the events and improve the control environment to reduce the probability and/or impact of the event re-occurring.

The current framework is also complemented by a self-risk assessment, produced on an annual basis for the HO, in which some workflows are analysed in terms of inherent risk, control in place and residual risk exposure, with an estimation of likelihood and severity of occurrence.

The current framework for operational risk management is defined in the Operational Risk Policy and the Operational Risk Procedure. The KRI used in the framework defined in the Bank’s Risk Strategy is the loss stemming from a single operational risk event, with risk capacity set at EUR 100,000, risk tolerance between EUR 20,000 and 100,000 and risk appetite between EUR 1,000 and 20,000.

The mitigating factors set in place by the Bank are the following:

- implementation of a Business Continuity Plan (“BCP”), including online replication of the Bank’s production systems in an external Disaster Recovery Plan (“DRP”) centre provided by European Business Reliance Centre (“EBRC”);
- adhesion to the four-eye principle in order to mitigate people risk.

During 2020, 6 operational events have been identified with no loss materialized in the period.

10. Liquidity Risk

Liquidity risk is the risk that the Bank will not be able to efficiently meet both expected and unexpected current and future cash flows and collateral needs without affecting either daily operations or the financial condition of the Bank (funding liquidity risk). It also be defined as the risk that the Bank cannot easily offset or eliminate a position without significantly affecting the market price because of inadequate market depth or market disruption (market liquidity risk).

The Bank's liquidity risk management framework is driven through a top down approach that is approved by the BoD, which delegates the implementation to the AM. In performing this duty, the AM is assisted by the RMD.

Liquidity risk is managed by the Treasury & ALM Department on a day to day basis, monitored by RMD and reported to the ALCO, AM and ultimately the BoD. The liquidity risk management process consists in identifying, assessing and measuring, managing and controlling and reporting stages. This process enables the Bank to timely controls its liquidity risk and properly assess its needs in terms of liquidity

As of 31st December 2020, the liquidity coverage ratio of the Bank was 206%, as detailed in the following table:

	Total Weighted Value
LIQUIDITY BUFFER	343,774,426
TOTAL NET CASH OUTFLOWS	166,856,496
LIQUIDITY COVERAGE RATIO	206%

Table 17: main components of the Liquidity Coverage Ratio

The Bank has defined its risk appetite for LCR as 120%, with a risk capacity of 110%.

11. Other risks

Concentration risk

Concentration risk is the exposure(s) that may arise within or across different risk categories throughout an institution with the potential to produce: (i) losses large enough to threaten the institution's health or ability to maintain its core operations; or (ii) a material change in an institution's risk profile. The following terms are used to describe two relationships between risk concentrations:

- Intra-risk concentration refers to risk concentrations that may arise from interactions between different risk exposures within a single risk category;
- Inter-risk concentration refers to risk concentrations that may arise from interactions between different risk exposures across different risk categories. The interactions between the different risk exposures may stem from a common underlying risk driver or from interacting risk drivers.

The Bank monitors and performs adequate management of concentration risk of both asset and liabilities, as part of its risk management framework. The current framework for concentration risk is defined in the Concentration Risk Policy and in the Risk Strategy of the Bank, in which are also defined relevant risk appetite thresholds.

The ICLAAP includes a concentration analysis aimed at calculating a Pillar II requirement for concentration risk.

In line with the Bank's strategy, the country/region exposure at the end of 2020 with regards to its credit transactions and corporate business was mostly concentrated on European Countries (96%). The clients (concentrated in the manufacturing and banking sector) have good reputation, adequate credit profile and in some cases long term business relationships with the Bank's Parent Company.

On the liabilities side, the major part of the Bank's funding comes from issuance under its EMTN Program (21%) and two interbank borrowings, globally amounting to EUR 430 m. nominal value.

Compliance Risk

Compliance risk is defined as the risk of regulatory scrutiny and/or sanctions or loss to reputation, which may result in material financial loss for the Bank, as a result of its failure to comply with laws, regulations, its own code of conduct, and standards of best practice.

Compliance risk is fully managed by the Compliance Department of the Bank and its branches. The Compliance function objectives and responsibilities are described in the Compliance Policy and in the Compliance Charter, both approved by the BoD.

Compliance Department's involvement in the credit granting process is taking place via reviews and sign-offs of Customer Due diligence performed by business departments, as may be required by procedures of the Bank. Also Chief Compliance Officer of the Bank (or his/her) delegate is included as permanent voluntary non-voting guest in credit committee of the Bank, with full access to credit committee materials.

Legal Risk

Legal risk can be defined as the risk of loss or imposition of penalties, damages or fines from the failure of the Bank to meet its legal obligations. Examples of legal risk include inadequate documentation, legal incapacity, insufficient authority of a counterparty and contract invalidity/unenforceability. The Bank consults with internal and external counsel to mitigate such risks.

The Bank has an in-house legal team which supports the business of the Bank by providing legal advice. In the management of legal risks, the internal legal counsel do not work on legal disputes relating to employees. For such matters and others that are beyond the competence of the in-house legal counsel, the Bank consults with external counsel to mitigate its legal risk exposure.

More specifically, regarding the risk of inadequate documentation and insufficient authority of counterparty in corporate banking business transactions, such risk is mitigated as follows:

- Syndicated loan documentation is drafted by expert external counsel and legal opinions are requested from external counsel to confirm the capacity of the relevant counterparty and the validity and enforceability of the contractual documentation;
- For *Schuldschein* loan agreements that are governed by German law and to which the Bank is a party, internal legal counsel requests the CIB team to obtain confirmation that the relevant transaction documents are drafted by German qualified lawyers. In addition, internal legal counsel requests external legal opinions to be obtained to confirm the authority/capacity of the relevant counterparty to the *Schuldschein* loan agreement;
- Bilateral facility agreements are reviewed by internal legal counsel with experience in corporate banking transactions, where the internal legal counsel systematically requests the CIB team to obtain external legal opinions to confirm the authority of the relevant counterparty and the enforceability of the relevant transaction documents against such counterparty.

As for litigation, there are currently no lawsuits against the Bank that could give rise to any material risks. It should nevertheless be noted that it is difficult to predict the outcome of legal matters to which the Bank is exposed or which may arise in the future and consequently, there can be no assurance that the outcome of a particular matter or matters will not be material to the financial condition of the Bank.

Regarding regulatory matters, the Bank aims at anticipating regulatory changes and identifying gaps in order to comply with the relevant regulatory requirements. For cross-border transactions with borrowers located outside of Luxembourg, internal legal counsel advises business and/or compliance departments to check that the Bank is not in breach of regulatory requirements. Such check is performed by verifying that the Bank is either participating in loan transactions in the relevant location through (i) a branch established in such location, (ii) the free provision of services following relevant passport notification or (iii) additional regulatory checks under local laws when entering into loan transactions with clients that are located outside of Europe.

Reputational Risk

Reputational risk is the actual or potential risk related to earnings or capital, arising from negative perception of financial institutions by the current and potential stakeholders (customers, counterparties, shareholders, employees, investors, debt-holders, market analysts, other relevant parties or regulators) that can adversely affect a bank's ability to

maintain existing, or establish new, business relationships and its continued access to sources of funding.

The main potential exposure to reputational risk lies in the functions having a direct contact with the Bank's customers. That is why the Bank has established a code of conduct and specific documentation to the attention of the client relationship officers.

As a general approach, the Bank is willing to act only on markets and deal with products in which it owns the needed skills and expertise. The Bank will not undertake new transactions or products where its reputation could be exposed or where its expertise is not sufficiently developed.

12. Capital Buffers

As at 31 December 2020, the Bank had few exposures relevant for the calculation of the institution-specific Countercyclical Capital buffer, that was equal to EUR 405,657.

13. Asset encumbrance

An asset shall be treated as encumbered if it has been pledged or if it is subject to any form of arrangement to secure, collateralise or credit enhance any transaction from which it cannot be freely withdrawn. It is important to note that assets pledged that are subject to any restrictions in withdrawal, such as for instance assets that require prior approval before withdrawal or replacement by other assets, should be considered encumbered.
The Bank's current risk appetite is limited to those assets deposited at the Banque Centrale du Luxembourg ("BCL"), in the framework of the Minimum Reserve Requirement, and the collateral posted for OTC non-centrally cleared derivatives according to EMIR requirements.

		Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
		010	040	060	090
Total Assets of the reporting institution	**010**	**1,963,435**	**-**	**1,705,931,274**	**-**
Loans on demand	020	**1,963,435**	-	-	-
Loans and advances other than loans on demand	100	-	-	1,295,057,179	-
of which: mortgage loans	110	-	-	70,017,722	-
Other assets	120	-	-	47,544,553	-

Table 18: Asset encumbrance overview

		Fair value of encumbered collateral received or own debt securities issued
		010
Collateral received by the reporting institution	**130**	**228,036**
Loans on demand	150	228,036

Table 19: Collateral received

14. Leverage Ratio

The risk of excessive leverage is defined as the risk resulting from vulnerability due to financial leverage or conditional leverage that may require unintended corrective actions of business plans, including emergency sale of assets which could result in losses or result in the need for valuation adjustments of other assets. The risk of excessive leverage materializes as a mismatch of scale of activities and structure of the sources of financing and insufficient own funds.

The objective of managing the risk of excessive leverage is therefore ensuring a sound relationship between the size of the core capital (Tier 1) and the sum of the balance sheet assets and off-balance sheet liabilities of the Bank.

For the purpose of measuring the risk of excessive leverage, the Bank is using the Leverage Ratio ("LR"), calculated in accordance with Article 429 of CRR; the LR is calculated as the Tier 1 capital divided by the total exposure, i.e. on and off balance sheet exposures, and is expressed as a percentage.

The risk of excessive leverage of the Bank is reported on a quarterly basis at the ALCO meetings and calculated and reported to the CSSF. The risk appetite of the Bank equals the foreseeable regulatory limit of 3%. In case an excessive leverage is detected (level below 3%) the escalation process described in the Risk Strategy of the Bank will be activated. Risk department will inform the AM and the ALCO members providing a first impact assessment. The mitigation actions will depend on the root causes of the breach: in case of structural causes a change/decrease of the balance sheet structure and/or request for capital injection will be recommended; for temporal causes the KRI will be put in early warning mode with close monitoring until recovery.

As at 31 December 2020 the value is 24.53%, widely in line with the Bank's risk appetite.

Given the high ratio as of the end of 2020, leverage risk can be considered as negligible for the Bank.

	On-balance sheet exposures (excluding derivatives and SFTs)	
1	On-balance sheet items (excluding derivatives and SFTs and fiduciary assets, but including collateral)	1,702,833,205
2	(Asset amounts deducted in determining Tier 1 capital)	-288,744
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)**	**1,702,544,461**
	Derivative exposures	
EU 5a	Exposure determined under Original Exposure Method	13,885,717
11	**Total derivative exposures**	**13,885,717**
	Off-balance sheet exposures	
17	**Off-balance sheet exposures at gross notional amount**	**434,855,713**
	Capital and Total Exposures	
20	Tier 1 capital	527,796,168
21	Total leverage ratio exposures	2,151,285,892
22	**Leverage Ratio**	**24.53%**

	On-balance sheet exposures (excluding derivatives and SFTs)	
	Choice on transitional arrangements and amount of derecognised fiduciary items	
EU 23	Choice on transitional arrangements for the definition of the capital measure	Fully Phased
EU 24	Amount of derecognised fiduciary items in accordance with Article 429(11) of Regulation (EU) NO. 575/2013	

Table 20: Leverage Ratio

15. Use of ECAIs

In compliance with Article 138 of EU regulation 575/2013 and European Banking Authority's decision 2016/DC/266/05, the Bank uses unsolicited credit assessments for certain exposures classes.

16. Risk Statement

The Bank's overall risk profile as presented in the document is considered to be moderate to low, and in line with its risk tolerance. Senior Management assessed the supporting management information and systems to be effective and adequate with regard to the Bank's risk profile, risk appetite and strategy.

17. Remuneration Policy

Overview

The Bank has established a remuneration policy (the "Policy") in accordance with (i) the Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 (the "CRR"); (ii) the Directive (EU) No 2013/36 of the European Parliament and of the Council of 26 June 2013; (iii) the Commission Delegated Regulation (EU) No 604/2014 of 4 March 2014 (the "Delegated Regulation"); (iv) Articles 38-5 and 38-6 of the law of 5 April 1993 on the financial sector, as amended (the "LFS") and (v) CSSF circular letters 17/658 (in accordance with 11/505), 14/585, 15/622, 14/594 and 06/273, as amended.

The content of the Policy is compliant with the requirements laid down by the CSSF Circular 12/552, as amended by 13/563 and applies to all employees of the Bank.

The BoD of the Bank, assisted by the Human resources department, Risk management, compliance and internal audit function, has the overall responsibility for the approval of the Policy and has to determine the total amount of Variable Remuneration to be paid out each financial year.

In line with the Bank's low risk business strategy and by respecting the conditions for the proportional principle application, CCBEU is not to be considered as a credit institution which is significant in terms of size, internal organization and the nature, scope and complexity of its activity. The Bank has thus decided not to set up a remuneration committee.

The close involvement of the internal audit, compliance, the human resources function and the Shareholder in the design and implementation of the Policy, as well as the annual review performed by the external auditors, provide sufficient safeguards regarding the independence of the decision-making process governing the Remuneration Policy.

Based on its internal assessment for 2020, the Bank has identified 18 staff members whose professional activities could have a material impact on the Bank's risk profile (Identified staff).

Remuneration system

The Remuneration of Staff Members, including Identified Staff, consists of Fixed Remuneration and, as the case may be, Variable Remuneration.

Fixed and Variable Remuneration are appropriately balanced and the Fixed Remuneration represents a sufficiently high proportion of the total annual Remuneration in order not to create any kind of dependency of Staff Members on Variable Remuneration and to allow the operation of a fully flexible policy on Variable Remuneration, including the possibility to pay no Variable Remuneration. Variable Remuneration components are therefore not guaranteed, i.e. all Variable Remuneration components can be zero.

A. The base salary reflects each individual Local Staff Member's particular set of skills, function, organisational responsibility and relevant professional experience. The base salary is reviewed annually comparing it with internal and external benchmarks so as to ensure that it is in line with the market and industry standards and practices.

B. Variable Remuneration takes the form of a cash bonus and is paid out in the following calendar year. The overall Bonus budget consists of two (2) parts. The first (1) budget is defined for all the Staff members, including the 3 Head of control

functions (Chief Risk Officer, Chief Compliance Officer and Chief Internal Auditor). The second (2nd) one, later during the year, is defined for the Authorised Management of Luxembourg and EU Branches. It never takes the form of discretionary pension benefits within the meaning of Article 4 (1) (73) of CRR. The Bank's individual and overall Variable Remuneration granted are in line with its business strategy, objectives, values and long-term interests, are consistent with a sound and effective risk management, do not encourage risk-taking that exceeds the level of tolerated risk of the Bank and incorporate measures to avoid conflicts of interest.
The possible individual Variable Remuneration is, generally, based on an annual assessment of performance for each Staff Member and determined in light of the perception of the efforts he/she has put in discharging of his/her responsibilities, the dedication to the fulfilment of the business strategy at the level of his/her responsibilities and success in carrying out specific assignments.

Identified staff

As a matter of principle, Variable Remuneration does not exceed 100% of the Fixed Remuneration for Identified Staff.
The assessment of individual performance for Identified Staff shall be measured annually, exclusively on the basis of specific criteria.
Malus or clawback arrangements are explicit ex post risk adjustment mechanisms where the Bank itself adjusts Remuneration of the Identified Staff based on such mechanisms (e.g. by lowering awarded cash Remuneration). Ex post risk adjustments are performance or risk-related. They respond to the actual risk outcomes or changes to persisting risks of the Bank, business line or Identified Staff's activities.
The Bank has no Staff Member receiving more than 1 million Euros of Remuneration annually. Should there be changes in this situation, the Bank will inform the CSSF accordingly, as foreseen by the provisions of point 26, chapter 4, part XVII, of the CSSF circular letter 06/273, as amended.

	Fixed remuneration in EUR for 2020	Variable remuneration in EUR for 2020*	Number of beneficiaries
Identified Staff	5,225,286	415,267	18

* the variable remuneration does not include the bonus of the AM and of some branches for 2020 as it is not available at the date of this report

The remunerations were paid in cash only. No other payments were recorded in 2020 (deferred remuneration or severance payments).

18. Coronavirus Disease – update 2020

The outbreak caused by the Covid-19 disease has heavily affected the daily operational activity of the Bank, without producing any significant disruption. Since the first quarter 2020, the Bank has activated the Emergency Responses Teams, acting under the supervision of AM, which put in place several actions, amongst other:

- splitting the Bank in two Groups, A and B: those two groups were firstly located at different floors of the main building and then, during the year when the coronavirus infection cases increased, moved to another site close to the city center. Larger departments were further split in two subgroups (1 and 2) that were physically present at the Bank's premises each two days. This initiative targeted to minimise human interactions and contact, especially during the peak of the pandemic;
- Implementing of a home working solution, based on a 4G VPN infrastructure;
- suspending unnecessary business travels abroad. Employees travelling outside Luxembourg were, and are currently, subject to a fourteen days home working period before returning to Bank's premises;
- providing all the staff with advices on cautionary behaviours to be adopted, in line with Luxembourgish Government guidelines and CSSF directives;
- reinforcing workplace safety (e.g. providing all staff members with medical supplies, such as disinfection spray/gel and masks, daily disinfection the Bank's premises).

These actions aimed at protecting the people working at the Bank while containing any potential outbreak on its daily operations. Similar actions were taken at the level of the European branches network.

China Construction Bank (Europe) S.A.

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