

## Pillar III Disclosure Report 2022

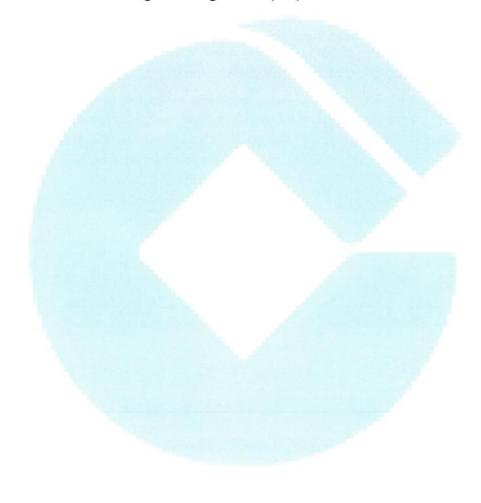
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## 1. Introduction

The purpose of this document is to provide disclosure on different topics, as required by the Basel framework. Requirements for this framework are laid down in Part Eight of Regulation (EU) 2019/876, amending Regulation (EU) 575/2013 (also referred to CRR2).

The present report has been drafted according to the above Regulation and the guidance provided by European Banking Authority in its "Final draft implementing technical standards on public disclosures by institutions of the information referred to in Titles II and III of Part Eight of Regulation (EU) No 575/2013".



## 2. General requirements for disclosure

China Construction Bank (Europe) S.A. (hereinafter "CCBEU" or "the Bank") has adopted a formal policy, the Pillar 3 Disclosure Report Policy setting out the contents of the Pillar 3 Disclosure document. The latest version was approved by the Board of Directors on 03/08/2021.

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

This disclosure is made annually, following the provisions of article 433c (2) of the Regulation 2019/876, amending the Regulation 575/2013 ("CRR2"), 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 focuses 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 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.
- Capital market trade activities: foreign exchange ("FX") transactions, i.e. spot, forwards and swaps, and interest rate swaps represent the main operations carried out by the Bank. In this context, Treasury 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. FX spot transactions might be occasionally performed on behalf of the clients.
- Bond investment: the Bank owns a securities portfolio for both liquidity and investment 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 securitisation 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, convened in regular meetings. It is composed by seven members as of December 31<sup>st</sup>, 2022: one Chairman, one vice chairman, one other non-Executive director, two Independent Directors and two Executive Directors that are part of CCB EU's Authorised Management.

CCBEU's Authorised Management ("AM"), in charge of the daily business, is composed by four members as of December 31st, 2022: one General Manager and three Deputy General Managers. At branches level, the Authorised Management is composed by six Branch Managers and six Deputy Branch Managers.

In addition to the BoD and AM, the Audit Committee is responsible for assisting 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.

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

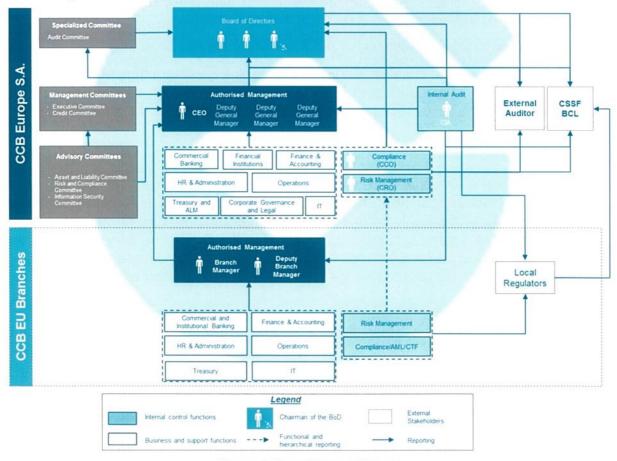


Figure 1: Governance structure

## **Board of Directors**

The Board of Directors ("BoD") defines the institution-wide risk appetite and approves the Risk Appetite Statement, developed in collaboration with the 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 ICAAP Report and Recovery Plan

The BoD is composed by 7 Members of which:

- 2 Independent Directors
- 3 Non-executive Directors
- 2 Executive Directors

CCB EU shall aim at a broad set of qualities and competencies when recruiting members of the BoD and thus, to promote diversity of the BoD to benefit from diverse opinions and experiences when taking decisions. CCB EU shall also monitor an appropriate gender equality within the BoD and ensure equal opportunities when selecting BoD members.

The BoD of CCB EU must be sufficiently diverse in terms of age, gender, education and experience of its members to be able to provide different and independent opinions and points of view when taking decisions. The recruitment and appointment of the BoD's members shall, however, not be solely based on increasing the diversity in case the proposed profiles are not bringing any added value to CCB EU.

As of today, the members of CCBEU Management body are all coming from the Banking (financial) sector in covering all the Corporate Banking activities and areas. With an average Banking experience of more than 25 years in both China and Europe, the Management Body is able to deal with all Banking and especially corporate Banking challenges.

During 2022 7 BoD meeting were held.

The BoD is supported by a set of specialized committees, as described in the following sections.

## **Audit Committee**

The Audit Committee has been set up 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.

Its responsibilities are the following:

- Review the content of the annual accounts report and advise the Board of Directors on whether it is fair, balanced and understandable and provides the information necessary for shareholders, supervisors and counter-parties to assess the Bank's performance, business model and strategy. The Audit Committee should also review, debate and report on the process for the preparation of any financial information pertaining to the Bank.
- Review, and report to the Board of Directors on the significant financial reporting issues made in connection with the preparation of the Bank's financial statements. Where, following its review, the Audit Committee is not satisfied with any aspect of the proposed financial reporting by the Bank, it reports its opinion to the Board of Directors.
- Review and confirm the Internal Audit charter.
- Monitor and review the effectiveness of the Bank's Internal Audit and Compliance functions and assess the quality of work completed by both functions with the requirements of the Circular 12/552.
- Assess whether the human and material resources used by the internal audit and compliance functions are sufficient to achieve their objectives, and make sure that internal audit and compliance staff have the required skills, and that the independence of both functions is safeguarded.
- Review and confirm the internal audit plan (as agreed by the Authorised Management).
- Analyse and debate on the information on the state of the internal control functions as provided at least annually by the Authorised Management, notably on the basis of the relevant reports from the Internal Audit and Compliance functions.
- Setting up any relevant policies and procedures for the selection of an external auditor to carry out statutory audits of financial statements and the policy for the provision of additional non-audit services by the external auditor, an entity affiliated to the external auditor or a member of its network.
- Have primary responsibility for making a recommendation to the Board of Directors on the appointment, reappointment and removal of the appointed independent external auditor or réviseur d'entreprises agréé of the Bank.

- Approve the terms of engagement and the remuneration to be paid to the independent external auditor of the Bank in respect of audit services provided.
- Oversee the Bank's relationship with the appointed independent external auditor or réviseur d'entreprises agréé of the Bank and assess the quality of work the latter carried out, its independence and objectivity and compliance by the latter with the best practices in relation to audit work.
- In the context of the last item, critically analyse and assess notably the external audit plan, annual accounts reports, management letters as well as the long-form reports drafted by the independent external auditor or réviseur d'entreprises agréé of the Bank and examine and monitor the independence of the independent external auditor or réviseur d'entreprises agréé of the Bank notably in respect of the provision of additional services to the Bank;
- Review arrangements by which staff of the Bank may raise concerns about possible improprieties in matters of financial reporting or other matters in the scope of the Whistleblowing Policy. It should ensure that arrangements are in place for the proportionate and independent investigation of such matters and for appropriate follow-up action.
- Deliberate on the appropriate follow-up without undue delay by the Authorised Management of the recommendations of the Internal Audit or Compliance functions and of the independent external auditor or réviseur d'entreprises agréé aimed at improving the organisation and internal control.
- Deliberate on the actions to be taken in case of problems, shortcomings and irregularities identified by the Internal Audit and Compliance functions and the independent external auditor or réviseur d'entreprises agréé.
- Deliberate on the compliance with the legal and statutory provisions as well as with the CSSF rules for the drafting of the individual and, where appropriate, consolidated annual accounts, and on the relevance of the accounting policies adopted.

During 2022 5 Audit Committee meetings were held.

The Audit Committee is chaired in alternance by the 2 Independent Directors.

## **Authorized Management**

The AM has the responsibility, amongst others, 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, i.e. the Asset and Liabilities Committee, the Risk & Compliance Committee and the

Information Security Committee, and two management committees, i.e. 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.

During 2022, the ExCo was convened 16 times.

## **Credit Committee**

The Credit Committee is a management committee, endowed with decision-making powers in relation to the matters referred to below

- Facilitate the effective management of the credit risk by the Bank;
- Execute credit and credit concentration risk policies, guidelines and standard proposals within the Bank's overall risk appetite, including approving limits within the Delegation of Authority document ("DoA");
- Execute the Bank's credit risk procedure;
- Make recommendations to the ExCo and the BoD on the credit risk procedure and strategy of the Bank, where appropriate;
- Evaluate credit events and assess their impact on the credit portfolio, waivers included:
- Review and approve client limits;
- Review and approve individual credit applications/businesses;
- Review and approve the asset risk classification of each individual facility and the impairment calculation according to IFRS 9;
- Review and approve, where appropriate and if justified, breaches of credit limits within the DoA.
- CEO has veto power.

## **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 ALM 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, propose 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 not been empowered by any decision-making power.

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

- assisting the Executive Committee in facilitating the effective, sound and prudent day-to-day management of GRC (Governance, Risk Management and Compliance) issues by the Bank;
- advising the Executive Committee on the Bank's overall risk appetite, tolerance/ strategy, and emerging risks the Bank is willing to take in order to achieve its long-term strategic objectives;
- advising the Executive Committee on the likelihood and the impact of principal risks materializing as well as the management and mitigation of principal risks to reduce the likelihood of their incidence or their impact;
- ensuring that there are adequate enterprise wide processes and systems for identifying and reporting risks and deficiencies, including emerging risks;
- monitoring the alignment of the risk framework to the Bank's growth strategy, supporting a culture of risk taking within sound risk governance.

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 as 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.



Note: CCB EU CCO, CRO, CIA have direct access to the Board of Directors.

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 operate 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. Risk Management Approach

## **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 limits defined by CCB Group and internal policies.

## 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.

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 collateral, 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.

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.

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.

## **Exposure to Counterparty Credit Risk**

The counterparty risk of the Bank originates from OTC derivatives transactions, which consist of interest rate swaps to hedge interest rate risk stemming from its assetsor liabilities and FX Swaps. Counterparties of the OTC derivatives transactions are CCBLUX, CCB London Branch and KBC Bank.

The Bank's OTC derivatives portfolio is marked-to-market on a daily basis following the European Market Infrastructure Regulation (EMIR) requirements.

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.

## **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"), FX Risk and Position 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, money market transactions and securities hold for liquidity purposes.

At the current stage, the Bank does not have any exposure or appetite for trading book

activities as defined by the BCBS<sup>1</sup>. 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.

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 relevant component of the interest rate risk of the Bank, and is closely monitored.

## 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 IRS used by the Bank to cover either asset or liability exposures are transforming fixed rate products to floating rate exposures. In consequence, the hedging is potentially generating a residual repricing risk. An increase of the basis risk can result from the recent Libor transition in case of different transition timing of the products. The dedicated project team, created to assess the impact of the new benchmark regulation, has concluded that the Bank is only marginally impacted as per its current business structure. In consequence, the Bank exposure to the basis risk can 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 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:

<sup>1</sup> Basel Committee on Banking Supervision

- 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) is excluded;
- the non-maturing assets and liabilities are considered having 1 day refixing period;
- the behavioural 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<sup>2</sup>:
- changes in the level and the shape of the yield curves are simulated as per the scenarios described below;
- forthcoming transactions are excluded;
- the EVE analysis is performed on a deal by deal basis and includes the impact of the FX derivatives;
- the NII analysis is performed per time bucket (FX derivatives impact is considered);
- nominal and interest accrued are included in the calculation;

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

Economic value measures	Static Capital at Risk (Economic Value of Equity or EVE); Modified duration of equity.

Table 1: 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-with floor

- A. parallel shock up: immediate 200 bps
- B. parallel shock down: immediate 200 bps
- 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

<sup>&</sup>lt;sup>2</sup> Interest Rate Risk in the Banking Book, Standard, Basel Committee for Banking Supervision, April 2016.

## Position Risk on Bond Portfolio

During the year, the Bank used its securities bond portfolio for liquidity and investment purposes.

Derivative contracts (IRS) are used to micro hedge the market risk of the exposures in the portfolio, whose duration falls below 6 months after hedging. The Bank's counterparts for the derivative transactions are financial institutions with a solid reputation and good credit rating.

The bond portfolio is monitored on a daily basis using metrics such as maximum daily price deviation and stop loss control. Additional market risk analyses are performed on a regular basis and include a sensitivity analysis, assessing the impact of an increase of 100 bps on the market value of the bond portfolio.

## Exposure to 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.

According to its business model and balance sheet structure, the Bank's FX strategy is to hedge its FX exposures arising from assets granted in any currency different from Euro through FX swaps. The residual FX exposure generated by interest accruals denominated in foreign currencies is hedged on end-of-month basis.

## **Exposure to Operational risk**

According to the 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.

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 spreadsheet 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 process of recording operational events is harmonised across the Bank, European Branches included, in terms of operational log and operational error template, and in line with the minimum requirements foreseen by the BCBS. 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 2022, the restrictions related to Covid-19 eased up and the majority of the measures taken during the previous two years were interrupted, with a gradual comeback to "pre-covid" work arrangements.

No major incident related to the Covid-19 pandemic occurred during the year. Additionally, RMD reports to the AM, on a monthly basis, details on operational events that occurred during the previous month, along with a summary of all the operational mistakes year-to-date. A quarterly summary of the operational events is also presented during the Risk and Compliance Committee and BoD

## **Exposure to 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 can 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 Treasury Department, as first LOD and Risk Management Department as second LOD.

Liquidity risk is managed by the Treasury 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.

The main risk drivers identified by the Bank in the domain of Liquidity Risk are the following:

## Liquidity mismatch

Liquidity transformation, i.e. funding longer-term assets with short-term liabilities, is one of the main functions implicit in banks' activity. The assessment and measurement of this liquidity risk driver is therefore paramount within the overall liquidity risk exposure assessment: it is performed through a static liquidity gap analysis, comparing the cumulative gap, net of the counterbalance capacity, calculated over 12 months, against the total liabilities of the Bank.

## Off-balance sheet liquidity risk

A portion of the Bank's liquidity risk arises from its exposure to undrawn committed credit facilities extended to clients. The Bank is required to ensure that it maintains an adequate level of liquidity resources and has a reliable access to funding to meet its obligations. This risk driver has been duly addressed within the stress testing framework, where a progressive draw-down of the available credit lines is assumed. Additionally, the Bank has a potential liquidity risk exposure stemming from contingent funding obligations related to guarantees provided to clients. Given they are mostly cash collateralised or counterguaranteed by other CCB entities, this is considered as immaterial to the Bank's overall exposure to liquidity risk.

## Intragroup liquidity risk

This risk driver could stem from both overreliance on funding provided by CCB Group's entities and mismanagement of the funding provided to European Branches. The first sub-driver is managed and monitored with a metric developed by the HO, which compares the intragroup funding to the total funding of the Bank.

The second sub-driver will be managed by the Treasury, as a first level defence, and monitored by Risk Management Department through a gap analysis performed at single entity level on a weekly basis.

## Marketable assets risk

This risk driver is related to assets, held for liquidity purposes, which cannot be sold to raise cash, especially during periods of liquidity stress, market wide or idiosyncratic. The Bank's liquidity strategy of its liquidity buffer is to invest in assets which can be eligible for liquidity regulatory purposes, i.e. eligible both within the LCR's HQLA portfolio and as collateral for Eurosystem credit operations.

## Intraday liquidity risk

Intra-day liquidity risk is the risk that a bank fails to manage its intraday liquidity effectively, which could leave it unable to meet a payment obligation at the time expected, thereby affecting its own liquidity position and that of other parties.

Other than FX spot transactions, the Bank is not acting on behalf of the clients: therefore its exposure to intraday liquidity risk is limited to the loan cash flow process.

On an ancillary basis and for limited amounts, the Bank may execute some transfers or FX spot transactions instructed by clients, whose impact is immaterial on the intraday liquidity risk exposure.

In line with its risk strategy, the Bank established a periodical (at least annual) monitoring process of the business activities that could potentially generate an intraday liquidity risk.

## Wholesale Funding

This risk driver is related to overreliance on short-term funding transactions provided by non-banking financial intermediaries, some of which might be subject to a thin degree of supervision. The Bank's funding strategy is to maintain a fair balance between corporate client's deposits, interbank borrowing and capital market issuance.

## Asset Encumbrance risk

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 worth 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 KRI used for this risk driver is the Asset Encumbrance Ratio, as defined in the Risk Strategy of the Bank.

## Funding strategy

The Bank's funding strategy is a top-down process that targets the full respect of the regulatory liquidity ratios, while structuring the liability side of its balance sheet to optimise funding costs. Considering the full entering into force of the NSFR at 100%, the Bank is working on an increase in the share of corporate deposits and unsecured institutional borrowings on bilateral basis. REPO transactions are also considered viable and will start during 2023. An increase in public issuance and private placement is still possible but not planned for the time being.

## **Fund Transfer Pricing**

Fund Transfer Pricing ("FTP") is a central component of management decision-making and risk taking with respect to funding, lending and balance sheet management.

As a general rule, the FTP should reflect both the Bank's marginal cost of funds and the regulatory and tax constraints it is subject to. Transactions carried out by CCBEU Branches should back-to back match with the CCBEU Headquarter in Luxembourg transactions.

The costs and benefits of funding liquidity are derived from an at-arm's-length market price.

## **Exposure to Leverage Risk**

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 II, as KRI; 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.

## **5 Disclosure of Own Funds**

Based on point (a) of article 437, the Bank disclose the following tables:

- Template EU CC1 – Composition of regulatory own funds

		(a)	(b)
		Amounts	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
	Common Equity Tier 1 (CET1) capital:	instruments and reserves	
1	Capital instruments and the related share premium accounts	550,000,000.00	(a)
2	Retained earnings	-33,977,761.23	(b)
3	Accumulated other comprehensive income (and other reserves)	-3,014,810.24	(c)
EU- 5a	Independently reviewed interim profits net of any foreseeable charge or dividend	-9,381,310.08	(f)
6	Common Equity Tier 1 (CET1) capital before regulatory adjustments	503,626,118.45	
1 9	Common Equity Tier 1 (CET1) capita	: regulatory adjustments	
7	Additional value adjustments (negative amount)		
8	Intangible assets (net of related tax liability) (negative amount)	-230,704	(d)
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38 (3) CRR are met) (negative amount)	-3,789,036	(e)
28	Total regulatory adjustments to Common Equity Tier 1 (CET1)	-4,019,740	
29	Common Equity Tier 1 (CET1) capital	499,606,378.51	
45	Tier 1 capital (T1 = CET1 + AT1)	499,606,378.51	
	Tier 2 (T2) capital: in	struments	
46	Capital instruments and the related share premium accounts	70,000,000	(g)
51	Tier 2 (T2) capital before regulatory adjustments	70,000,000	
	Tier 2 (T2) capital: regulate	ory adjustments	
57	Total regulatory adjustments to Tier 2 (T2) capital		
58	Tier 2 (T2) capital	70,000,000.00	
59	Total capital (TC = T1 + T2)	569,606,378.51	
60	Total Risk exposure amount	3,041,358,447.56	
	Capital ratios and requiremen	ts including buffers	
61	Common Equity Tier 1 capital	16.43%	
62	Tier 1 capital	16.43%	
63	Total capital	18.73%	

		(a)	(b)
		Amounts	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
64	Institution CET1 overall capital requirements	7.87%	
65	of which: capital conservation buffer requirement	2.50%	
66	of which: countercyclical capital buffer requirement	0.05%	
68	Common Equity Tier 1 capital (as a percentage of risk exposure amount) available after meeting the minimum capital requirements	8.6%	

 Template EU CC2 - reconciliation of regulatory own funds to balance sheet in the audited financial statements

		a	b	С
		Balance sheet as in published financial statements	Difference with Finrep/Corep - Reference	Reference
		As at period end	-	
Assets - Breakdown by asset clases according to the balance sheet in the published financial statements				
1	Cash in hand, balances with central banks and post office banks	415,411,019	STATE OF THE STATE OF THE	
2	Loans and advances to credit institutions	276,061,634		
3	Loans and advances to customers	2,078,344,872		
4	Debt instruments at Fair Value through other comprehensive income	318,303,622		
5	Intangible assets	230,704	230,704	(d)
6	Tangible assets	2,062,604		
7	Right of use assets	15,434,364		
8	Derivative financial instruments	48,568,005		
9	Other assets	8,772,287		
10	Prepayments and accrued income	1,233,477		
	Total assets	3,164,422,588		
Liabilities - Breakdown by liability clases according to the balance sheet in the published financial statements				
1	Amounts owed to credit institutions	1,048,647,963		

		a	b	c
		Balance sheet as in published financial statements	Difference with Finrep/Corep - Reference	Reference
		As at period end		
2	Amounts owed to customers	315,143,227		
3	Debt evidenced by certificates	1,067,547,829		
4	Derivative Financial instruments	126,779,821		
5	Other liabilities	17,925,329		
6	Accruals and deferred income	9,350,777		
7	Subordinated liabilities	70,389,153	70,000,000	(g)
8	Provisions	13,768,756		
	Total liabilities	2,669,552,855	15.	
Shareholders' Equity				
1	Subscribed capital	550,000,000	550,000,000.00	(a)
2	Reserves	-3,328,502	-3,014,810.00	(c)
3	Loss brought forward	-35,671,147	-3,977,761.00	(b)
4	Loss for the financial year	-16,130,618	-13,170,345.75	(f) + (e)
	Total shareholders' equity	494,869,733	499,606,379	

## 6.Disclosure of exposures to credit risk and dilution risk

The Bank choses to disclose information as of Article 442 points a) and c) of Regulation (EU) 2019/876, amending Regulation (EU) 575/2013.

## "Past Due" and "Impaired" definitions

Non-performing exposures are those exposures where:

- The obligor is past due more than 90 days on any "material" credit obligation to the Bank, the parent undertaking or any of its subsidiaries. A credit obligation is considered "material" when both the two limits consisting of the absolute component and the relative component of the threshold are exceeded for 90 consecutive days. The absolute component amount is EUR 500 (for exposures other than retail) and the relative component is 1% of the total amount of onbalance sheet exposures to the obligor of the institution, its parent undertaking or its subsidiaries, excluding equity exposures. Once the obligor meets the past due criterion all exposures to that obligor are considered defaulted, unless a so called 'technical past due situation' is considered to have occurred (see section 23 of (EBA/GL/2016/07, 2016));
- The obligor, the parent undertaking or any of its subsidiaries, is unlikely to pay its credit obligation in full without recourse to actions such as realising security, whereas the "unlikeliness to pay" shall align with Article 178 of Regulation (EU) No 575/2013 (EBA/GL/2016/07).

Elements to be taken as indications of unlikeliness to pay shall include the following:

- the Bank puts the credit obligation on non-accrued status (interest stops being recognised in the income statement due to decreased quality of the credit obligation);
- the Bank recognises a specific credit risk adjustment (SCRA) resulting from a significant perceived decline in credit quality subsequent to the Bank taking on the exposure, i.e. exposures treated as credit-impaired under IFRS 9 and classified as Stage 3;
- the Bank sells the credit obligation at a material credit- related economic loss, when a loss meets the lower of the following 2 thresholds, it is considered as material loss, (i) 5% of outstanding amount of obligation or (ii) USD 2 million in absolute term.
- the Bank consents to a distressed restructuring of the credit obligation where this
  is likely to result in a "material" diminished financial obligation caused by the
  material forgiveness, or postponement, of principal, interest or, where relevant
  fees. If the difference between the net present values of cash flows before and
  after restructuring arrangements exceeds the amount equal to interests to be
  received according to original terms, it is considered "material".
- the Bank has filed for the obligor's bankruptcy or a similar order in respect of an obligor's credit obligation; or the obligor has sought or has been placed in

bankruptcy or similar protection where this would avoid or delay repayment of a credit obligation. The bankruptcy or "similar order" or "similar protection" shall include all types of arrangements listed in Annex A to Regulation (EU) 2015/848.

- Other indicators that should or may directly trigger default or trigger a case-bycase assessment of default (depending on indicator), include but are not limited to:
  - Credit fraud
  - Contagion in the occurrence of default in a group of connected clients
  - o Purchase or origination of a financial asset at a material discount
  - The obligor's source of income to repay loan is no longer available
  - There are justified concerns about the obligor's ability to generate stable and sufficient cash flows
  - The obligor's leverage has increased significantly
  - Breach of the covenants of a credit contract
  - Collateral has been called by the bank
  - Default of a company fully owned by the obligor, where the obligor has provided a personal guarantee for that company's obligations
  - Significant delays in payments to other creditors
  - o A crisis in the sector of the obligor combined with a weak position of the obligor
  - Disappearance of an active market for an asset because of the financial difficulties of the obligor
  - In case concessions have been extended that do not meet the conditions of a material distressed restructuring:
    - Large lumpsum payment at the end of the repayment schedule,
    - Significantly lower payments at the beginning of repayment schedule,
    - Significant grace period at the beginning of the repayment schedule,
    - The exposures to the obligor have been subject to distressed restructuring more than once.

All exposures included in one of the three following categories must be considered as non performing:

## SUBSTANDARD

An exposure is classified as substandard if any of the following conditions is met:

- well defined credit weaknesses e.g. borrowers cash flow insufficient to service the debt as arranged, several renewals with capitalization of interest;
- loans at least 90 days and more in arrears, with both absolute and relative component limits exceeded;
- primary source of repayment insufficient to service debt and the Bank has to look at secondary sources, such as collateral or refinancing, for repayment;
- adequately secured overdraft, continuously in excess of the approved limit;
- adequately secured means that the security is sufficient to protect the financial institution from loss of principal and interest following disposal in a forced sale situation;
- adequately secured overdraft, with a fluctuations which do not conform to the business cycle;

- portion of doubtful debt which is fully secured;
- non-performing loans to Government and other non-performing loans fully secured by Government or Government securities or by cash.

## **DOUBTFUL**

An exposure is classified as doubtful if all the weaknesses of the substandard status are present and any of the following conditions is met:

- loans at least 180 days in arrears, unless fully secured;
- collection of the debt in full highly questionable or improbable;
- possibility of a loss, but some factors exist which could improve the situation;
- overdraft continuously in excess of limit, minimum activity in the account and security insufficient to cover outstanding.

## LOSS

An exposure is classified as loss if any of the following conditions is met:

- · loans considered uncollectible:
- loans at least 365 days in arrears unless fully secured;
- loans which may have some recovery value but it is neither practical nor desirable to defer write off.

## Waivers

In case of non-compliance with financial and non-financial covenants of the facility agreement and/or of any other credit document or if non-compliance can be expected with a high degree of certainty, the responsible Credit Officer must be immediately informed by a waiver request, dependent on the type of waiver. Additional information regarding actual compliance with the covenants can be requested by the responsible Risk Management function any time.

As a general rule, there are three categories of waivers:

Material waivers: requests that might have a significant and measurable impact on the reimbursement of the loan and could change the credit quality of the underlying transaction. This also includes situations when the borrower wishes to amend or cancel material parts or clauses of the documentation, which reflect fundamental elements of the credit decision and may have a risk enhancing effect on the credit facility. Examples include, but are not limited to: financial covenants, change—of—control clause, limitation on guarantees or indebtedness, limitation on assets disposals, limitation on dividends, material adverse change clause. In case of a material waiver, the relevant relationship manager in CIB or FI department is obliged to file immediately a waiver request to the Credit Reception Role, copy to the responsible Credit Officer. Such request must be submitted to

the relevant Credit Committee, whereas it does require also the approval of the AM and of the General Manager / CEO, e.g. in the following cases:

- an extension to the date of payment of any amount under the Documentation;
- a reduction in the amount of any payment of principal, interest, fees or commission payable under any Facility except as a result of a repayment, prepayment or release of principal under the Documentation;
- o a change in currency of payment of any amount under the Documentation;
- an increase in any existing commitment as well as the introduction of an additional loan, tranche, commitment or facility;
- a change to the Borrowers or Guarantors other than in accordance with the relevant clause in the Documentation (i.e. Changes to the Obligors).
- (other than as expressly permitted by the relevant provisions in the Documentation) the nature, scope or release of:
  - guarantees and indemnities or
  - the manner in which the proceeds of enforcement of the transaction securities are distributed;
- any amendment to the order of priority or subordination under any intercreditor agreement, as the case may be.

In all other cases, subject to reasonable judgement in respect of the materiality of the waiver, the approval of the AM and of the General Manager / CEO is not required. The AM is supposed in any case to receive a copy of the waiver request and relevant decision outcome.

If a material waiver also represents a forbearance measures as defined in section 5.10 of the Credit Risk Procedure. The forbearance assessment has to be done by the CO in charge and included in the CC documentation.

- Non material waivers: in this case the breach is related to non-measurable deviation in the credit quality of the underlying transaction (e.g. minor adjustments of non-financial covenants, etc.). As a general rule, a non-material waiver request of the borrower can be decided by front office (main responsible person of the customer), upon the non-material character confirmation made by the responsible Credit Officer.
- Technical waivers: in this case the breach is not related to any deviation in the credit quality of the underlying transaction. Technical waivers are at the sole responsibility of front office (main responsible person of the customer), after the confirmation about the technical nature of the waiver received from the respective Credit Officer. Examples for technical waivers might include the postponement of certain deadlines for submitting periodical and non-periodical information undertakings, as long as not material, unconventional interest period, etc.

All three categories of waivers and / or amendments mentioned above shall be notified to the Credit Reception Role. Material waivers will be accordingly addressed to the CC for a decision; while non material and technical waivers and the respective outcome

decision, will be simply recorded under the respective account / customer folder by the Credit Officer or Relationship Manager as the case may be.

In case the modifications to the original contractual terms and conditions are made in response to a deterioration in the obligors financial situation or do give rise to a loss for the Bank, the file has to be transferred to the Restructuring/Workout function. For customers managed in Restructuring or Workout any waiver request is negotiated by the Restructuring/Workout function and is approved by the relevant CC.

In case the waiver request encompasses modifications to the original contractual terms and conditions which need to be documented through an amendment of the facility agreement, and as long as the amendment request is not of purely technical nature, the documentation (including drafts of the amendment agreement and legal opinions if available) need to be submitted to the Legal Department for approval or comments as the case may be.



# Template EU CR1: Performing and non-performing exposures and related provisions.

0	financial	On non-	exposures	¥5	1	£		2.60	,	8.00	5.	- 3	15	*		,
c	Collateral and financial guarantees received		exposures		588,963,064				283,358,870	305,604,194		54				
E		Accumulated partial write-				+1		C	,			,	r		€	
-	e due to credit	Non-performing exposures – accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions	Of which stage		8,412,988	A)		0)	3.	8,412,988			10	7.7	2	
×	s in fair valu	Non-performing exposures – mulated impairment, accumu ative changes in fair value du credit risk and provisions	Of which stage 2			7.					,				1	
-	gative change rovisions	Non-po accumulated negative of credi		P.	8,412,988	6				8,412,988				54		
-	Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions	cumulated	Of which stage 2		2,459,400				848,040	1,611,360					6	
æ	impairment,	Performing exposures – accumulated impairment and provisions	Of which stage 1	46,002	4,442,938		-	129,844	1,450,778	2,862,315			237,532		158,491	9,074
б	Accumulated	Performing impairr		46,002	6,902,338			129,844	2,298,818	4,473,676			237,532		158,491	9,074
-		osures	Of which stage 3		12,001,920	ū		,		12,001,920						
e		Non-performing exposures	Of which stage 2												e	
р	inal amount	Non-per			12,001,920					12,001,920			r		13	3
U	Gross carrying amount/nominal amount		Of which stage 2		286,371,833	T		2	50,067,015	236,304,818			i e		12	- 13
q	Gross carr	Performing exposures	Of which stage	512,456,320	1,979,048,778			179,192,179	587,272,256	1,212,584,344			318,541,154		133,539,512	7,877,323
е		Perl		512,456,320	2,265,420,611			179,192,179	637,339,270	1,448,889,162			318,541,154		133,539,512	7,877,323
				Cash balances at central banks and other demand deposits	σ	Central banks	General	Credit institutions	Other financial corporations	Non- financial corporations	Of which SMEs	Households	Debt securities	Central banks	General governments	Credit
				500	010	020	030	040	050 1	1 090	070	080	060	1001	011	120



Solution														
Section   Sect	0	d financial received	On non-	exposures	8	2	#3			,	3	×		•2
Section   Sect	ч	Collateral an guarantees	On	exposures	4	4								588,963,064
Second   S	Ε		Accumulated partial write- off		15	325								10
Section   Sect	-	ue due to credit	xposures – nt, accumulated iir value due to rovisions	Of which stage			**				51			8,412,988
Section   Sect	×	s in fair val	rforming e I impairme anges in fa risk and p	Of which stage 2				,						
Gross carrying amount/nominal amount   Gross carrying amount/nominal amount   Gross carrying amount/nominal amount	í	egative change provisions	Non-pe accumulated negative ch credi			•				,				8,412,988
Gross carrying amount/nominal amount   Growing exposures	-	accumulated n	ccumulated risions	Of which stage 2			2,109,108					2,109,108		350,292
Gross carrying amount/nominal amount   Growing exposures	ч	d impairment,	exposures – ac ment and prov	Of which stage 1	4,494	65,473	309,292		8,933	11,950	87,034	201,374		4,371,178
Section   Sect	6	Accumulate	Performing impair		4,494	65,473	2,418,400		8,933	11,950	87,034	2,310,482		4,721,470
Serior carrying amount/nominal arguments   Serior carrying amount/nominal arguments	f		posures	Of which stage 3									1	12,001,920
Section   Sect	ə		forming ex	Of which stage 2										
Of whice  Of whi	p	ninal amount	Non-per											12,001,920
ons 7,012,836 7,012,83 ons 170,111,483 170,111 ons 170,111,483 170,111 ons 170,111 ons 170,111,483 170,111 ons 170,111 ons 170,111,483 170,111 ons 170	v	ing amount/non	1000	Of which stage 2			000'000'56					95,000,000		381,371,833
Onts 7,012,836 Onts 7,012,836 Onts 170,111,483 NGE- 621,921,648 I II - II - II - Onts 50,000,000 Onts 467,801,754 Onts 467,801,754	Q	Gross carry	forming exposures	Of which stage	7,012,836	170,111,483	526,921,648		50,000,000	40,050,099	64,069,795	372,801,754		3,336,967,900
r f al antions ance- res ral rutions fit from ance- ral rutions fit from al ance- rutions fit from anc	в		Pert		7,012,836	170,111,483	621,921,648		50,000,000	40,050,099	64,069,795	467,801,754		3,718,339,733
Othe financia corpora financia institutu Other financia corpora corpor		•			Other financial corporations	Non- financial corporations	Off-balance sheet exposures	Central banks	General governments	Credit institutions	Other financial corporations	Non- financial corporations	Households	Total
					130	140	150	091	170	180	190	500	210	220



## Template EU CQ1: Credit quality of forborne exposures

		в	q	U	р	e	ille, f	g	h
		Gross carrying amount/nominal amount of exposures with forbearance measures	amoui /ith for	oss carrying amount/nominal amount exposures with forbearance measures	nount of sures	Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions	ted negative changes in fair and provisions	Collateral r guarantees	Collateral received and financial guarantees received on forborne exposures
			S	Non-performing forborne	forborne				Of which collateral and financial quarantees
		Performing forborne		Of which defaulted	Of which impaired	On performing forborne exposures	On non-performing forborne exposures		received on non- performing exposures with forbearance
900	Cash balances at central banks and						c		343
	other demand deposits								
010	Loans and advances	135,535,890.96	-		d	1,084,391.90		(0.0)	7
020	Central banks	I.	-	•				a	e.
030	General governments		10		-			t	
040	Credit institutions		1		-			E.	2/4/2
020	Other financial corporations	-	1	1				0)	,
090	Non-financial corporations	135,535,890.96	1	· ·		- 1,084,391.90		10-0	ī.
070	Households	ř.	T.	1		,	2	St.	E
080	Debt Securities		· C	3	1	¥			t



		g	q	J	р	ė	f	6	Ч
		Gross carrying amount/nominal amount of exposures with forbearance measures	amou	oss carrying amount/nominal amount exposures with forbearance measures	nount of ssures	Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions	ted negative changes in fair and provisions	Collateral r guarantees	Collateral received and financial guarantees received on forborne exposures
			N I	Non-performing forborne	forborne				Of which collateral and
		Performing forborne		Of which	Of which	On performing forborne exposures	On non-performing forborne exposures		received on non-
		n		defaulted	impaired				with forbearance
060	Loan commitments given	31		•					ī
100	100 Total	135,535,890.96	1		-	- 1,084,391.90			ï



## 7. 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 exposure at the end of 2022 with regards to its credit transactions and corporate business was mostly concentrated on European Countries. The clients (concentrated in the manufacturing, professional, scientific and technical activities, real estate 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 and interbank borrowing.

## 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 the 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 supporting the business departments of the Bank by providing corporate governance and legal advice. In the management of legal risks, the in-house legal counsels do not work on legal disputes relating to employees. For such matters and others that are beyond the competence of the in-house legal counsels, 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 significant 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.

## Reputational Risk

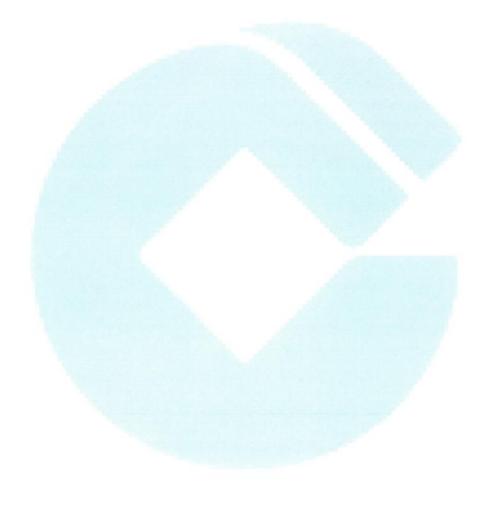
Reputational risk is the actual or potential risk related to earnings or capital, arising from negative perception of financial institutions by the current and potential stakeholders (customers, counterparties, shareholders, employees, investors, debt-



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.





## 8. Key Metrics

Based on article 433 c of the CRR2 the Bank discloses, at least annually, the following standard tables:

Template EU OV1 – Overview of total risk exposure amounts (Amounts in EUR)

		* 1. 1. 1. 1. 1. 1. 1. 1. 1. 1. 1. 1. 1.	osure amounts EA)	Total own funds requirements
		a	b	С
		Т	T-1	Т
1	Credit risk (excluding CCR)	2,889,747,089	2,449,255,322	231,179,767.12
2	Of which the standardised approach	2,889,747,089	2,449,255,322	231,179,767
3	Of which the Foundation IRB (F-IRB) approach	THEFT		
4	Of which slotting approach	Mar Marie		
EU 4a	Of which equities under the simple riskweighted approach	7		
5	Of which the Advanced IRB (A-IRB) approach			
6	Counterparty credit risk - CCR	52,002,361	58,322,555	4,160,189
7	Of which the standardised approach			
8	Of which internal model method (IMM)			
EU 8a	Of which exposures to a CCP			
EU 8b	Of which credit valuation adjustment - CVA	52,002,361	58,322,555	4,160,189
9	Of which other CCR			
10	Not applicable			
11	Not applicable			
12	Not applicable			
13	Not applicable			
14	Not applicable			
15	Settlement risk			
16	Securitisation exposures in the non-trading book (after the cap)			
17	Of which SEC-IRBA approach			
18	Of which SEC-ERBA (including IAA)			
19	Of which SEC-SA approach			
EU 19a	Of which 1250% / deduction			
20	Position, foreign exchange and commodities risks (Market risk)	17,176,034	2,373,489	1,374,083
21	Of which the standardised approach	17,176,034	2,373,489	1,374,083
22	Of which IMA			
EU 22a	Large exposures			



		2232	osure amounts EA)	Total own funds requirements
		a	b	С
		Т	T-1	Т
23	Operational risk			
EU 23a	Of which basic indicator approach	82,432,964	77,126,480	6,594,637
EU 23b	Of which standardised approach			
EU 23c	Of which advanced measurement approach			-
24	Amounts below the thresholds for deduction (subject to 250% risk weight)			-
25	Not applicable			-
26	Not applicable			-
27	Not applicable			-
28	Not applicable			-
29	Total	3,041,358,448	2,587,077,845	243,308,676

## Template EU KM1 - Key metrics template (Amounts in EUR)

		a	e
		Т	T-4
	Available own funds (amounts)		
1	Common Equity Tier 1 (CET1) capital	499,606,379	518,635,791
2	Tier 1 capital	499,606,379	518,635,791
3	Total capital	569,606,379	588,635,791
	Risk-weighted exposure amounts		
4	Total risk exposure amount	3,041,358,448	2,587,077,845
	Capital ratios (as a percentage of risk-weighted exposure amount)		
5	Common Equity Tier 1 ratio (%)	16.43%	20.05%
6	Tier 1 ratio (%)	16.43%	20.05%
7	Total capital ratio (%)	18.73%	22.75%
	Additional own funds requirements to address risks other than the risk of exweighted exposure amount)	ccessive leverage (as a p	ercentage of risk-
EU 7a	Additional own funds requirements to address risks other than the risk of excessive leverage (%)	1.25%	1.5%
EU 7b	of which: to be made up of CET1 capital (percentage points)	0.70%	0.84%
EU 7c	of which: to be made up of Tier 1 capital (percentage points)	0.94%	1.13%
EU 7d	Total SREP own funds requirements (%)	9.25%	9.5%
	Combined buffer and overall capital requirement (as a percentage of risk-we	eighted exposure amou	nt)



	Γ	a	e
		Т	T-4
8	Capital conservation buffer (%)	2.5%	2.5%
EU 8a	Conservation buffer due to macro-prudential or systemic risk identified at the level of a Member State (%)		
9	Institution specific countercyclical capital buffer (%)	0.05%	0.10%
EU 9a	Systemic risk buffer (%)		
10	Global Systemically Important Institution buffer (%)		
EU 10a	Other Systemically Important Institution buffer (%)		
11	Combined buffer requirement (%)	2.55%	2.60%
EU 11a	Overall capital requirements (%)	11.8%	12.1%
12	CET1 available after meeting the total SREP own funds requirements (%)	11.23%	14.70%
	Leverage ratio		in all fine in
13	Total exposure measure	3,804,156,941	3,201,931,160
14	Leverage ratio (%)	13.1%	16.2%
	Additional own funds requirements to address the risk of excessive leverage	(as a percentage of tot	al exposure measur
EU 14a	Additional own funds requirements to address the risk of excessive leverage (%)		
EU 14b	of which: to be made up of CET1 capital (percentage points)	*64.07	
EU 14c	Total SREP leverage ratio requirements (%)	Titro sala	
	Leverage ratio buffer and overall leverage ratio requirement (as a percentag	e of total exposure mea	sure)
EU 14d	Leverage ratio buffer requirement (%)		
EU 14e	Overall leverage ratio requirement (%)		
	Liquidity Coverage Ratio		illy war a
15	Total high-quality liquid assets (HQLA) (Weighted value -average)	578,121,058	496,527,007
EU 16a	Cash outflows - Total weighted value	626,916,063	444,028,424
EU 16b	Cash inflows - Total weighted value	168,679,070	149,101,021
16	Total net cash outflows (adjusted value)	458,236,993	294,927,403
17	Liquidity coverage ratio (%)	126%	168%
	Net Stable Funding Ratio		
18	Total available stable funding	2,196,976,466	2,106,262,110
19	Total required stable funding	1,887,349,075	1,753,792,624
20	NSFR ratio (%)	116%	120%



## 9. 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 2022, the Bank has identified 27 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.



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.

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.

The remunerations were paid in cash only. No other payments were recorded in 2022 (deferred remuneration or severance payments).



Template EU REM1 - Remuneration awarded for the financial year – (Amounts in EUR)

			в	p	o	ъ
			MB Supervisory function	MB Management function	Other senior management	Other identified staff
		Number of identified staff	7	14		8
2		Total fixed remuneration	782,639	4,974,987		1,410,867
3 8		Of which: cash-based	782,639	4,974,987		1,410,867
4		(Not applicable in the EU)				
EU-4a	Fixed	Of which: shares or equivalent ownership interests				
2	remuneration	Of which: share-linked instruments or equivalent non-cash instruments				
EU-5x		Of which: other instruments				
9		(Not applicable in the EU)				
7		Of which: other forms				
00		(Not applicable in the EU)				
6		Number of identified staff	7	14		80
10		Total variable remuneration	20443.28	463,321		119,500
11		Of which: cash-based	20443.28	463,321		119,500
12		Of which: deferred				
EU-13a		Of which: shares or equivalent ownership interests				
EU-14a	Variable	Of which: deferred				
EU-13b	remuneration	Of which: share-linked instruments or equivalent non-cash instruments				
EU-14b		Of which: deferred				
EU-14x		Of which: other instruments				
EU-14y		Of which: deferred				
15		Of which: other forms				
16		Of which: deferred				
	Total remuneration (2 + 10)	n (2 + 10)	803,082	5,438,308		1,530,367



Template EU REM5 - Information on remuneration of staff whose professional activities have a material impact on institutions' risk profile (identified staff) – (Amounts in EUR)

	в	þ	C	P	е	f	В	h	i	j
	Manageme	Management body remuneration	ration			Business areas	areas			-
	MB Supervisory function	MB Management function	Total MB	Investment	Retail banking	Asset	Corporate	Independent internal control functions	All	Total
Total number of identified staff		***************************************								
Of which: members of the MB	7	14	21							
Of which: other senior management										
Of which: other identified staff							2	9		
Total remuneration of identified staff	803,082	5,438,308	6,241,390				452,805	1,077,562		
Of which: variable remuneration	20,443	463,321	483,765				36,500	83,000		
Of which: fixed remuneration	782,639	4,974,987	5,757,626				416,305	994,562		
										1



## 10. 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.

China Construction Bank (Europe) S.A.

Junle Xie

Chief Executive Officer Deputy General Manager

