



**Pillar III**  
**Disclosure Report 2023**

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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 as 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”.

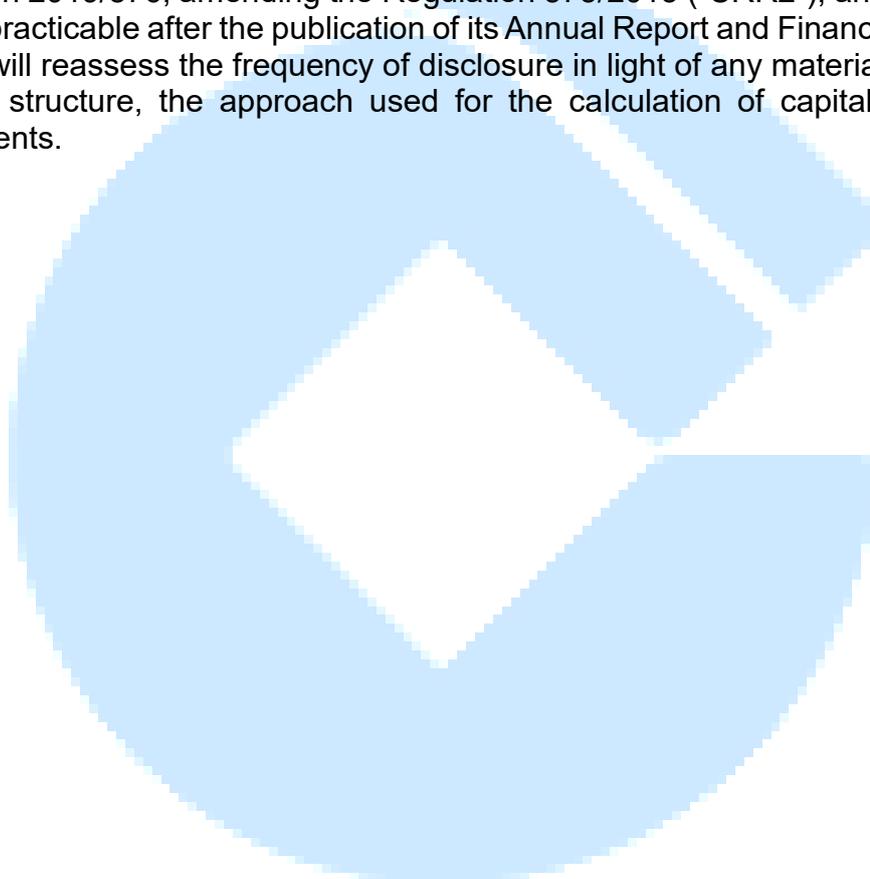


## 2. General requirements for disclosure

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 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.



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## 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;
- *Interbank trade activities: money market borrowing and lending*, repo, 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 and issuance*: the Bank owns a securities portfolio for both liquidity and investment purposes, the Bank also issues EMTN for funding 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

The Board of Directors (BoD) is leading the Bank, convened in regular meetings. It is

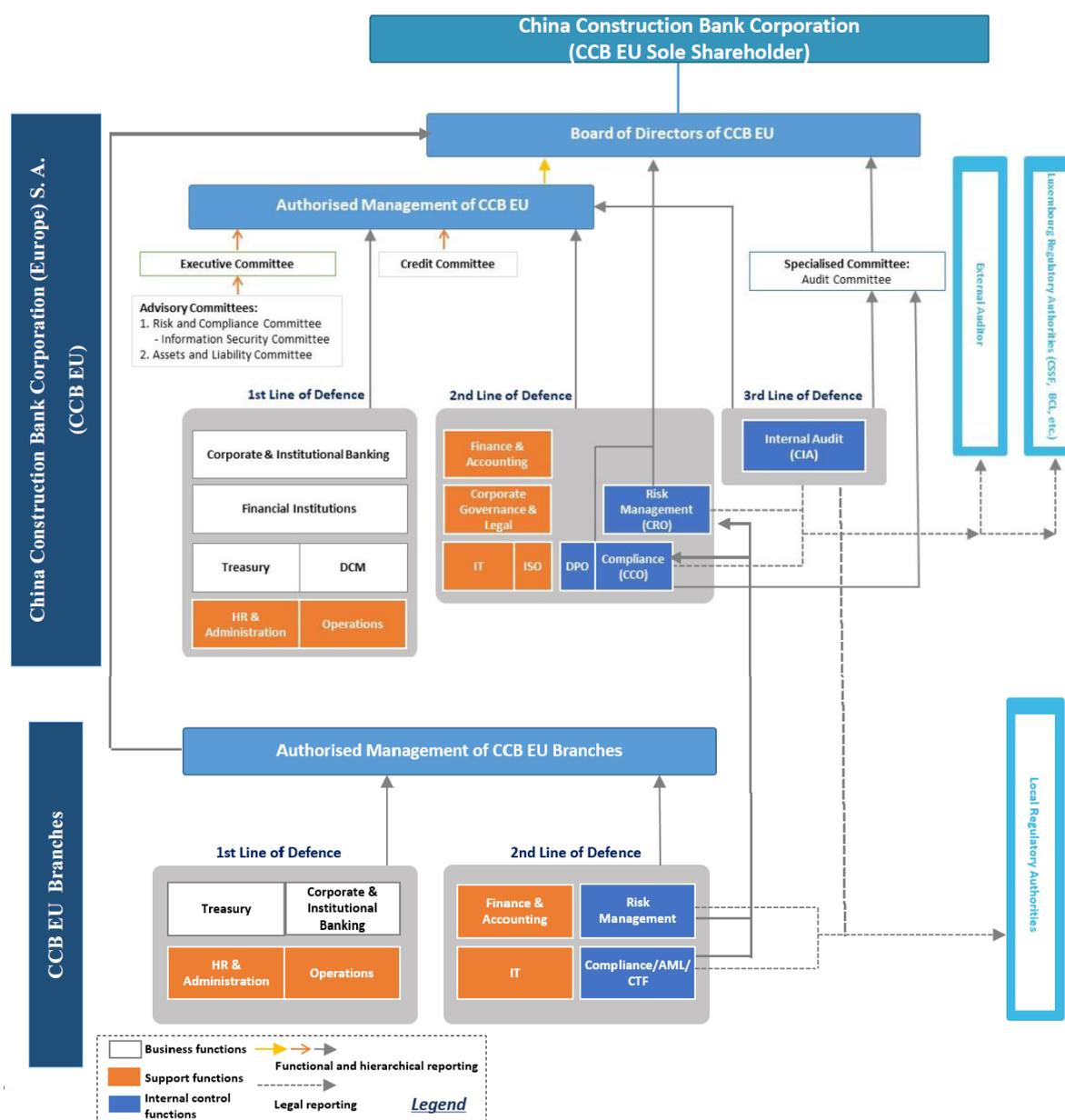
composed by seven members as of December 31<sup>st</sup>, 2023: one Chairperson, one Vice chairperson, one other non-Executive director, two Independent Directors and two Executive Directors who are members of the Authorised Management.

CCBEU’s Authorised Management (“AM”), in charge of the daily business, is composed by four members as of December 31<sup>st</sup>, 2023: 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 (Specialised 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 selection of 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



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## SUITABILITY OF MANAGEMENT BODY

CCB EU's *Suitability Policy Relating to the Appointment and Succession to the Management Body and Key Functions* was established in accordance with the criteria laid down in the following applicable rules:

- the Law of 5 April 1993 on the financial sector, as amended (LFS),
- Circular 12/552 of the Commission de Surveillance du Secteur Financier (hereinafter, the "CSSF") on central administration, internal governance and risk management, as amended (CSSF Circular 12/552);
- the prudential procedure for the appointment of members of the management body and key function holders in credit institutions published by the CSSF last updated on 30 June 2022 (Prudential Procedure);
- the joint ESMA and EBA guidelines on the assessment of the suitability of members of the management body and key function holders under Directive 2013/36/EU and Directive 2014/65/EU published on 2 July 2021 (EBA/GL/2021/06, EBA Guidelines).

The Bank lays down in the Suitability Policy a set of qualities and competencies when recruiting members of the BoD and the AM and thus, to promote diversity of the management body to benefit from diverse opinions and experiences when taking decisions. CCB EU monitors an appropriate gender equality within the management body and ensures equal opportunities when selecting members.

The Bank's management body (Board of Directors and Authorised Management) shall 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 and AM 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.

All members of the management body shall meet at all times the conditions of good repute, professional skills and personal qualities necessary for undertaking their activities. Additionally, BoD members shall also be in a position to guarantee the overall proper governance of the Bank. The selection process involves a comprehensive evaluation of their professional backgrounds, including their knowledge in international business, finance, risk management, regulatory compliance, strategic planning. In particular, the following aspects shall be taken into account:

- (a) Reputation, honesty, integrity;
- (b) Knowledge, skills and experience;
- (c) Conflict of Interest;
- (d) Time commitment; and
- (e) Other Governance criteria indicated in the internal procedure of CCB EU.

As of today, the members of CCBEU Management body are all coming from the banking (financial) sector, 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 navigate all banking and especially corporate banking challenges. The management body considers itself to have the collective knowledge, skills and experience in the following areas:

- (i) banking and financial markets;
- (ii) legal and regulatory framework and requirements;
- (iii) strategic planning and understanding of a credit institution’s business strategy or business plan and accomplishment thereof;
- (iv) risk management (identifying, assessing, monitoring, controlling and mitigating the main types of risk of a credit institution, including the responsibilities of the relevant person in that respect);
- (v) the assessment of the effectiveness of a credit institution’s arrangements, ensuring effective governance, oversight and controls; and
- (vi) the interpretation of a credit institution’s financial information, the identification of key issues based on this information and appropriate controls and measures.

### BOARD OF DIRECTORS

The Board of Directors 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 the shareholder 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 the ICAAP Report and the Recovery Plan.

As at the end of 2023, the detailed information about the number of directorships of the members of the Board is disclosed as follows as per CRR2 art.435 (2):

Board of Directors	Position in CCB EU’s Board	Number of Other positions in third entities
<b>Mrs. Jianbo Sun</b>	Chairperson (Non-executive)	1 (within China Construction Bank Corporation)
<b>Mr. Jiang Liu</b>	Vice Chairperson (Non-executive)	0
<b>Mr. Junle Xie</b>	Executive Director	1 (China Construction Bank Corporation Luxembourg Branch)

Board of Directors	Position in CCB EU's Board	Number of Other positions in third entities
<b>Mrs. Rong Zhao</b>	Executive Director	1 (China Construction Bank Corporation Luxembourg Branch)
<b>Mrs. Lin Zhu</b>	Non-executive Director	1 (within China Construction Bank Corporation)
<b>Mr. Michael Vareika</b>	Independent Director	15 directorships
<b>Mr. David Arendt</b>	Independent Director	12 directorships

During 2023, seven on-site BoD meetings were held and BoD written resolutions were taken four times.

### AUTHORISED 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 reviews the prudential ratios on a regular basis and make suggestions related to dividends, distributions, reserves and repatriations of capital to the BoD.

As at the end of 2023, the detailed information about the number of directorships of the members of the Board is disclosed as follows as per CRR2 art.435 (2):

Authorised Management	Position in CCB EU's AM	Number of Other positions in third entities
<b>Mr. Junle Xie</b>	General Manager	1 (China Construction Bank Corporation Luxembourg Branch)
<b>Mrs. Rong Zhao</b>	Deputy General Manager	1 (China Construction Bank Corporation Luxembourg Branch)
<b>Mrs. Xi Zhang</b>	Deputy General Manager	1 (China Construction Bank Corporation Luxembourg Branch)
<b>Mr. Zhanqing Chen</b>	Deputy General Manager	1 (China Construction Bank Corporation Luxembourg Branch)

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.

### 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 selection of and controls performed by the independent external auditor of the Bank.

Its responsibilities are the following:

- Reviews the content of the annual accounts report and advises 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;
- Reviews, and reports to the Board of Directors on the significant financial reporting issues encountered 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;
- Reviews and confirms the Internal Audit charter;
- Monitors and reviews the effectiveness of the Bank's Internal Audit and Compliance functions and assesses the quality of work completed by both functions with the requirements of the Circular 12/552;
- Assesses whether the human and material resources used by the internal audit and compliance functions are sufficient to achieve their objectives, and makes sure that internal audit and compliance staff have the required skills, and that the independence of both functions is safeguarded;
- Reviews and confirms the internal audit plan (as agreed by the Authorised Management);
- Analyses and debates 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, non-financial information to be provided by the Bank under the SFRD and/or the CSRD, 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;

- Has primary responsibility for making a recommendation to the Board of Directors on the appointment, reappointment and removal of the appointed independent external auditor of the Bank;
- Approves the terms of engagement and the remuneration to be paid to the independent external auditor of the Bank in respect of audit services provided;
- Oversees the Bank's relationship with the appointed independent external auditor of the Bank and assesses the quality of work the latter carried out, its independence and objectivity and compliance by the latter with the best practices in relation to their audit work;
- In the context of the last item, critically analyses and assesses notably the external audit plan, annual accounts reports, management letters as well as the long-form reports drafted by the independent external auditor of the Bank and examines and monitors the independence of the independent external auditor of the Bank notably in respect of the provision of additional services to the Bank;
- Reviews 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 actions;
- Deliberates 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 aimed at improving the organisation and internal control;
- Deliberates 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";
- Deliberates 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 2023, five Audit Committee meetings were held.

The Audit Committee is chaired in alternance by one of 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's 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 reviews the prudential ratios on a regular basis and makes suggestions related to dividends, distributions, reserves and repatriations of capital to the BoD.

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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 2023, seven on-site ExCo meetings were held and decisions were taken five times via email circulars.

### Credit Committee

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

- Facilitates the effective management of the credit risk by the Bank;
- Executes 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”);
- Executes the Bank’s credit risk procedure;
- Makes recommendations to the ExCo and the BoD on the credit risk procedure and strategy of the Bank, where appropriate;
- Evaluates credit events and assess their impact on the credit portfolio, waivers included;
- Reviews and approves client limits;
- Reviews and approves individual credit applications/businesses;
- Reviews and approves the asset risk classification of each individual facility and the impairment calculation according to IFRS 9;
- Reviews and approves, 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:

- supervises the Bank’s ALM and offer solutions to align the operations with the

business strategy;

- monitors interest rate sensitive balance sheet items and the related KRI, proposes KRI updates or changes in their risk appetite and/or capacity. Proposes limits to Interest Rate Risk (“IRR”) gaps or sensitivity, along with entity level KRI to Branches;
- monitors the liquidity position and ratios of the Bank, proposes updates to indicators and limits to liquidity gaps or KRI to be applicable to Branches at single entity level;
- monitors the funding interdependencies with China Construction Bank Luxembourg Branch (“CCBLUX”) as well as with any other entities of CCB Group;
- monitors the capital position of the Bank and ensures that capital management activities are maintained in accordance with the risk appetite;
- monitors 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;
- analyses the asset and liability evolution against the business plan;
- monitors the Bank’s profitability against budget figures and evaluates the impact of potential drivers for earnings’ volatility;
- analyses business lines and products development from marketing perspective if it has significant impact on ALM;
- any other material issues concerning ALM.

The Asset and Liability Committee has no decision-making powers and forwards any decision to the Executive Committee.

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## Risk and Compliance Committee

The Risk and Compliance 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 with 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 of 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.

## Information Security Committee

The Information Security Committee ("ISC") assists the AM of CCBEU in fulfilling its oversight responsibilities by overseeing and reviewing (i) CCBEU's internal controls to protect its information and proprietary assets, and (ii) CCBEU's information security governance structure, including the risk management methodology, the risk policies and the risk tolerances.

Based on the provisions of CSSF Circular 20/750 on ICT & Security Risk Management, this Committee will work closely with the RCC to ensure related matters are addressed in a proper and timely manner.

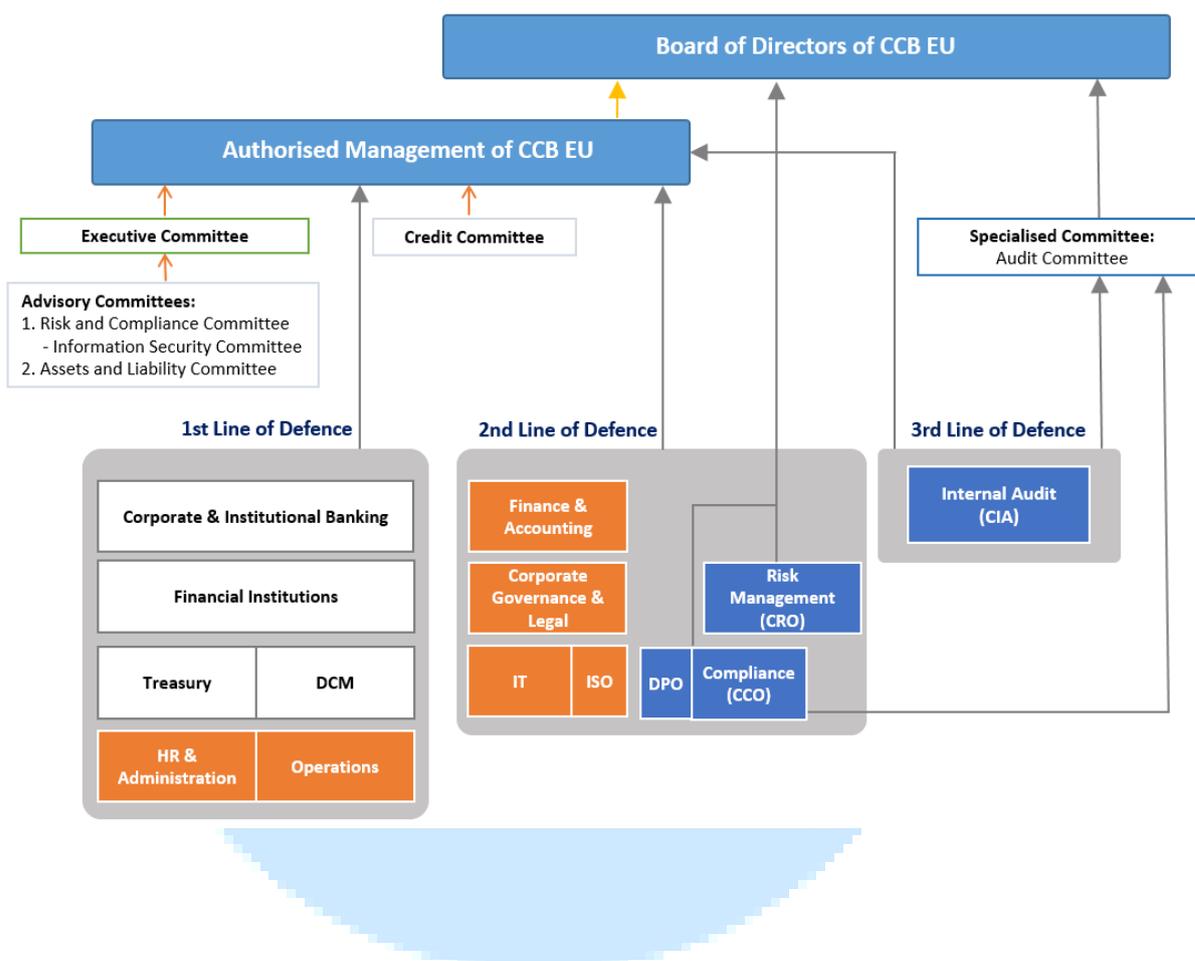
## Risk Management Framework

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, on consolidated basis, 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 (“Principles of a sound stress testing programme”) 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 CCBEU and the respect of the annually reviewed Risk Appetite Statement defined by the BoD. It also produces regular risk reporting to the AM and to the BoD to ensure adequate risk oversight by governing bodies.



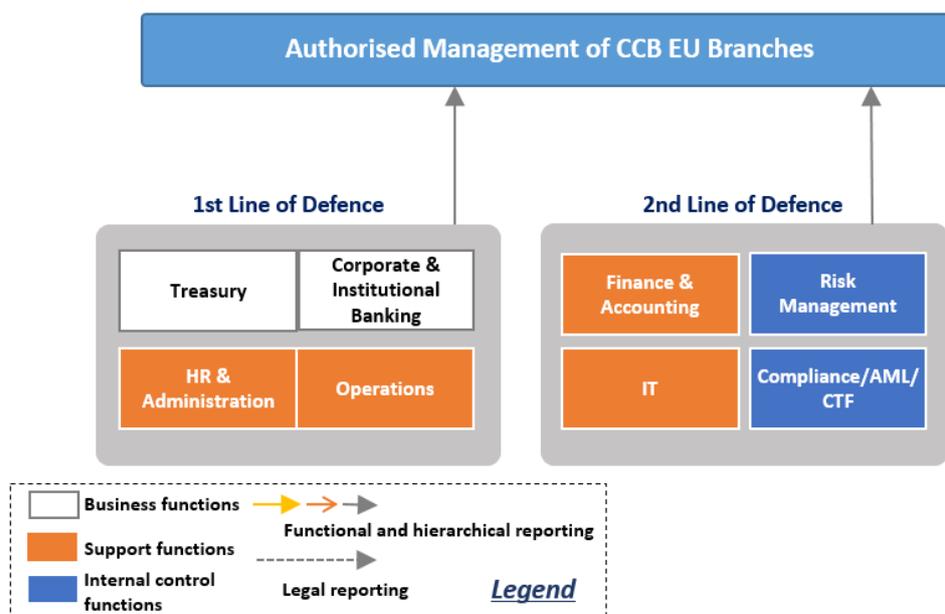


Figure 2: three lines of defence model

This model relies on the following stakeholders:

- the first line of defence is formed by managers and staff who are responsible for identifying and managing risk as part of their accountability for achieving objectives. Collectively, they have the necessary knowledge, skills, information, and authority to 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 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.

#### 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 the 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 assets or 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 counterparties 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 and Credit Spread Risk on Banking Book (“IRRBB” and “CSRBB”), 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**

Risk resulting from the term structure of interest rate sensitive instruments that arises from differences in the timing of their rate changes, covering changes to the term structure of interest rates occurring consistently across the yield curve (parallel risk) or differentially by period (non-parallel risk). This 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**

Risk arising from the impact of relative changes in interest rates on interest rate sensitive instruments that have similar tenors but are priced using different interest rate indices. Basis risk arises from the imperfect correlation in the adjustment of the rates earned and paid on different interest rate sensitive instruments with otherwise similar rate change characteristics. The Bank’s business is concentrated on floating assets and liabilities using Euribor and SOFR index as reference while the fixed rate transactions are hedged via IRS using the same index (Euribor and SOFR). The Bank’s exposure to the basis risk is 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 assumptions are as follows:

- 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;

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

- 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:

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 1: IRRBB methodologies**

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. steeper 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

**Credit Spread Risk on Banking Book (CSRBB)**

Risk driven by changes of the market price for credit risk, for liquidity and for potentially other characteristics of credit-risky instruments, which is not captured by another

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

existing prudential framework such as IRRBB or by expected credit/(jump-to-) default risk. CSRBB captures the risk of an instrument's changing spread while assuming the same level of creditworthiness, i.e. how the credit spread is moving within a certain rating/PD range. The main business line of the Bank is the commercial banking activity with the intention to hold the products until maturity. Accounted at amortised cost they bear a very limited exposure to the credit spread risk as per the CSRBB definition and are excluded from its scope. The derivatives, whose credit risk is captured via the credit value adjustment, the bond issuances and the interbank lending/borrowing activities (accounted at amortised cost) are also excluded from the scope of the CSRBB. The products considered as sensitive to the credit spread movements as per the regulation are the securities held for liquidity purposes in the ASF portfolio.

The simulation of the impact of 1bps change in the credit spread on the EVE and on the NII allows the Bank to control the evolution of its exposure to this risk component.

### **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, bringing their duration after hedging below 6 months. 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 an 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.

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 centrally managed by the Treasury Department of CCB EU 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 control 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 counter-guaranteed 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. Around one third of the funding is provided by CCB Luxembourg branch, which is also the main counterparty for derivative transactions. As per the funding strategy, the Bank is working on increasing the diversity of the funding sources.

The second sub-driver is managed by the Treasury, as a first level defence, and

monitored by the Risk Management Department through a gap analysis performed at single entity level on a weekly basis. All KRI are defined on a consolidated basis, European branches included, and allow to anticipate the impact of this sub driver.

#### 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/mid term funding transactions provided by financial or non-financial intermediaries. 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 importance of compliance to the NSFR, the Bank continued its efforts to increase the share of corporate deposits and unsecured institutional borrowings on a bilateral basis. REPO transactions also started during 2023. An increase in public issuance and private placement is still possible but not planned for the time being.

The liquidity risk framework is supported by the Contingency Liquidity Plan and the Recovery Plan.

## Intragroup Exposures

31/12/2023	Notional Exposure
<b>Asset</b>	<b>275.7</b>
Debt securities	100.1
Money Market Loan	167.6
Nostro Account	8.1
<b>Liabilities</b>	<b>-924.0</b>
Fees contract	-0.1
Money Market Deposit	-853.3
Subordinated loan	-70.6
<b>Off-balance</b>	<b>-31.0</b>
Guarantee Contract	-31.0
<b>Grand Total</b>	<b>-679.3</b>

31/12/2023	Exposure	31/12/2023	Exposure
CCB LUXEMBOURG BRANCH	2 267.8	CCB LONDON BRANCH	258.4
IR Derivatives	2 267.8	FX Derivatives	258.4
<b>Grand Total</b>	<b>2 267.8</b>	<b>Grand Total</b>	<b>258.4</b>

Figure 2 - Intragroup exposures (Amounts in EUR/Millions)

## 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

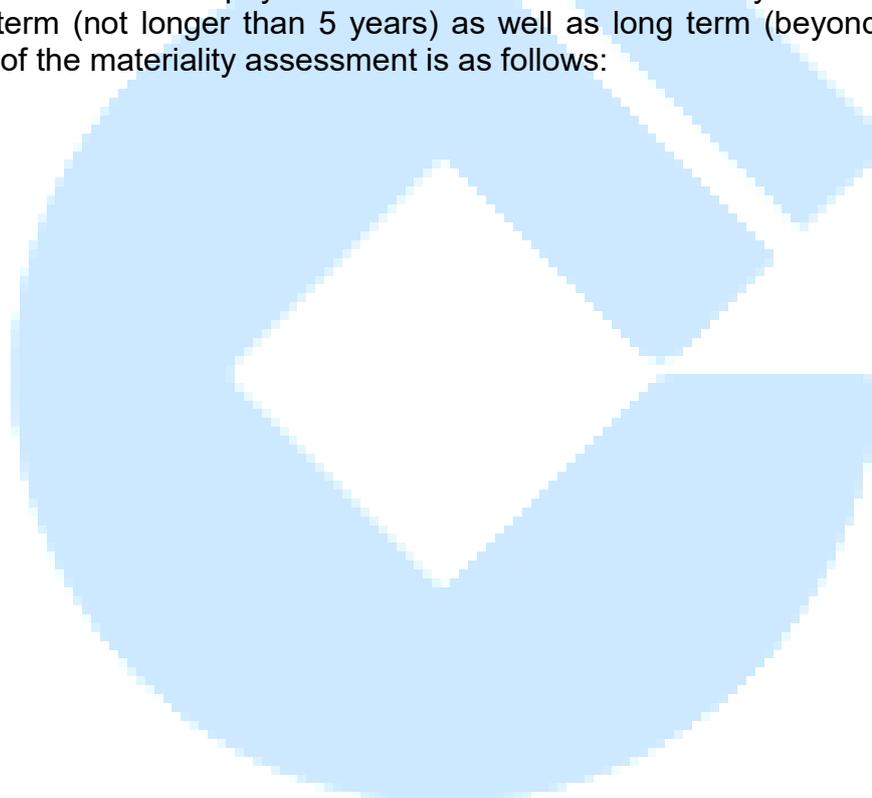
excessive leverage materializes as a mismatch of scale of activities and structure of the sources of financing and insufficient own funds.

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.

## **Exposure to Climate-related and Environmental Risks**

During 2023 the Bank performed a materiality assessment of Climate-related and Environmental risks as drivers of the risks mapped in its Risk Matrix. Materiality has been assessed on both physical and transition risk and analysed over the short to medium term (not longer than 5 years) as well as long term (beyond 5 years). The outcome of the materiality assessment is as follows:



Risk Category level 1	Risk Category level 2
Credit and Counterparty Risk	Credit Risk
	Counterparty Risk
	Residual Credit Risk
	Country Risk
Market Risk	Interest Rate Risk (including IRRBB)
	Position Risk
	Foreign Exchange (FX) Risk
Liquidity Risk	
Concentration Risk	Concentration Risk on Industry and Country
	Large Exposures Risk
Leverage Risk	
Operational Risk	
Compliance Risk (including AML Risk)	
Legal Risk	
Information and Communication Technology (ICT) Risk (including Security Risk)	
Reputational Risk	
Business and Strategic Risk	

Climate-Relate and Environmental (CR-E) Risks Materiality Assessment	
Physical Risk	
Short/Medium term (≤ 5 years)	Long term (> 5 years)
Material	Material
Material	Material
Non-material	Non-material
Material	Material
Non-material	Non-material
Material	Material
Non-material	Non-material
Material	Material
Non-material	Non-material
Non-material	Material
Non-material	Non-material
Non-material	Material
Non-material	Non-material

Climate-Relate and Environmental (CR-E) Risks Materiality Assessment	
Transition Risk	
Short/Medium term (≤ 5 years)	Long term (> 5 years)
Non-material	Material
Non-material	Material
Material	Material
Non-material	Material
Non-material	Non-material
Non-material	Non-material
Non-material	Material
Non-material	Material
Non-material	Non-material
Non-material	Material
Non-material	Material

As a further measure, the Bank has adopted a Climate and Environmental Risks Policy and Appetite Statement where are defined roles and responsibilities and a set of KRI based on the materiality assessment performed by the Bank.

In order to achieve the regulatory expectations, an action plan has been decided by the ExCo and acknowledged by the BoD; additionally, CR-E risks is currently a permanent point on the Risk and Compliance Committee's agenda.



## 5 Key Risk indicators

Below is an overview of the key risk indicators during 2023, not otherwise disclosed in other tables of this report.

LIQUIDITY INDICATORS	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Risk Appetite	Risk Tolerance	Risk Capacity
LCR	117%	254%	213%	115%	149%	225%	232%	389%	732%	207%	635%	371%	≥110%	≥105% and <110%	<105%
NSFR *	120%	120%	123%	112%	108%	107%	112%	108%	125%	126%	123%	112%	≥ 105%	≥100% and <105%	<100%
Asset Encumbrance Ratio	2%	3%	2%	2%	5%	4%	4%	4%	4%	4%	4%	4%	≤15%	>15% and ≤20%	>20%
Liquidity Mismatch target	3%	4%	4%	4%	7%	18%	14%	17%	12%	12%	16%	7%	< 35%		
<b>INTEREST RATE RISK</b>															
<b>NPV</b>															
A. EVE impact of the +200bps Regulatory scenarios	-3%	-3%	-1%	-3%	-2%	-3%	-4%	-4%	-3%	-3%	-3%	-2%	< 15%	≥15% and ≤20%	> 20%
B. EVE impact of the -200bps Regulatory scenarios	1%	1%	1%	2%	1%	2%	2%	2%	1%	1%	2%	1%			
EVE impact of the 6 Regulatory scenarios:															
1. parallel shock up	-3%	-3%	-1%	-4%	-2%	-3%	-4%	-4%	-3%	-3%	-3%	-2%	< 13%	13%-15%	> 15%
2. parallel shock down	1%	1%	1%	2%	1%	2%	2%	2%	2%	2%	1%				
3. steepener stress test	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%				

LIQUIDITY INDICATORS	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Risk Appetite	Risk Tolerance	Risk Capacity
4. flattener stress test	-1%	-1%	0%	-1%	0%	-1%	-1%	-1%	-1%	-1%	-1%	0%	< 13%	13%-15%	> 15%
5. short rates up	-2%	-2%	-1%	-2%	-1%	-2%	-3%	-2%	-2%	-2%	-2%	-1%			
6. short rates down	1%	1%	0%	1%	0%	1%	1%	1%	1%	1%	1%	0%			
<b>NII (1Y)</b>															
A. NII impact of the +200bps Regulatory scenarios	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%			
B. NII impact of the -200bps Regulatory scenarios	-1%	-1%	-1%	-1%	-1%	-1%	-1%	-1%	-2%	-2%	-2%	-1%			
NII impact of the 6 Regulatory scenarios:															
1. parallel shock up	1%	1%	1%	1%	1%	1%	1%	1%	2%	2%	2%	1%			
2. parallel shock down	-1%	-1%	-1%	-1%	-1%	-1%	-1%	-1%	-2%	-2%	-2%	-1%			
3. steepener stress test	0%	0%	-1%	-1%	-1%	-1%	-1%	-1%	-1%	-1%	-1%	-1%			
4. flattener stress test	1%	0%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%			
5. short rates up	1%	1%	1%	1%	1%	1%	2%	1%	2%	2%	2%	1%			
6. short rates down	-1%	-1%	-1%	-1%	-1%	-1%	-2%	-1%	-2%	-2%	-2%	-1%			

Table 2 - 2023 KRIs

\* NSFR values included in the COREP package are reported quarterly. Other monthly values are as calculated by Risk Management.

## 6 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
<b>Common Equity Tier 1 (CET1) capital: instruments and reserves</b>			
1	Capital instruments and the related share premium accounts	550,000,000	(h)
2	Retained earnings	- 48,059,071	
3	Accumulated other comprehensive income (and other reserves)	- 2,708,045	
EU-3a	Funds for general banking risk		
EU-5a	Independently reviewed interim profits net of any foreseeable charge or dividend	14,049,391	
6	<b>Common Equity Tier 1 (CET1) capital before regulatory adjustments</b>	<b>513,282,275</b>	
<b>Common Equity Tier 1 (CET1) capital: regulatory adjustments</b>			
7	Additional value adjustments (negative amount)		
8	Intangible assets (net of related tax liability) (negative amount)	- 126,049	(a)minus (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)	- 1,228,510	
28	<b>Total regulatory adjustments to Common Equity Tier 1 (CET1)</b>	<b>- 1,354,559</b>	
29	<b>Common Equity Tier 1 (CET1) capital</b>	<b>511,927,716</b>	
45	<b>Tier 1 capital (T1 = CET1 + AT1)</b>	<b>511,927,716</b>	
<b>Tier 2 (T2) capital: instruments</b>			
46	Capital instruments and the related share premium accounts	70,000,000	
51	<b>Tier 2 (T2) capital before regulatory adjustments</b>	<b>70,000,000</b>	
<b>Tier 2 (T2) capital: regulatory adjustments</b>			
57	<b>Total regulatory adjustments to Tier 2 (T2) capital</b>		
58	<b>Tier 2 (T2) capital</b>	<b>70,000,000</b>	
59	<b>Total capital (TC = T1 + T2)</b>	<b>581,927,716</b>	
60	<b>Total Risk exposure amount</b>	<b>2,794,414,649</b>	
<b>Capital ratios and requirements including buffers</b>			
61	Common Equity Tier 1 capital	18.32%	
62	Tier 1 capital	18.32%	
63	Total capital	20.82%	
64	Institution CET1 overall capital requirements	8.11%	
65	of which: capital conservation buffer requirement	2.5%	

		(a)	(b)
		Amounts	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
66	of which: countercyclical capital buffer requirement	0.41%	
67	of which: systemic risk buffer requirement		
EU-67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer requirement		
EU-67b	of which: additional own funds requirements to address the risks other than the risk of excessive leverage		
68	<b>Common Equity Tier 1 capital (as a percentage of risk exposure amount) available after meeting the minimum capital requirements</b>	0.84%	
<b>Applicable caps on the inclusion of provisions in Tier 2</b>			
76	Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)	22,201,609	
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	33,258,371	
78	Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap)		
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach		

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

		a	b	c
		Balance sheet as in published financial statements	Under regulatory scope of consolidation	Reference
		As at period end	As at period end	
<b>Assets - Breakdown by asset classes according to the balance sheet in the published financial statements</b>				
1	Cash in hand, balances with central banks and post office banks	830,621,685		
2	Loans and advances to credit institutions	306,186,299		
3	Loans and advances to customers	2,020,375,134		
4	Debt instruments at Fair Value through other comprehensive income	435,374,304		
5	Intangible assets	126,049		
6	Tangible assets	1,910,271		
7	Right of use assets	12,077,396		
8	Derivative financial instruments	34,268,952		
9	Other assets	11,213,576		

		a	b	c
		Balance sheet as in published financial statements	Under regulatory scope of consolidation	Reference
		As at period end	As at period end	
10	Prepayments and accrued income	3,823,199		
	<b>Total assets</b>	<b>3,655,976,865</b>		
<b>Liabilities - Breakdown by liability classes according to the balance sheet in the published financial statements</b>				
1	Amounts owed to credit institutions	1,625,112,829		
2	Amounts owed to customers	362,959,502		
3	Debt evidenced by certificates	952,568,414		
4	Derivative Financial instruments	88,628,646		
5	Other liabilities	15,504,862		
6	Accruals and deferred income	11,658,938		
7	Subordinated liabilities	70,638,838		
8	Provisions	16,589,675		
	<b>Total liabilities</b>	<b>3,143,661,704</b>		
<b>Shareholders' Equity</b>				
1	Subscribed capital	550,000,000		
2	Reserves	- 3,021,736		
3	Loss brought forward	- 51,801,765		
4	Loss for the financial year	17,138,662		
	<b>Total shareholders' equity</b>	<b>512,315,161</b>		

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

The Bank chooses to disclose information as of Article 442 points a) and c) of Regulation (EU) 2019/876 (CRR II), 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 and the relative component is 1% of the total amount of on-balance 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 terms;
- 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 the interests to be received according to the 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 a default or trigger a case-by-case 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;
    - 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;
    - 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, and depending on the type of waiver (please see below), the responsible Credit Officer must be immediately informed of the waiver request. 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. If a material waiver also represents a forbearance measures the forbearance assessment has to be done by the credit officer in charge and included in the Credit Committee 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. Granting of technical waivers is 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 responsible 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 (credit administration team). Material waivers will be accordingly addressed to the Credit Committee 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 obligor's financial situation or do give rise to a loss for the Bank, the file has to be transferred to an ad hoc Workout team. For customers managed in Restructuring or Workout, any waiver request is negotiated by the Restructuring/Workout function and is approved by the relevant Credit Committee.

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.

	a	b	c	d	e	f	g	h	i	j	k	l	m	n	o
	Gross carrying amount/nominal amount						Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions						Accumulated partial write-off	Collateral and financial guarantees received	
	Performing exposures			Non-performing exposures			Performing exposures – accumulated impairment and provisions			Non-performing exposures – accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions				On performing exposures	On non-performing exposures
	Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3		Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3				
005	Cash balances at central banks and other demand deposits	918,764,772	918,764,772	-	-	-	28,421	28,421	-	-	-	-	-	-	-
010	Loans and advances	2,247,676,814	2,097,039,923	150,636,891	11,561,228	-	11,561,228	9,230,047	2,422,815	6,807,231	11,561,228	-	11,561,228	575,734,538	-
020	Central banks	-	-	-	-	-	-	-	-	-	-	-	-	-	-
030	General governments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
040	Credit institutions	218,495,552	218,495,552	-	-	-	423,916	423,916	-	-	-	-	-	-	-
050	Other financial corporations	634,778,398	589,620,939	45,157,459	-	-	4,120,013	359,977	3,760,037	-	-	-	-	308,560,812	-
060	Non-financial corporations	1,394,402,864	1,288,923,433	105,479,432	11,561,228	-	11,561,228	4,686,117	1,638,922	3,047,195	11,561,228	-	11,561,228	267,173,726	-
070	Of which SMEs	-	-	-	-	-	-	-	-	-	-	-	-	-	-
080	Households	-	-	-	-	-	-	-	-	-	-	-	-	-	-
090	Debt securities	435,529,245	435,529,245	-	-	-	154,941	154,941	-	-	-	-	-	-	-
100	Central banks	-	-	-	-	-	-	-	-	-	-	-	-	-	-
110	General governments	243,794,246	243,794,246	-	-	-	70,564	70,564	-	-	-	-	-	-	-
120	Credit institutions	7,872,514	7,872,514	-	-	-	22,631	22,631	-	-	-	-	-	-	-
130	Other financial corporations	7,018,849	7,018,849	-	-	-	10,848	10,848	-	-	-	-	-	-	-

	a	b	c	d	e	f	g	h	i	j	k	l	m	n	o
	Gross carrying amount/nominal amount						Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions						Accumulated partial write-off	Collateral and financial guarantees received	
	Performing exposures			Non-performing exposures			Performing exposures – accumulated impairment and provisions			Non-performing exposures – accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions				On performing exposures	On non-performing exposures
	Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3		Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3				
140	Non-financial corporations	176,843,637	176,843,637	-	-	-	-	50,898	50,898	-	-	-	-	-	-
150	Off-balance-sheet exposures	451,575,881	356,575,881	95,000,000	-	-	1,226,972	93,213	1,133,760	-	-	-	-	-	-
160	Central banks	-	-	-	-	-	-	-	-	-	-	-	-	-	-
170	General governments	50,000,000	50,000,000	-	-	-	8,009	8,933	-	-	-	-	-	-	-
180	Credit institutions	27,238,397	27,238,397	-	-	-	5,240	5,240	-	-	-	-	-	-	-
190	Other financial corporations	70,828,229	70,828,229	-	-	-	18,640	18,640	-	-	-	-	-	-	-
200	Non-financial corporations	303,509,255	208,509,255	95,000,000	-	-	1,195,083	61,324	1,133,760	-	-	-	-	-	-
210	Households														
220	<b>Total</b>	<b>4,053,546,712</b>	<b>3,807,909,821</b>	<b>245,636,891</b>	<b>11,561,228</b>	<b>-</b>	<b>11,561,228</b>	<b>8,158,015</b>	<b>2,484,543</b>	<b>5,673,472</b>	<b>11,561,228</b>	<b>-</b>	<b>11,561,228</b>	<b>575,734,538</b>	<b>-</b>

## Template EU CQ1: Credit quality of forborne exposures

		a	b	c	d	e	f	g	h
		Gross carrying amount/nominal amount of exposures with forbearance measures				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		Collateral received and financial guarantees received on forborne exposures	
		Performing forborne	Non-performing forborne		On performing forborne exposures	On non-performing forborne exposures		Of which collateral and financial guarantees received on non-performing exposures with forbearance measures	
			Of which defaulted	Of which impaired					
005	Cash balances at central banks and other demand deposits	-	-	-	-	-	-	-	-
010	Loans and advances	7,746,806.66	-	-	-	- 71,920.27	-	-	-
020	Central banks	-	-	-	-	-	-	-	-
030	General governments	-	-	-	-	-	-	-	-
040	Credit institutions	-	-	-	-	-	-	-	-
050	Other financial corporations	-	-	-	-	-	-	-	-
060	Non-financial corporations	7,746,806.66	-	-	-	- 71,920.27	-	-	-
070	Households	-	-	-	-	-	-	-	-
080	Debt Securities	-	-	-	-	-	-	-	-
090	Loan commitments given	-	-	-	-	-	-	-	-
<b>100</b>	<b>Total</b>	7,746,806.66	-	-	-	- 71,920.27	-	-	-

## 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 2023 with regards to its credit transactions and corporate business was mostly concentrated on European Countries. The clients (concentrated in the manufacturing, information and communication activities, energy and banking sectors) 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 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 takes place via reviews and sign-offs of Customer Due diligence performed by the business departments, as may be required by the procedures of the Bank. Also the Chief

Compliance Officer of the Bank (or his/her delegate) is included as Permanent voluntary voting member in the 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 counsel do not work on legal disputes relating to employees. For such matters and others that are beyond the competence of the in-house legal counsel, the Bank consults with external counsel to mitigate its legal risk exposure.

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

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

As for litigation, there are currently no 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 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

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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)

		Total risk exposure amounts (TREA)		Total own funds requirements
		a	b	c
		T	T-1	T
1	Credit risk (excluding CCR)	2,660,669,687	2,889,747,089	212,853,575
2	Of which the standardised approach	2,660,669,687	2,889,747,089	212,853,575
3	Of which the Foundation IRB (F-IRB) approach			-
4	Of which slotting approach			-
EU 4a	Of which equities under the simple riskweighted approach			-
5	Of which the Advanced IRB (A-IRB) approach			-
6	Counterparty credit risk - CCR	13,456,834	52,002,361	1,076,547
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	5,211,976	52,002,361	416,958
9	Of which other CCR			-
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)	22,557,383	17,176,034	1,804,591
21	Of which the standardised approach	22,557,383	17,176,034	1,804,591
22	Of which IMA			
EU 22a	Large exposures			
23	Operational risk			
EU 23a	Of which basic indicator approach	105,975,603	82,432,964	8,478,048
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)			
29	<b>Total</b>	<b>2,802,659,507</b>	<b>3,041,358,448</b>	<b>224,212,761</b>

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

		a	e
		T	T-4
<b>Available own funds (amounts)</b>			
1	Common Equity Tier 1 (CET1) capital	511,927,716	499,606,379
2	Tier 1 capital	511,927,716	499,606,379
3	Total capital	581,927,716	569,606,379
<b>Risk-weighted exposure amounts</b>			
4	Total risk exposure amount	2,794,414,649	3,041,358,448
<b>Capital ratios (as a percentage of risk-weighted exposure amount)</b>			
5	Common Equity Tier 1 ratio (%)	18.32%	16.43%
6	Tier 1 ratio (%)	18.32%	16.43%
7	Total capital ratio (%)	20.82%	18.73%
<b>Additional own funds requirements to address risks other than the risk of excessive leverage (as a percentage of risk-weighted exposure amount)</b>			
EU 7a	Additional own funds requirements to address risks other than the risk of excessive leverage (%)	1.25%	1.25%
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%	9.25%
<b>Combined buffer and overall capital requirement (as a percentage of risk-weighted exposure amount)</b>			
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 (%)	0.41%	0.05%
EU 9a	Systemic risk buffer (%)	-	-
10	Global Systemically Important Institution buffer (%)	-	-
EU 10a	Other Systemically Important Institution buffer (%)	-	-
11	Combined buffer requirement (%)	2.91%	2.55%
EU 11a	Overall capital requirements (%)	12.16%	11.80%
12	CET1 available after meeting the total SREP own funds requirements (%)	0.84%	0.84%
<b>Leverage ratio</b>			
13	Total exposure measure	4,091,062,921	3,804,156,941
14	Leverage ratio (%)	12.17%	13.13%
<b>Additional own funds requirements to address the risk of excessive leverage (as a percentage of total exposure measure)</b>			
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)		
EU 14c	Total SREP leverage ratio requirements (%)		

		a	e
		T	T-4
<b>Leverage ratio buffer and overall leverage ratio requirement (as a percentage of total exposure measure)</b>			
EU 14d	Leverage ratio buffer requirement (%)		
EU 14e	Overall leverage ratio requirement (%)		
<b>Liquidity Coverage Ratio</b>			
15	Total high-quality liquid assets (HQLA) (Weighted value -average)	551,893,095	303,777,188
EU 16a	Cash outflows - Total weighted value	394,432,574	276,586,179
EU 16b	Cash inflows - Total weighted value	158,227,587	106,566,686
16	Total net cash outflows (adjusted value)	236,204,987	170,019,493
17	Liquidity coverage ratio (%)	303%	197%
<b>Net Stable Funding Ratio</b>			
18	Total available stable funding	2,131,266,221	2,196,976,466
19	Total required stable funding	1,906,385,971	1,887,349,075
20	NSFR ratio (%)	112%	116%

The amounts reported in the above tables are updated at the latest and final version of the COREP as of end of 2023.

## 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 adequacy of the decision-making process governing the Remuneration Policy.

Based on its internal assessment for 2023, the Bank has identified 34 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 4 Head of control functions (Chief Risk Officer, Chief Compliance Officer, Chief Internal Auditor and Chief Financial Officer). 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.

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## Identified staff

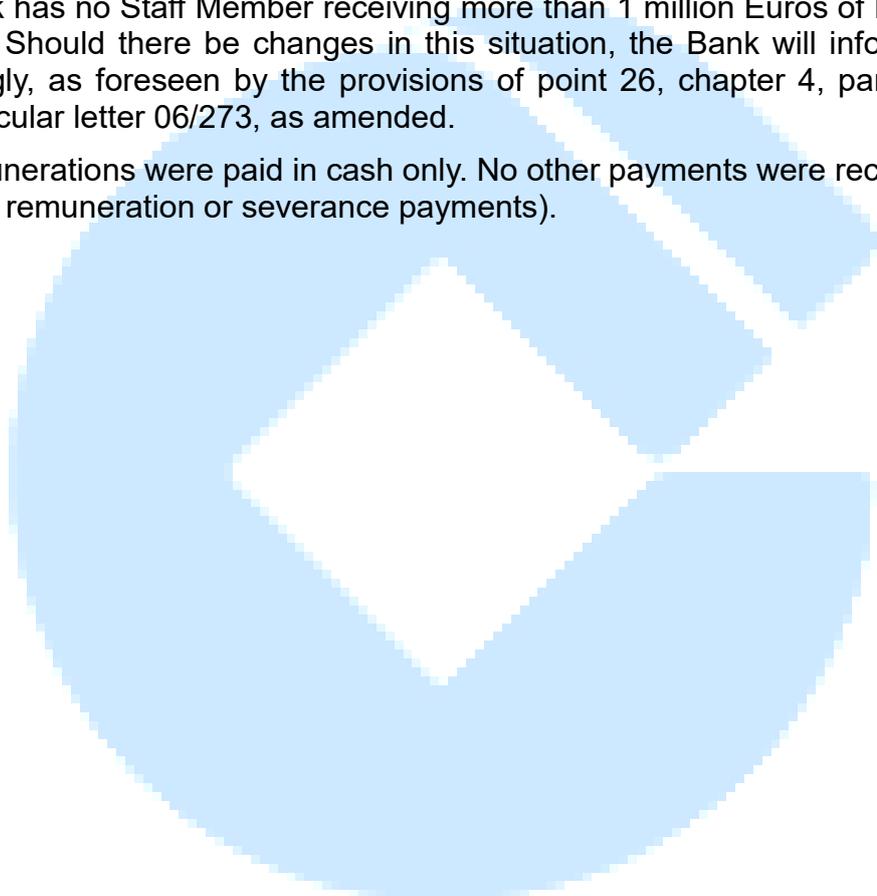
As a matter of principle, Variable Remuneration does not exceed 100% of the Fixed Remuneration for Identified Staff.

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 2023 (deferred remuneration or severance payments).



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

		a	b	c	d	
		MB Supervisory function	MB Management function	Other senior management	Other identified staff	
1	Fixed remuneration	Number of identified staff	7	16	11	
2		Total fixed remuneration	759,427	5,789,513	2,121,799	
3		Of which: cash-based	759,427	5,789,513	2,121,799	
4		(Not applicable in the EU)				
EU-4a		Of which: shares or equivalent ownership interests				
5		Of which: share-linked instruments or equivalent non-cash instruments				
EU-5x		Of which: other instruments				
6		(Not applicable in the EU)				
7		Of which: other forms				
8	(Not applicable in the EU)					
9	Variable remuneration	Number of identified staff	7	16	11	
10		Total variable remuneration	38,574	458,056	178,392	
11		Of which: cash-based	38,574	458,056	178,392	
12		Of which: deferred				
EU-13a		Of which: shares or equivalent ownership interests				
EU-14a		Of which: deferred				
EU-13b		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					
17	Total remuneration (2 + 10)		798,001	6,247,569	-	2,300,191

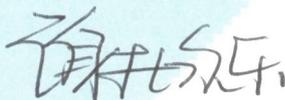
Template EU REM5 - Information on remuneration of staff whose professional activities have a material impact on institutions' risk profile (identified staff) – (Amounts in EUR)

	a	b	c	d	e	f	g	h	i	j
	Management body remuneration			Business areas						-
	MB Supervisory function	MB Management function	Total MB	Investment banking	Retail banking	Asset management	Corporate functions	Independent internal control functions	All other	Total
Total number of identified staff										<b>34</b>
Of which: members of the MB	7	16	23							
Of which: other senior management										
Of which: other identified staff				2			3	5	1	
Total remuneration of identified staff	798,001	6,247,569	7,045,570	369,137			638,557	1,118,316	174,181	
Of which: variable remuneration	38,574	458,056	496,630	22,000			51,892	92,500	12,000	
Of which: fixed remuneration	759,427	5,789,513	6,548,940	347,137			586,664	1,025,816	162,181	

## 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*



**Xi Zhang**  
*Deputy General Manager*