



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

Pillar III

Disclosure Report 2018

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1. Introduction

The purpose of this document is to provide disclosure on different topics, 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.

The present Pillar III disclosure report of China Construction Bank (Europe) S.A. (hereinafter “CCBEU” or “the Bank”) 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 latest version was approved by the Board of Directors on 29/03/2018.

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

3.1 Bank's 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 loan credit granting activity is carried out through syndicated and bilateral loans to corporate clients. Institutional banking includes interbank borrowing and lending and EMTN issuing; interbank taking and placing activities are performed within the framework defined by the HO and with banking counterparties having a solid reputation and historical track. Current institutional banking activity is mostly performed with CCBC Luxembourg Branch.
- *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. FX spot transactions might be occasionally performed on behalf of the clients.

The Bank plans to further expand at a later stage its activities by providing the full range of banking products and market expertise to a larger range of clients.

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.

3.2 Internal Governance

A Board of Directors (BoD) is leading the Bank, in organising regular meetings (at least five per year). It is composed by seven members as of December 31st, 2018: one Chairman, two Independent Directors, two Executive Directors that are part of CCB EU's Authorised Management and two non-Executive Directors.

CCB EU's Authorised Management (AM), in charge of the daily business, is composed by three members as of December 31st 2018: one General Manager and two Deputy General Managers. At branches level, the Authorised Management is composed by five General Managers and six Deputy General Managers.

In addition to the Board of Directors and CCB EU's Authorised Management, the Audit Committee is responsible for assisting the Board of Directors in the fulfilment of its corporate governance duties in relation to Risk Management, Internal Control and financial reporting. This Committee is composed by four members: two Independent Directors and two non-Executive Directors.

All these 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.

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

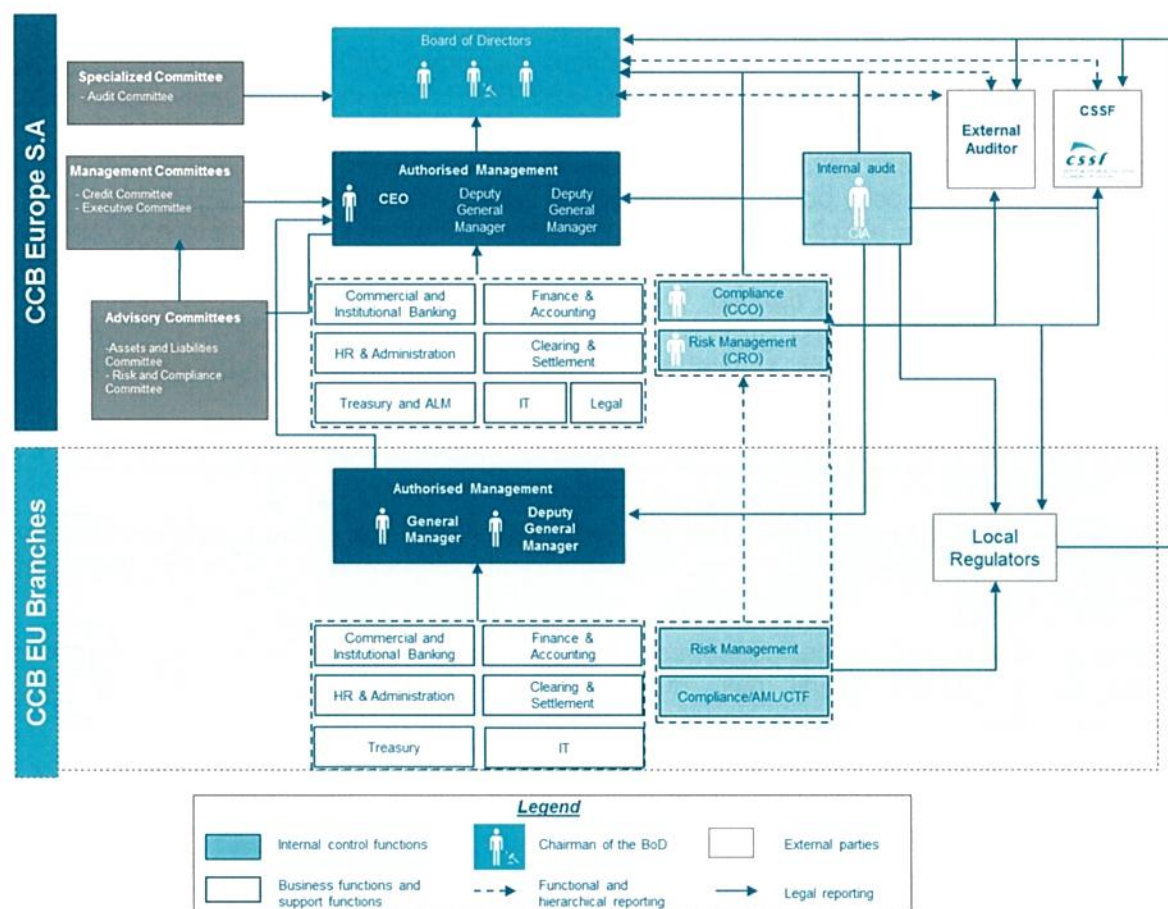


Figure 1: Governance structure

3.2.1 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 ICAAP Report and Recovery Plan

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

3.2.2 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 two advisory committees (Asset and Liabilities Committee and Risk & Compliance Committee) and two management committees (the Executive Committee and the Credit Committee).

3.2.3 Audit Committee

The Audit Committee is responsible for reviewing the audit related policies, internal audit plan, audited financial reports, annual control function reports. The documents are submitted for final validation to the BoD.

3.2.4 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.

3.2.5 Credit Committee

The Credit Committee is responsible for the following tasks:

- facilitate the effective management of the credit risk by the Bank;
- execute credit and concentration risk policies, underwriting guidelines and standard proposals within the Bank's overall risk appetite, including approving limits within the amounts delegated by the AM;
- execute the Bank's credit risk procedure, define risks-return preferences and the target risk portfolio;
- review credit risk reports on a periodic basis;
- make recommendations to the ExCo and to the BoD on the credit risk procedure and strategy of the Bank, where appropriate;
- review credit events and assess their impact on the credit portfolio;
- review and approve client limits;
- review and approve individual Credit Applications;
- review breaches of credit limits within the DoA.

3.2.6 Asset and Liability Committee

The Assets and Liability Committee ("ALCO") is responsible for the following tasks:

- supervise the Asset and Liability Management activities and offer solutions to align the operations with the long-term strategy of the Bank;
- suggest the prudential Asset and Liability Management risk controls related to liquidity and funding risk, as well as interest-rate risk and FX risk;
- ensure that CCBEU endorses a prudent risk / reward approach;
- assess the different types of business lines and products to ensure proper alignment in terms of the established risk appetite;
- monitor the profitability of the Bank against budget established and evaluate the impact of potential drivers for earnings volatility;
- supervise the capital ratio, monitor its development and make recommendations on capital adequacy requirements;
- assessing on a monthly basis, the bank's market risk, liquidity risk and interest rate risk exposure, hedging, mismatch and stress scenario figures in relationship to market developments;
- ensuring adherence to market risk rules for conducting long term and day to day activities and to market risk regulatory and supervisory requirements;
- escalate any breaches observed with respect to risk appetite and related limits to the ExCo;

- discuss the ICAAP reports and Recovery Plan if requested by its members;
- monitor credit risk activities and propose credit risk appetite to the ExCo;
- supervise country risk;
- assess CCBEU's macroeconomic environment and its impact on the operations;
- monitor the risk profile of the European branches of the Bank.

3.2.7 Risk and Compliance Committee

This committee is an advisory committee with no decision-making powers.

It is in charge of assisting the ExCo in assessing the key regulatory risks to which the Bank may be exposed in order to support it in its decision-making process.

By providing reports and advices, the Risk & Compliance Committee interacts on a regular basis with the ExCo, yet, without being delegated any decision-making powers or responsibilities.

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

- assisting the Board of Directors in facilitating the effective, sound and prudent day-to-day management of GRC issues by the Bank;
- reviewing the compliance related policy and other compliance related matters if considered relevant by any member of the Risk and Compliance Committee 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 remediation actions of significant weaknesses and significant issues;
- reviewing the risk management related policy and other risk management related matters if considered relevant by any member of the Risk and Compliance Committee;
- proposing to the ExCo new KRIs, with relevant risk appetite, tolerance and capacity thresholds for existing and/or new material risk the Bank might be exposed to.
- reviewing of the appropriateness of list of scenarios included in the stress testing program.
- involving actively in the discussion with the Risk Management Department about the design, assumptions, results, limitations and implications of the stress testing program, and challenges the key modeling assumptions and scenario selection.

3.1 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, 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.

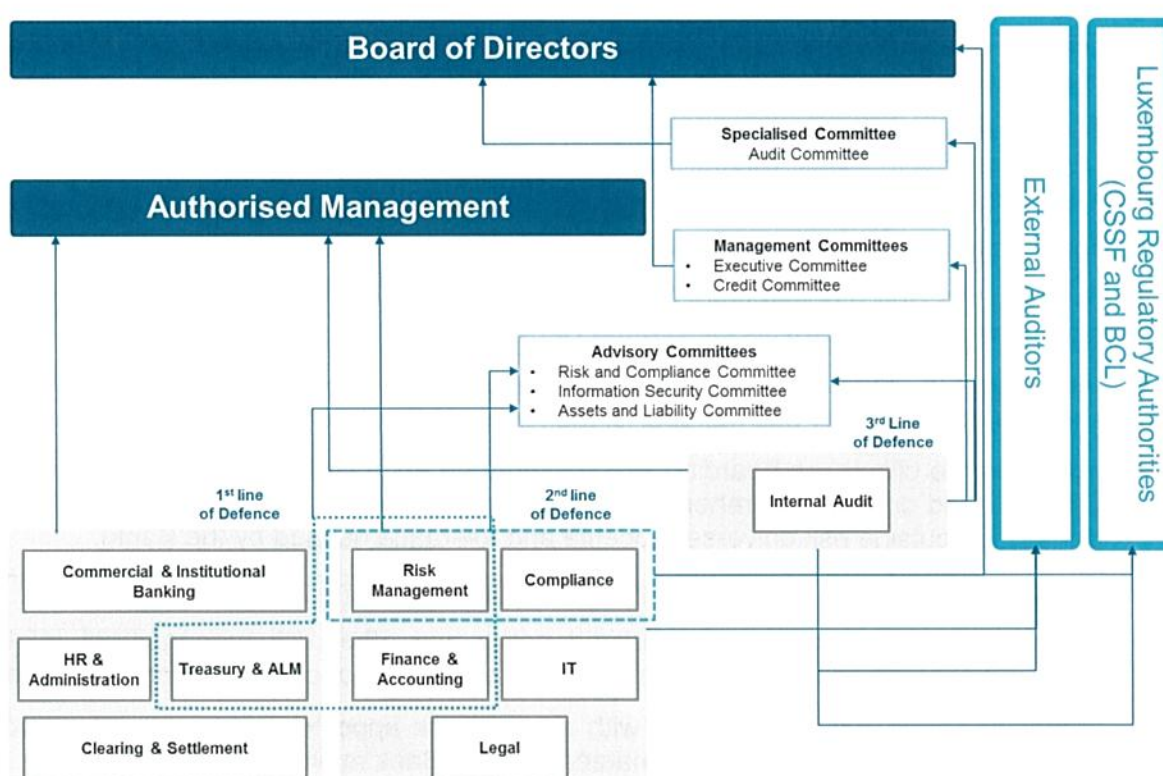


Figure 2: Lines of defence

- the first line of defence consists of the front office business staffs that are responsible for adhering to individual trader mandates as well as firm-wide policies;
- the second line of defence is the oversight provided by key control functions such as Credit, Risk and Compliance who set and monitor adherence to policies and define work practices;
- the third line of defence is the independent internal audit and the directors who undertake reviews of the overall risk management and compliance function.

4. Own Funds

Since the opening of the Bank, its own funds are composed by Common Equity Tier 1 (CET1) instruments only. The capital structure as of 31 December 2018 is as follows:

Common Equity Tier 1 capital: instruments and reserves		
1	Capital instruments and the related share premium accounts	200,000,000
	of which: Instrument type 1	200,000,000
	of which: Instrument type 2	0
	of which: Instrument type 3	0
2	Retained earnings	-24,568,025
3	Accumulated other comprehensive income (and any other reserves)	900,000
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	176,331,975
Common Equity Tier 1 (CET1) capital: regulatory adjustments		
7	Additional value adjustments (negative amount)	0
	Intangible assets (net of related tax liability) (negative amount)	-388,871
9	Empty set in the EU	0
	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
10	Fair value reserves related to gains or losses on cash flow hedges	0
11	Negative amounts resulting from the calculation of expected loss amounts	0
12	Any increase in equity that results from securitised assets (negative amount)	0
13	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	0
14	Defined-benefit pension fund assets (negative amount)	0
15	Direct and indirect holdings by an institution of own CET1 instruments (negative amount)	0
16	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
17	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
18	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
19	Empty set in the EU	0
20	Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative	0
20a	of which: qualifying holdings outside the financial sector (negative amount)	0
20b	of which: securitisation positions (negative amount)	0
20c	of which: free deliveries (negative amount)	0
20d	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
21	Amount exceeding the 15% threshold (negative amount)	0
22	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
23	Empty set in the EU	0
24	of which: deferred tax assets arising from temporary difference	0
25	Losses for the current financial year (negative amount)	0
25a	Foreseeable tax charges relating to CET1 items (negative amount)	0
25b	Regulatory adjustments applied to Common Equity Tier 1 in respect of amounts subject to pre-CRR treatment	0
26	Regulatory adjustments relating to unrealised gains and losses pursuant to Articles 467 and 468	0
26a	Amount to be deducted from or added to Common Equity Tier 1 capital with regard to additional filters and deductions required pre-CRR	0
26b	Qualifying AT1 deductions that exceed the AT1 capital of the institution (negative amount)	0
27	Total regulatory adjustments to Common Equity Tier 1 (CET1)	-388,871
28	Common Equity Tier 1 (CET1) capital	175,943,104

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 2018	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)	175,943,104
Tier 2 (T2) capital: instruments and provisions		
46	Capital instruments and the related share premium accounts	0
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 2018	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)	175,943,104
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	931,635,153
Capital ratios and buffers		
61	Common Equity Tier 1 (as a percentage of total risk exposure amount)	18.89%
62	Tier 1 (as a percentage of total risk exposure amount)	18.89%
63	Total capital (as a percentage of total risk exposure amount)	18.89%
	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⁾	
64	of which: capital conservation buffer requirement	2.5%
65	of which: countercyclical buffer requirement	0%
66	of which: systemic risk buffer requirement	0
67	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	0
67a	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount) ²⁾	10.89%
68	[non-relevant in EU regulation]	
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 2018:

Capital Requirements	RWA	Pillar I minimum capital requirement (8%)
Capital requirements for credit risk	892,119,059	71,369,525
Institutions	197,750,563	15,820,045
Corporates	669,050,071	53,524,006
Exposures in default	15,087,500	1,207,000
Other Items	10,230,924	818,474
Capital requirements for market risk	4,358,260	348,661
Capital requirements for operational risk (BIA)	34,279,857	2,742,389
Total	930,757,176	74,460,574
Eligible Capital	175,943,104	
Total Capital available after minimum requirement	101,482,530	

Table 3: Calculation of capital requirements

As a result of the 2018 ICAAP, the Bank determined its additional Pillar II capital needs as detailed below:

Pillar II	38,456,633
Market Risk - IRRBB	5,914,757
Concentration Risk	26,627,120
Stress Test	5,914,756

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 counterparty 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 defaulting 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.

The following table shows the breakdown of exposures by classes as at 31 December 2018:

Exposure class	Gross exposures
Central Government and Central Banks	155,357,540
Corporate	669,050,071
Institutions	451,938,083
Other items	20,762,606
Total	1,297,108,300

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

The following tables provide a breakdown of the Bank's corporate portfolio by Country and by Industry of exposure:

Country	Exposure	Weight
Austria	31,135,166	2.66%
China	1,322,409	0.11%
Germany	43,999,070	3.76%
Spain	171,483,176	14.67%
France	325,764,292	27.87%
Hong Kong	14,691,164	1.26%
Ireland	105,188,185	9.00%
Italy	262,182,888	22.43%
Luxembourg	17,382,101	1.49%
Netherlands	133,705,051	11.44%
Poland	45,632,355	3.90%
United States	16,548,744	1.42%
Grand Total	1,169,034,601	100%

Table 6: Corporate Loans by Country

Industry	Exposure	Weight
Administrative and support service activities	90,504,270	7.74%
Agriculture, forestry and fishing	4,980,647	0.43%
Construction	44,555,875	3.81%
Electricity, gas, steam and air conditioning supply	96,036	0.01%
Financial and insurance activities	177,534,993	15.19%
Human health and social work activities	91,495,694	7.83%
Information and communication	127,519,744	10.91%
Manufacturing	373,126,492	31.92%
Mining and quarrying	4,973,258	0.43%
Professional, scientific and technical activities	4,651,165	0.40%
Real estate activities	66,443,136	5.68%
Transporting and storage	120,834,929	10.34%
Wholesale and retail trade; repair of motor vehicles	62,318,361	5.33%
Grand Total	1,169,034,601	100%

Table 7: Corporate Loans by Industry

Residual Maturity	Outstanding Amount in cv EUR	Weight
<1Y	83,279,880	7.12%
>5Y	132,283,045	11.32%
1-3Y	627,576,956	53.68%
3-5Y	325,894,720	27.88%
Grand Total	1,169,034,601	100%

Table 8: Corporate Loans per residual maturity

As of the end of December 2018, the Bank had only one exposure classified as non-performing (substandard, stage 3), for an amount of EUR 15,087,500. Since 31 December 2017 the face value of the exposure is fully guaranteed by CCB Corporation, Luxembourg Branch.

The disposal of the exposure has been finalized during the first quarter 2019.

The risk classification of the corporate portfolio as of the end of 2018 was as follows:

Asset Risk Classification EBA	Asset Risk Classification CCB	Credit Stage (IFRS 9)	Exposure	weight
Performing	Normal	1	1,114,324,724	95.3%
		2	39,622,377	3.4%
Performing Total			1,153,947,101	98.7%
Non Performing	Substandard	3	15,087,500	1.3%
Non Performing Total			15,087,500	1.3%
Total			1,169,034,601	100.0%

Table 9: Asset classification as of end 2018

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, reviews the collateral agreements 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 on customer relationship level.

The following table summarises the amount of collateral received by the Bank as at 31 December 2018.

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	Sum of Weight
Secured	Airplanes	70,665,516	6%
	Cash	1,096,036	0%
	Commercial Building	45,983,071	4%
	Corporate Guarantee	205,496,515	18%
	Financial Guarantee - CCB Group	418,375,342	36%
	Financial Guarantee - Other FI	2,503,567	0%
	Industrial Building	9,759,203	1%
	Securities	10,700,862	1%
Secured Total		764,580,113	65%
Unsecured	Unsecured	404,454,488	35%
Unsecured Total		404,454,488	35%
Grand Total		1,169,034,601	100%

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 asset class following the IFRS 9 provisioning framework. The Bank is using the CCB HO IFRS 9 model and parameters, validated by the external auditor.

Country	Impairment	Weight
Austria	55,566	1.73%
China	1,848	0.06%
Germany	131,969	4.11%
Spain	289,121	9.00%
France	814,859	25.36%
Hong Kong	20,374	0.63%
Ireland	848,089	26.39%
Italy	274,013	8.53%
Luxembourg	71,097	2.21%
Netherlands	505,814	15.74%
Poland	90,738	2.82%
United States	109,951	3.42%
Grand Total	3,213,440	100%

Table 11: IFRS 9 impairment breakdown by country

Industry	Impairment	Weight
Administrative and support service activities	474,241	14.76%
Agriculture, forestry and fishing	33,075	1.03%
Construction	111,705	3.48%
Electricity, gas, steam and air conditioning supply	-	0.00%
Financial and insurance activities	672,197	20.92%
Human health and social work activities	160,517	5.00%
Information and communication	124,319	3.87%
Manufacturing	479,724	14.93%
Mining and quarrying	33,075	1.03%
Professional, scientific and technical activities	18,973	0.59%
Real estate activities	439,334	13.67%
Transporting and storage	410,150	12.76%
Wholesale and retail trade; repair of motor vehicles	256,131	7.97%
Grand Total	3,213,440	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 issue (total face amount: EUR 500 m.). 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 2018 amounted to USD 1.14 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.

Counterparty	Risk Weight		RWA
	20%	50%	
CCB LONDON BRANCH	4,285,277		857,055
CCB LUXEMBOURG BRANCH		4,600,000	2,300,000
Grand Total	4,285,277	4,600,000	3,157,055

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

Type of derivative	less than 3 months		> 1 year to 5 years	
	Notional Amount	Fair Value	Notional Amount	Fair Value
FX swaps	214,263,851	- 117,762	0	0
IRS	0	0	230,000,000	1,028,676

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 BCBS¹. 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 2018, 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

¹ Banking Committee on Banking Supervision

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:

- 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 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 ;
- 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:

- parallel shock up: immediate 100 bps
- parallel shock down: immediate 100 bps
- steepener shock: short rates down and long rates up
- flattener shock: short rates up and long rates down
- short rates shock up: immediate 100 bps up to 1 year
- short rates shock down: immediate 100 bps up to 1 year

Positions are managed and monitored by the Treasury and ALM Department. As at 31 December 2018 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.

Scenario	ΔEVE		ΔNII	
	Amount (EUR)	%	Amount (EUR)	%
Parallel up	4,413,321	2.5%	5,914,757	3.4%
Steepener	169,772	0.1%	805,707	0.5%
Flattener	- 169,772	-0.1%	- 805,707	-0.5%
Short rate up	1,183,310	0.7%		
Short rate down	- 1,183,310	-0.7%		
Maximum	4,413,321	2.5%	5,914,757	3.4%
Period	2018			
Tier 1 capital	175,943,104			

Table 16: IRRBB scenarios and outcomes

Scenario	USD		EUR	
	Amount (EUR)	%	Amount (EUR)	%
Parallel up	- 221,181	-0.1%	4,634,826	2.6%
Steepener	45,620	0.0%	124,087	0.1%
Flattener	- 45,620	0.0%	- 124,087	-0.1%
Short rate up	- 221,181	-0.1%	1,404,815	0.8%
Short rate down	221,181	0.1%	- 1,404,815	-0.8%
Maximum	- 221,181	-0.1%	4,634,826	2.6%
Period	2018			
Tier 1 capital	175,943,104			

Table 17: IRRBB scenarios and outcomes per main currency

Scenario	NPV impact (EVE)	
	Amount (EUR)	% of Own Funds
+200 bps immediate shift of the curve	8,826,642	5.0%
-200 bps immediate shift of the curve (with floor at 0%)	442,362	0.3%

Table 18: IRRBB Regulatory Stress Test (CSSF Circular 08/338)

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 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 2018, 13 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, Authorised Management 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 2018, the liquidity coverage ratio of the Bank was 1114%, as detailed in the following table:

	Total Weighted Value
LIQUIDITY BUFFER	151,825,952
TOTAL NET CASH OUTFLOWS	13,623,845
LIQUIDITY COVERAGE RATIO	1114%

Table 19: 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 ICAAP 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 2018 with regards to its credit transactions and corporate business was mostly concentrated on European Countries (97%). 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 biggest part of the bank's funding comes from issuance under its EMTN Program (47.55%) and term deposits.

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 the KYC / file review and sign-off.

Regarding the management of Compliance risk a number of initiatives took place throughout 2018 – the most important ones are summarized here below:

- 4AMLD implementation project – updating of related policies and procedures;
- GDPR implementation project;
- The implementation of an automated AML system (FICO Tonbeller) which supports various Bank processes such as customer risk rating, KYC, client screening, payment screening as well as transaction monitoring.

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 including regulatory or contractual requirements. Examples of legal risk include inadequate documentation, legal and regulatory 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 department which is composed of two lawyers since September 2018 and additional paralegal staff. Furthermore, the Bank consults with external counsel to mitigate its legal risk exposure.

For cross-border business transactions with borrowers located outside of Luxembourg, internal legal counsel checks and requests to be checked that the Bank is not in breach of regulatory requirements. Such check is done by verifying that the Bank is either participating in loan transactions in the relevant location through (i) a branch established in such location, (ii) through the free provision of services following relevant passport notification or (iii) through additional regulatory checks under local laws when entering into loan transactions with clients that are located outside of Europe (for ex clients located in Hong Kong or China).

Regarding regulatory matters, the Bank is engaged in anticipating regulatory changes and identifying gaps in order to comply with the relevant regulatory requirements. As for litigation, there are currently no lawsuits against the Bank. It should nevertheless be noted that it is difficult to predict the outcome of legal and/or regulatory 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.

Reputation 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.

A key aspect of reputation risk for the activities of the Bank is the confidentiality of information relating to clients. It has therefore put in place a series of measures to reduce its exposure to maximum confidentiality. The Bank adopts and embeds client protection standards and is dedicated to regular review of rules and regulations, as well as updating these standards accordingly. These standards are detailed in the Client Protection and Fair Treatment Procedure; the whole framework of client interfacing activities is complemented by the Code of Conduct, the Client Complaints Handling Procedure and the Data Protection.

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.

Finally, the AM aims to mitigate the Bank's reputation risk in focusing especially on the prevention of money laundering and financing of terrorism (refer to section "Compliance risk").

12. Capital Buffers

As at 31 December 2018, the Bank had no exposures relevant for the calculation of the institution-specific Countercyclical Capital buffer that was thus equal to zero.

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 BCL² 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	3,529,458	-	1,240,434,385	-
Loans on demand	020	3,529,458	-	151,828,082	-
Loans and advances other than loans on demand	100	-	-	1,065,548,647	-
of which: mortgage loans	110	-	-	56,182,736	-
Other assets	120	-	-	23,057,656	-

Table 20: Asset encumbrance overview

		Fair value of encumbered collateral received or own debt securities issued
		010
Collateral received by the reporting institution	130	996,983
Other collateral received	230	996,983

Table 21: Collateral received

² Banque Centrale du Luxembourg

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 2018 the value is 12.8%, widely in line with the Bank's risk appetite. On-balance sheet changes related to the loan business are the main factor impacting the leverage ratio during the period (year 2018).

Given the high ratio as of the end of 2018, 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)	1,241,169,516
2	(Asset amounts deducted in determining Tier 1 capital)	- 388,871
3	Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)	1,240,780,645
	Derivative exposures	
EU 5a	Exposure determined under Original Exposure Method	8,885,277
11	Total derivative exposures	8,885,277
	Off-balance sheet exposures	

17	Off-balance sheet exposures at gross notional amount	126,227,365
	Capital and Total Exposures	
20	Tier 1 capital	175,943,103
21	Total leverage ratio exposures	1,375,893,288
22	Leverage Ratio	12.8%
	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 22: Leverage Ratio

15. Use of ECAs

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

17.1 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 2018, the Bank has identified 16 staff members whose professional activities could have a material impact on the Bank's risk profile (Identified staff).

17.2 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. 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.

C. Identified staff

As a matter of principle, Variable Remuneration is not exceeded 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 2018	Variable remuneration in EUR for 2018*	Number of beneficiaries
Identified Staff	4,263,376	139,087	16

* the variable remuneration does not include the bonus of the AM for 2018 as it is not available at the date of this report

The remunerations were paid in cash only. No other payments were recorded in 2018 (deferred remuneration or severance payments).

China Construction Bank (Europe) S.A.



Jiang Liu
Chief Executive Officer



Lan Yan
Deputy General Manager

