



中國銀行

BANK OF CHINA

卢森堡有限公司

LUXEMBOURG S.A.

Bank of China (Luxembourg) S.A.

Pillar 3 Disclosure Report of 2019



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List of Acronyms

ALCO	Assets & Liabilities Committee
AM	Authorized Management and or General Management
AML	Anti Money Laundering
BAC	Board Audit Committee
BCBS	Basel Committee on Banking Supervision
BIA	Basic Indicator Approach
BOD	Board of Directors
Branch	Bank of China Limited – Luxembourg Branch
BRCC	Board Risk & Compliance Committee
CAR	Capital Adequacy Ratio
CBD	Corporate Banking Department
CCF	Credit Conversion Factor
CCR	Counterparty Credit Risk
CCP	Central Counterparty
CCO	Chief Compliance Officer
CET 1	Common Equity Tier 1
CRD IV	Capital Requirements Directive IV
CRM	Credit Risk Mitigate
CRO	Chief Risk Officer
CRR	Capital Requirements Regulation
CSSF	Commission de Surveillance du Secteur Financier
EAD	Exposure at Default
EBA	European Banking Authority
ECAI	External Credit Assessment Institution
ECL	Expected Credit Loss
EMIR	European Market Infrastructure Regulation
EVA	Economic Value Added
EVE	Economic Value of Equity
FBES	Forborne Exposures
FD	Financial Department
FMID	Financial Market and Institution Department



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GDPR	the General Data Protection Regulation
H.O.	Head Office
HQLA	High Quality Liquid Asset
IASA	International Accounting Standards Board
ICAAP	Internal Capital Adequacy Assessment Process
IFRS	International Financial Reporting Standards
ILAAP	Internal Liquidity Adequacy Assessment Process
IMM	Internal Model Method
IRRBB	Interest Rate Risk on the Banking Book
KRI	Key Risk Indicator
LCR	Liquidity Coverage Ratio
LDC	Loss Data Collection
L/G	Letter of Guarantee
L/C	Letter of Credit
LTV	Loan to Value
MIFID II	Markets in Financial Instruments Directive 2014/65
MtM	Mark to Market
NACE	Nomenclature des Activités Économiques dans la Communauté Européenne
NII	Net Interest Income
NSFR	Net Stable Funding Ratio
NPLs	Non Performing Loans
OPRC	Operational Risk Concentration
OTC	Over the Counter
PLN	Polish zloty
PSD II	Payment Services Directive 2015/2366
PVBP	Price value of a Basis Point
RACA	Risk and Control Assessment
RMD	Risk Management Department
RMICC	Risk Management and Internal Control Committee
RWA	Risk Weighted Asset
SA	Standardised Approach
Sek	Swedish krona
SFR	Short Form Report



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SFT

Security Financing Transaction

VAR

Value at Risk

UTP

Unlikely to Pay



EBA tables and templates

Templates	Reference	Name	CRR articles	Reference
1	EU OVA	Institution risk management approach	Article 435 (1)	Section 2 & 4
2	EU CRA	General qualitative information about credit risk	Article 435 (1)	Section 5.1
3	EU CCRA	Qualitative disclosure requirements related to CCR	Article 435 (1)	Section 5.6
4	EU MRA	Qualitative disclosure requirements related to market risk	Article 435 (1)	Section 6.1 - 6.3
5	EU LIA	Explanations of differences between accounting and regulatory exposure amounts	Article 436 (b)	Section 3.2
6	EU CRB-A	Additional disclosure related to the credit quality of assets	Article 442 (a)-(b)	Section 5.2.5
7	EU CRC	Qualitative disclosure requirements related to CRM techniques	Article 453 (a) - (e)	Section 5.4
8	EU CRD	Qualitative disclosure requirements on institutions' use of external credit ratings under the standardised approach for credit risk	Article 444 (a) - (d)	Section 5.5
9	EU CRE	Qualitative disclosure requirements related to IRB models	Article 452 (a) - (c)	N/A. The Bank uses the standardised approach.
10	EU MRB	Qualitative disclosure requirements for institutions using the IMA	Article 455	N/A. The Bank uses the standardised approach.
Templates	Reference	Name	CRR articles	Reference
1	EU LI1	Differences between accounting and regulatory scopes of consolidation and the mapping of financial statement categories with regulatory risk categories	Article 436 (b)	Section 3.2
2	EU LI2	Main sources of differences between regulatory exposure amounts and carrying values in financial statements	Article 436 (b)	N/A Optional disclosure requirement
3	EU LI3	Outline of the differences in the scopes of consolidation (entity by entity)	Article 436 (b)	N/A
4	EU OV1	Overview of RWAs	Article 438 (c)-(f)	Section 3.4
5	EU CR10	IRB (specialised lending and equities)	Article 153 (5) or 155 (2) Article 438	N/A. The Bank uses the standardised approach.
6	EU INS1	Non-deducted participations in insurance undertakings	Article 438 (c)-(d) & article 49 (1)	N/A
7	EU CRB-B	Total and average net amount of exposures	Article 442 (c)	Section 5.2.1
8	EU CRB-C	Geographical breakdown of exposures	Article 442 (d)	Section 5.2.2
9	EU CRB-D	Concentration of exposures by industry or counterparty types	Article 442 (e)	Section 5.2.3
10	EU CRB-E	Maturity of exposures	Article 442 (f)	Section 5.2.4
11	EU CR1-A	Credit quality of exposures by exposure class and instrument	Article 442 (g)-(h)	Section 5.2.5
12	EU CR1-B	Credit quality of exposures by industry or counterparty types	Article 442 (g)	Section 5.2.5
13	EU CR1-C	Credit quality of exposures by geography	Article 442 (g)	Section 5.2.6
14	EU CR1-D	Ageing of past-due exposures	Article 442 (g)	N/A
15	EU CR1-E	Non-performing and forborne exposures	Article 442 (g)-(i)	Section 5.3.1
16	EU CR2-A	Changes in the stock of general and specific credit risk adjustments	Article 442 (i)	N/A
17	EU CR2-B	Changes in the stock of defaulted and impaired loans and debt securities	Article 442 (i)	N/A
18	EU CR3	CRM techniques – Overview	Article 453 (f) - (g)	Section 5.4.1
19	EU CR4	Credit risk exposure and CRM effects	Article 453 (f) - (g)	Section 5.5
20	EU CR5	Standardised approach	Article 444 (e)	Section 5.5
21	EU CR6	Qualitative disclosure requirements related to IRB models	Article 452 (e) - (h)	N/A
22	EU CR7	Effect on the RWAs of credit derivatives used as CRM techniques	Article 453 (g)	N/A
23	EU CR8	RWA flow statements of credit risk exposures under the IRB approach	Article 438 (d) & Article 92 (3)	N/A
24	EU CR9	IRB approach – Backtesting of PD per exposure class	Article 452 (i)	N/A
25	EU CCR1	Analysis of CCR exposure by approach	Article 439 (e), (f), (i) & article 92 (3)	Section 5.6.2
26	EU CCR2	CVA capital charge	Article 439 (e) - (f)	N/A
27	EU CCR8	Exposures to CCPs	Article 439 (e) - (f)	N/A
28	EU CCR3	Standardised approach – CCR exposures by regulatory portfolio and risk	Article 444 (e)	Section 5.6.3
29	EU CCR4	IRB approach – CCR exposures by portfolio and PD scale	Article 452 (e)	N/A
30	EU CCR7	RWA flow statements of CCR exposures under the IMM	Article 92 (3) - (4) & Article 438 (d)	N/A
31	EU CCR5-A	Impact of netting and collateral held on exposure values	Article 439 (e)	N/A
32	EU CCR5-B	Composition of collateral for exposures to CCR	Article 439 (e)	N/A
33	EU CCR6	Credit derivatives exposures	Article 439 (g) - (h)	N/A Optional disclosure requirement
34	EU MR1	Market risk under the standardised approach	Article 445	Section 6.5
35	EU MR2-A	Market risk under the IMA	Article 455 (e)	N/A. The Bank uses the standardised approach.
36	EU MR2-B	RWA flow statements of market risk exposures under the IMA	Article 455 (e)	N/A. The Bank uses the standardised approach.
37	EU MR3	IMA values for trading portfolios	Article 455 (d)	N/A. The Bank uses the standardised approach.
38	EU MR4	Comparison of VaR estimates with gains/losses	Article 455 (g)	N/A. The Bank uses the standardised approach.

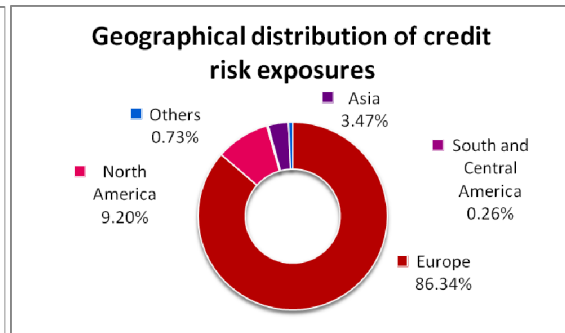
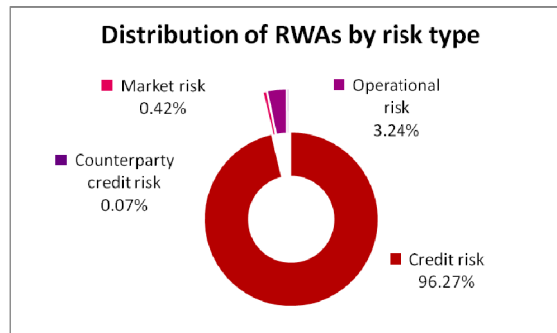
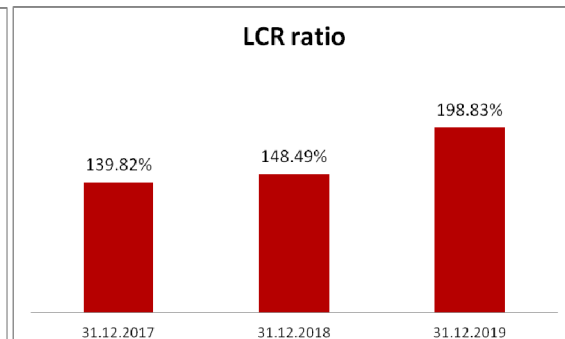
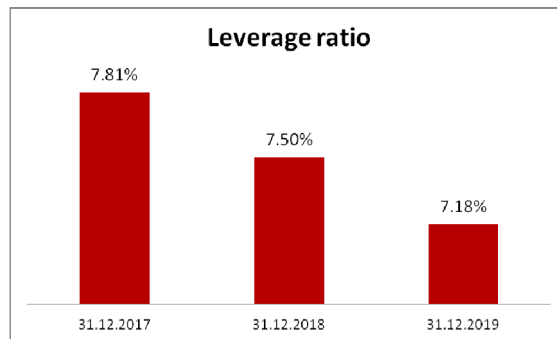


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Key Indicators as at 31 December 2019

	Solvency ratio		
	31.12.2017	31.12.2018	31.12.2019
CET1 Capital ratio	13.71%	12.27%	11.52%
Tier 1 ratio	13.71%	12.27%	11.52%
Total Capital ratio	13.98%	15.16%	14.03%





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1. Introduction

1.1. Background

This Pillar 3 report complements the capital adequacy assessment and the supervisory review process of Bank of China (Luxembourg) S.A. (hereinafter “the Bank”¹). Its aim is to encourage market discipline by developing a set of disclosure requirements which allow market participants to assess certain specified information on the scope of application of Basel II capital, particular risk exposures and risk assessment processes, and hence the capital adequacy of the institution. Disclosures consist of both quantitative and qualitative information and are provided at the individual level as per RCSSF 15-02 Article 3.

The Pillar 3 disclosure have been enhanced with the implementation of Basel III, through Regulation EU No. 575/2013 on prudential requirement for credit institutions and investment firms (“CRR”) as well as Directive 2013/36/EU on access to the activity of credit institutions, the prudential supervision of credit institutions and investment firms (“CRD IV”). The above-mentioned legal framework is effective from 1st January 2014.

Under Part 8 of CRR, the Bank is required to publish quantitative and qualitative information on own fund, the risks taken, and the risk management processes applied, the risk mitigation tool, encumbered and unencumbered assets and remuneration policy.

The pillar 3 report as at 31st December 2019 is prepared using the latest standards on Pillar 3 disclosure requirements framework published by Basel Committee in March 2017.

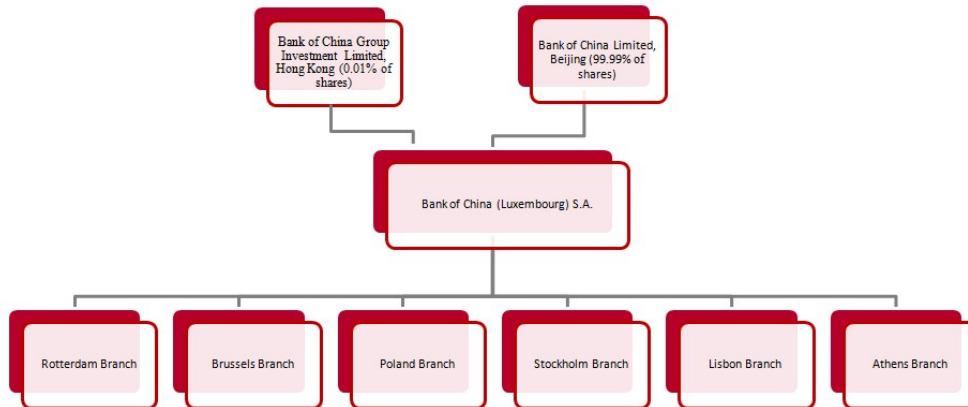
1.2. Bank of China (Luxembourg) S.A.

Bank of China (Luxembourg) S.A. is a wholly owned of Bank of China Limited, Beijing, P.R. of China, though 0.01% is indirectly held by Bank of China Group Investment Limited, Hong Kong.

As at 31 December 2019, the Bank comprised 6 branches:

¹ For purposes of this report, unless the context otherwise requires, the terms “the Bank”, “we”, “us” and “our” mean Bank of China (Luxembourg) S.A., including its Rotterdam Branch, Brussels Branch, Poland Branch, Stockholm Branch and Lisbon Branch, namely Bank of China (Luxembourg) S.A. Rotterdam Branch, Bank of China (Luxembourg) S.A. Brussels Branch, Bank of China (Luxembourg) S.A. Poland Branch, Bank of China S.A. (Luxembourg) Stockholm Branch, Bank of China S.A. (Luxembourg) Lisbon Branch and Bank of China S.A. (Luxembourg) Athens Branch.

Chart 1.2.1: Organizational structure



1.3. Scope of Application

In accordance with Arti.436 of the CRR, the Bank, as an affiliated entity of a parent institution located in a third country, it provides regulatory reporting to the CSSF on an individual basis as a credit institution established under Luxembourg Law and complied with all requirements of Regulation EUR No. 575/2013 and Directive 2013/36/EU.

The report includes the Bank and its six branches. The Athens branch was newly established and there were no business activities recorded as by the end of 2019.

1.4. Frequency and Means of Disclosure (Art.433 and 434 CRR)

The Bank publishes the Pillar 3 Report in accordance with Art. 433 of the CRR on an annual basis. The Bank will assess the need to disclose information more often in accordance with the EBA Guidelines 2014/14.

1.5. Key Events in 2019 and early 2020

Athens Branch opening

The Bank received, on 11th November, approval from the Bank of Greece, the country's central bank, to set up a Branch in Athens, the capital of Greece.

The Athens Branch has accomplished procedures including regulatory approval and business registration.

The Athens Branch will expand its business to deposits, loans, remittances, international settlements



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and trade financing, providing strong financial support for economic and trade exchange between China and Greece.

Review of recognition and classification of Non-performing and Forbearance exposure

The Bank has established new administrative measure for non-performing and forborne exposures, following the requirement of article 178 of CRR and EBA guidelines on management of non-performing and forborne exposure EBA/GL/2018/06. This administrative measure is formulated with the primary aims to ensure that the Bank effectively manage NPLs and FBEs by laying down uniform standards to identify, recognise and report NPLs and FBEs in a timely manner.

Improve effectiveness of Risk Data Aggregation

From 2017 to 2019, the Bank has made significant improvement on the risk data aggregation capabilities and on timely risk reporting, driven both by significant increase of quantitative risk analysis and by H.O.'s implementation project on Basel Committee 239 "Principles for effective risk data aggregation and risk reporting".

The objective of effective risk data aggregation is to gather the risk exposure and its concentration quickly and accurately at the group level, across business lines and between entities within the group and finally provide right report, in right time to the right person.

The Information Technology Department shall develop relevant system in support of for risk data aggregation, provide relevant data technical support based on its actual business needs and regulatory requirements, and realize systems for risk data aggregation and requirements.

Enhancement for operational risk management

RMD manages operational risk by deploying the tools and processes provided by Operational Risk Management Framework, which enables us to determine the Bank's Operational Risk Profile in comparison to the Bank's risk appetite for operational risk to identify root cause, and to define risk mitigating measures.

In 2019, the Bank developed an in-house risk data management tool to automatically filter the abnormal transactions which would result from operational risk factor (such as input error and improper system processing). The Bank mainly focused on credit risk data source exploration, which is the core risk data of the Bank, such as credit rating of borrower, credit risk mitigation data and credit overdue monitoring etc. Risk Management department guided the front-line business department to calibrate the source data, and thus largely enhanced the Bank's capability of data exploration and analysis of the distribution of loss data.

Capital enhancement through a perpetual loan agreement



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The Bank's Tier 1 capital is going to be increased through a perpetual loan agreement of EUR 150 million signed with Bank of China Luxembourg Branch in early 2020.

The original investor Bank of China Limited, Beijing is purchasing the AT1 Capital instrument in its subsidiary via its Luxembourg Branch, a permanent establishment in Luxembourg since 1979. The fund used to finance the loan comes from the issuance of CNY 40 billion of perpetual bonds on the market in late 2019 to enhance its capitalization.

The fund of EUR 150 million will constitute Tier 1 Capital of the Bank, coupon rate of the loan is floating, the loan agreement will be signed during first half year of 2020.

Coronavirus outbreak

Human Coronaviruses are common throughout the world. There are many different coronaviruses identified in animals but only a small number of these can cause disease in humans.

On 7 January 2020, 'Severe Acute Respiratory Syndrome Coronavirus 2' (SARS-CoV-2) was confirmed as the causative agent of 'Coronavirus Disease 2019' or COVID-19. The majority of the case-patients initially identified were dealers and vendors at a seafood, poultry and live wildlife market in China. Since then, the virus has spread to more than 100 countries, including Luxembourg.

On 11 March, the World Health Organization (WHO) declared the COVID-19 epidemic to be a global pandemic.

As more and more cases appeared in Europe and Luxembourg, governments introduced a series of strict measures in an effort to limit the spread of covid-19 coronavirus. In Luxembourg, a policy of risk mitigation through confinement has been put in place by the Grand Ducal Regulation of 18 March 2020 with a strong emphasis on the protection of fragile populations at risk of severe complications.

In essence, this meant people would only be allowed to leave their homes to go to work, buy food, seek medical help or under other extreme circumstances.

The lockdown follows government regulations that limited public gatherings, travel from high-risk countries. In addition, borders were closed to reduce the rate of infection from those travelling into Luxembourg from other countries. A quarantine was also enforced on inbound travellers and returning citizens.

Covid-19 measures taken by the Bank

The Bank adopted several measures in response to the health situation. In February 2020, the Bank sent out detailed health guidelines to all staff and all staff was requested to take precautionary measures, to avoid as much as possible any travel to risky exposure places, and to avoid public



gatherings and external group activities. The arrangements for workplace hygiene and cleaning protocols are readily available; the Bank took appropriate and targeted measures as necessary and commensurate with the underlying risks, and to deploy allowing business continuity.

The Bank was well-prepared, taking every step to keep abreast of the measure updated according to latest development and guidance, and keeping watchful eye on the situation to ensure protection for the staff's health and safety at the Bank. These measures were only implemented during a specific period. The Bank made appropriate adjustment based on the evolving situation.

The Bank's operational measures included the following:

- Implementation of shuttle for bank employees everyday
- Provision of disinfectant gel and distribution of masks and gloves
- Daily check our storage and the 6 other branches stocks
- Daily disinfection all the offices, BCP Center and Bank's campus
- Daily disinfection all the Bank's cars
- Daily collect the state of health of all bank employees (including 6 branches)
- Daily check different measures from the government or cities
- Share epidemic prevention information to each staff

2. Risk Management

The Bank continued to improve its risk management systems in line with the BOC Group's strategies and ensuring compliant operation. The Bank specifically developed administrative measurement on management non-performing loan and forbore exposure from a prudential perspective and enhanced credit risk measurement, on-site efficiency examination of risk management in cross boarder branches and internal control. The Bank also made its comprehensive management reporting more forward looking and predictable. The Bank refined risk measurement model, pushed forward the development of advance capital management approaches and actively implemented an asset-light strategy.

2.1. Internal Governance

As stated in article 9 of the CSSF Circular 12/552 as amended, Internal Governance shall ensure in particular sound and prudent business management, including the risks inherent in them.

2.2. Structure and Organization of Risk Management (Art. 435 CRR)

2.2.1. Board of Directors

The Bank is headed by an effective BOD which meets regularly, directs and controls the Bank. The BOD, with 6 Board members as at 31st December 2019, is the Bank's senior "governing body", and bears the responsibility to assess, review, and approve the Bank's risk appetite framework, plans and



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performance targets, the appointment of senior officers, the delegation of authorities for credit and other risks and the establishment of effective control procedure.

The Board Members are selected in consideration of their in-depth experience and professional background: out of six, one of them has prominent roles at H.O. level, the Chairman (and member of Board) is also the General Manager of the Luxembourg Branch, one is member of General Management of the Bank and three are independent non-executive members (including two with prominent roles in the financial sector). All these members are regularly trained on new regulations and technical matters. The BOD exercises its functions and powers in accordance with the BOD Procedural Rules, Duties and Responsibilities". During the year, a total of 4 Board of Directors' meetings, 4 Board Audit Committee meetings and 4 Board Risk Committee were carried out, which deliberated on various topics with the consultation of Authorised Management and the internal control functions as appropriate.

The BOD has the overall responsibility for the Bank. It ensures the deployment of the Bank's business strategy according to the risk appetite and preserves business continuity by implementation of a sound central administration and internal governance arrangements.

For this purpose, BOD is involved and bears the final responsibility of the Bank's strategy elaboration, the various risk management related internal policies validation. It ensures also the compliance of the above documents with the local regulator's requirements.

Furthermore, the BOD receives on a quarterly basis, the overall risk assessment of the Bank based on the previous quarter activity. These quarterly risk reports (also in collaboration with FD) include a systematic dashboard where all the Key Performance Indicators and limits are indicated, as well as deliver stress testing results on liquidity to the BOD. All the risks are also taken as a whole considering their interaction (Market risk analysis for interest rate risk and foreign exchange risk, liquidity risk based on the inflow and outflows activity of the Bank).

All the material matters which would affect the Bank's overall risk profile and any breaches on the internal limits are also promptly reported to the BOD. There are no significant deficiencies or breaches in 2019 to be reported.

As per 31 December 2019, the BOD was supported by two specialised committees for assisting its oversight: Board Audit committee and Board Risk Committee.

The Board Audit Committee is responsible assisting the BOD in fulfilling its oversight responsibilities for the financial reporting process, the system of internal control, the audit process, and the Bank's process for monitoring compliance with laws and regulations and the code of conduct. Three



members of the BOD are also members of BAC, which also draws on the assistance of an external expert. The BOD nominations are reported to CSSF.

During the year 2019, four BAC meetings were held.

The BAC ensured to cover their responsibilities outlined in the revised Audit Committee charter during the year such as:

- Supervision of the external auditor by:
 - Reviewing the annual financial statements, Management Letter...;
 - Debriefing with the external auditor;
 - Following up of the Management Letter points;
 - Recommending the external auditor reappointment to the BOD.
- Supervision of the internal audit function by :
 - Reviewing the internal audit reports;
 - Approving the internal audit plan and all major changes to the plan;
 - Ensuring the appropriate follow up of the recommendations of the internal audit function.

The BAC reported to the BOD on the different topics it discussed.

Board Risk Committee was expanded in December 2019 to become the **Board Risk & Compliance Committee ("BRCC")**.

BRCC is responsible for the effective supervision by the Board of the risk associated to the Bank's activity. The BRCC is composed of two non-executive directors and benefits from an independent external adviser. It also assesses the adequacy between the risks incurred and the Bank's ability to manage these risks as well as the internal and regulatory own funds and liquidity reserves.

The BRCC Compliance function is fully effective since Q4 2019. Four meetings were held during the year; Regular risk and Compliance function reports, annual ICAAP/ILAAP report, and KRI dashboard monitoring etc. were reviewed. The BRCC participated also actively on the Bank's internal risk policies/regulations elaboration and approval.

2.2.2. General management

Composed of the General Manager and Deputy General Managers, the Authorised Management (AM) is in charge of daily business management as delegated to it by the Board of Directors:

- To ensure the activities of the Bank are in compliance with the existing law;
- To ensure the implementation of strategies and guiding principles lay down by BOD through internal written policies and procedures;



- To implement promptly and effectively the corrective measures to address the weaknesses identified by second/third line of defence as well as regulators;
- To oversee and manage the Bank's risks, including the compliance with requirements for internal and regulatory own funds and for liquidity.

2.2.3. Roles and responsibilities of the management committees

Different committees are set up for the management of various risks, to which the Bank is exposed. In 2019, the Bank had the following committees:

Committee	Responsibilities
Assets & Liabilities Committee	Responsible for the review of the Bank's current assets and liabilities situation, the reporting to the General Management on issues raised regarding assets/liabilities mismatch, shortfall of funding, etc. It aims at harmonizing asset/liability match on currency, term and interest rate. It bears also the responsibility of the liquidity risk management, including liquidity stress test and contingency funding plan.
Risk Management and Internal Control Committee	Responsible for deliberating and evaluating the various operational risk-controlling objectives and managing means of the Bank, including but not limited to the credit risk, market risk, interest rate risk on banking book, liquidity risk, and operational risk exposures. RMICC also bears the responsibility for the subsequent appraisal of risks control and implementation.
Credit Review Committee	Responsible for appraising the credit risk on the Bank's loan project.
New Product Committee	Takes the responsibilities to ensure that new product development adhere to the local regulatory requirements, including approval by the General Management, prior risk assessment and analysis carried out by relevant departments, pricing and risk control etc. The new product management policy is reviewed in 2019 so as to enhance the preliminary risk assessment and post appraisal of the product launched.
Compliance Committee	Is responsible to strengthen the overall compliance risk management, a Compliance Committee was formed in 2014 which replaced the Anti-Money Laundering Group (AML Group), and the scope of the Compliance Committee encompasses that of the AML Group and includes all Compliance matters. The objective of the Committee is to ensure that there is an effective Compliance framework within the Bank and compliance risks are adequately managed.
Bulk Purchase Committee	Is responsible for appraising and approving on the Bank's bulk acquisition of products or services above € 30,000 (excluding VAT) through purchase, lease and / or other methods of assignment.
Investment Committee	Is responsible for constructing, implementing and monitoring the investment policy, model portfolios, and the selection of products that customers' assets will be invested in, chaired by the Deputy General Manager in charge of Banking Department and composed of all investment advisers, a member of the Risk Management Department and a member of the Financial Department.
Personal Data Protection Committee	PDPC had been formed in the scope of implementation of GDPR, the roles of PDPC are to support Data Protection Officer in carrying his tasks and providing oversight and guidance on data protection matters of the Bank. PDPC is chaired by a member of the General Management and its members are from representatives of Compliance, IT, Risk management & HR functions. PDPC meets at least quarterly and keeps an oversight on the adherence to requirements of GDPR.
Asset Disposal Committee	ADC is a newly established committee in 2019 for the purpose to assure an appropriate level of discipline and compliance of asset disposal is established and write-off work is carried out across the Bank. The committee discusses the asset disposal related matters in order to achieve the best possible return of problem credit asset.



2.3. Risk management framework

In order to achieve governance objectives, the institutions establish internal arrangements which are consistent with the three-lines-of-defence model.

The first line of defence consists of the business units that take or acquire risks under a predefined policy and limits, operating the first level of control to mitigate risks. It includes also the supporting function such as Finance and IT function.

The second line is formed by compliance and risk control functions which contribute to the independent risk control.

The third line consists of the internal audit function which provides an independent, objective and critical review of the first two lines of defence.

First line of defence

The Bank's first line of defence consists of the **Front Office and Operational** units, which are directly involved in the daily operational work. The operating staff should carry out day-to-day work on a four-eye's principle to prevent the possible errors and omissions that occurred during the processing of the transactions.

The Finance Department (FD) maintains adequate controls over its accounting and record-keeping processes for all business activities on a daily basis. It is also responsible for effective management and control of all its operations as well as for financial and regulatory reporting to the H.O. and regulators. Finance Department bears the responsibility to formulate and monitor processes of the liquidity risk management, and to allocate and manage the regulatory capital and large risk exposure of the Bank.

The IT Department (FD) is responsible for the reliability and security of processed data. The Bank has in place, physical access controls, environmental controls, logical security controls, and controls over access to information systems. The Bank has a well-documented and regularly tested Disaster Recovery Plan and a documented Business Continuity Plan covering all its critical business processes and activities.

On an annual basis, the Bank carries out its annual 'Self Internal Control Assessment' which is independently reviewed by the Internal Auditor and supervised by the H.O. since 2007. The last Self Internal Control Assessment has been performed in 2019.



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Second line of defence

The Risk Management Department (RMD) has the responsibility of the day-to-day management pertaining to credit risk, market risk, and operational risk of the Bank. It is responsible for performing risk assessment, informing and reporting on any major changes to relevant departments, to monitor all categories of risks and reviewing the efficiency of the Bank's risk management framework. It is also responsible for drafting risk management policies and procedures, developing risk management techniques, and coordinating the anticipation, identification, measurement, monitoring, control and reporting of various risks which the Bank is exposed to. RMD is also in charge of the management, review and supervision of all entities regarding risk management.

The Compliance & Regulatory Department (CRD) is an independent function with the objective to anticipate, identify and evaluate the compliance risks within the Bank. It organizes, coordinates and structures compliance-related centralized controls, as well as controls and monitors all measures taken to manage the compliance risks, reporting accordingly to Authorized Management and the BOD, as appropriate, and acts as an adviser in compliance matters within the Bank.

The function of legal team has the responsibility to effectively identify legal risks of the Bank, and to proactively manage these risks. Legal team handles all legal matters of the Bank, which inter alia includes identifying legal obligations e.g. applicable laws and regulations which the Bank must adhere to in the exercise of its businesses, as well as perform a legal watch on legal developments that may impact the Bank, and to advise them to the Bank.

The Chief Compliance Officer ("CCO") has direct access to the Chairman of the Board or the member of the Board Audit and Risk & Committees as well as the CSSF when necessary. CCO's responsibilities are detailed in CCO job description. CCO is the contact person with regards to the competent authorities in matters relating to compliance including AML and terrorist financing prevention, and market abuse. Further CCO is responsible for the transmission of information or declaration to these authorities;

Third line of defence

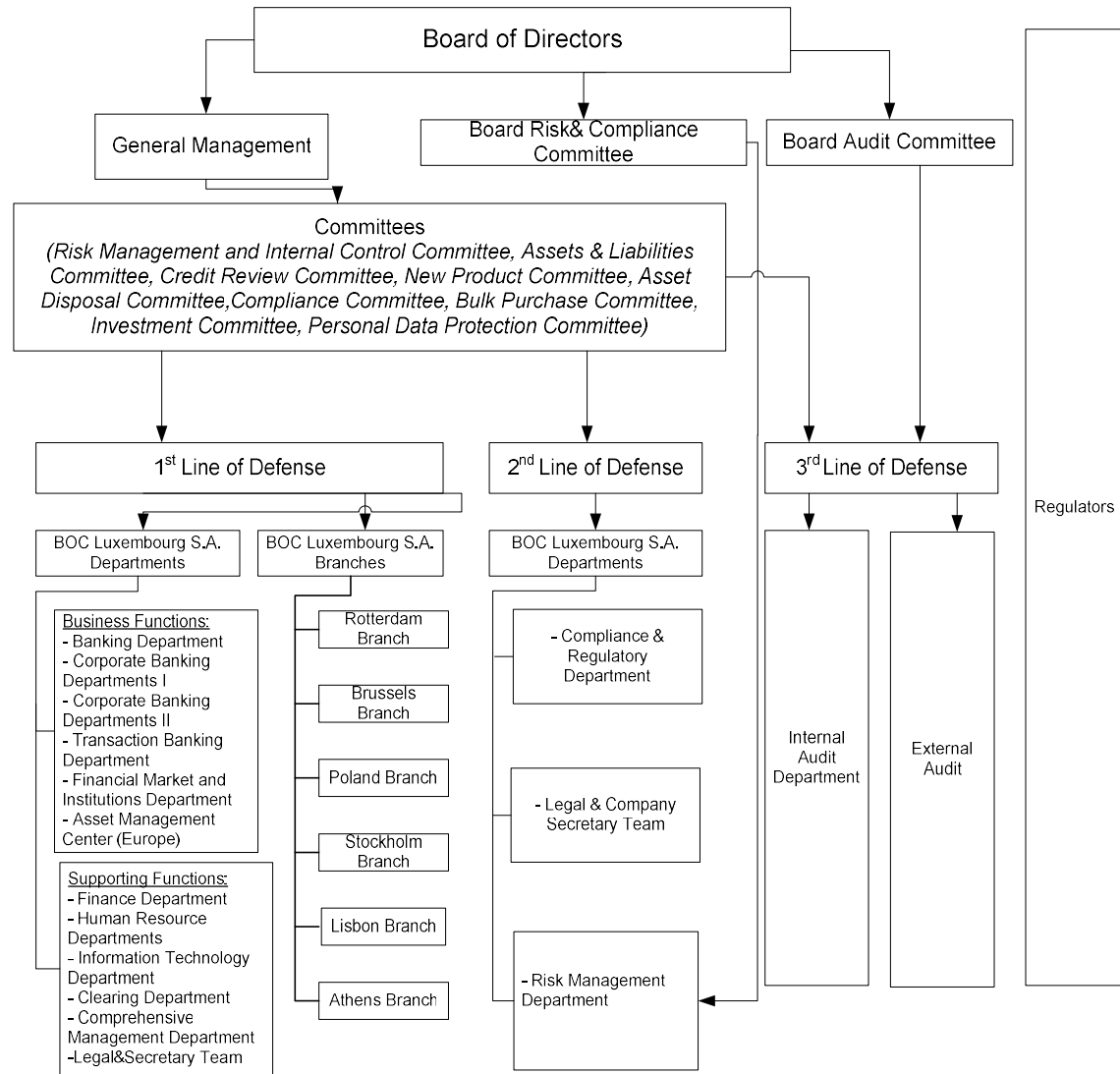
The Internal Audit Department (IAD) is an independent, objective supervision and evaluation activity which helps the organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate the adequacy and effectiveness of risk management and internal control.

The Internal audit function reviews and assesses whether central administration and internal governance arrangements are adequate and operate effectively, as set out in the Internal Audit Charter approved by the BOD, including internal controls' efficiency and effectiveness, safeguarding of the securities and assets, adequacy of the segregation of duties and the execution of the transactions, adequacy of the risk and capital management.



The Internal Auditor reports functionally to the BAC and the BOD, administratively to the General Management and is under the supervision of the Parent Bank’s internal audit department.

Risk management framework



2.3.1. Risk management process and policies

The purpose of the Bank’s Risk Management Policy is to ensure the implementation of an effective risk management framework and internal control environments which is in line with the Bank’s risk



strategy and risk appetite. In doing so, it follows the Luxembourg regulator's laws and regulations, H.O.'s procedures and guidelines, as well as standard adopted by other peer financial institutions.

Risk Management is part of the management function in the organization. It has the vocation to evaluate the Bank's risk profile, to put in place appropriate internal controls and to monitor the effectiveness of these controls. The aim is to ensure that the risk management is embedded in the Bank's processes and culture, thus contributing to the achievement of its core objectives. This process is supplemented with a review of BOD, General Management and RMICC.

In line with risk appetite, the Bank develops a five steps risk management process:

- ❖ **Risk anticipation.** The Bank should anticipate the potential risk related to its business activities, and proactively prevent, reduce the likelihood of damage and loss.
- ❖ **Risk identification.** The Bank should identify the various risk categories and risk factors, and pay close attention to the transformation between different risks.
- ❖ **Risk assessment.** The Bank is required to elaborate a risk assessment program, including assessment scope and method for each identified risk category and finally draw assessment result on each risk category as well as overall risk.
- ❖ **Risk monitoring and reporting.** The Bank sets and continuously improves the monitoring indicators, analyzing results by using relevant monitoring tool and system. Periodical reports are produced and reported to the General Management and the BOD. Necessary risk information is disclosed to investors or public pursuant to the regulators' requirements.
- ❖ **Risk control.** The Bank is required to accurately assess and monitor risks and carry out the risk management by using measures such as: diversification, hedging, transfer, prevention, compensation and mitigation. The proper and effective measures should be taken when there are early warning indicators (limits, KRI threshold etc). In case there are exceptions, it is necessary to respond with an appropriate plan and management procedures. In case of weaknesses or failures identified, the risk control function should follow up on the corrective measures taken by relevant departments.

2.3.2. Risk reporting

The risk situation of the Bank is communicated via a comprehensive reporting system to the Management and other relevant persons and any significant events or material risks are escalated to the Board of Directors.

Reporting to the management includes:

- Risk management report;
- Compliance report;
- Internal audit report;



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- Common reporting (COREP) and Large Exposures reports;

2.3.3. Risk management strategy

The Bank's Risk Management Policy ensures the implementation of an effective risk management framework and internal control environment, which is in line with the Bank's risk strategy and risk appetite. In doing so, it follows Luxembourg laws and regulations, Head Office procedures and guidelines, as well as standards adopted by other financial peers.

Risk Management is an integral part of the management function in the organization. It has the vocation to evaluate the Bank's risk profile, to set up appropriate internal controls and to monitor the effectiveness of these controls. The aim is to ensure that the risk management is embedded in the Bank's processes and culture, thus contributing to the achievement of the Bank's core objectives. This process is supplemented with a review by the BOD, AM and RMICC.

2.3.4. Risk identification and quantification

The Bank assesses its material risks and non-material risks by taking into consideration of the size and complexity of the Bank's business.

The quantification of the risks is through the standardised method defined in the CRR. Moreover, the Bank performs various stress tests to assess the financial viability and the adequacy of capital and liquidity.

2.3.5. Risk appetite

The Bank's Risk Appetite Statement defines the aggregate level of all types of risks, which the Bank is willing to take to achieve its strategic objectives and business plan. Driven by risk strategy, the Bank has assessed its material risks and set up an overall approach for its risk appetite.

Risk appetite is typically expressed in risk measures (value at risk), nominal measures (e.g. amount of credit outstanding) or outcomes (capital level).

At the Bank's level, we developed a comprehensive set of KRIs and high-level tolerances for all risk categories, so as to closely monitor the risk appetite. The BOD and AM review and approve both risk appetite and the tolerance for selected KPIs. The branches have been assigned separate credit risk, market risk and operational risk indicators.



3. Own Funds

The calculation of our regulator capital incorporates the capital requirements following the “Regulation (EU) No 575/2013 on prudential requirements for credit institutions and investment firm” (Capital Requirements Regulation or CRR) and the “Directive 2013/36/EU on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms” (Capital Requirement Directive IV or CRD IV) as implemented into Luxembourg Law. The information in this section is based on the regulatory principles of consolidation.

As at 31 December 2019, the breakdown of prudential regulatory capital requirement was the following:

Regulatory minimum of capital requirement	31/12/2019	3/12/2018
Minimum requirement for CET1 capital	4.50%	4.50%
Tier 1 capital	6.00%	6.00%
Total SREP capital requirement	8.00%	8.00%
Minimum requirement for capital conservation buffer	2.50%	2.50%
countercyclical buffer	0.31%	0.21%
Overall Capital Requirement (OCR)	10.81%	10.71%

3.1. Structure of Own funds

The Bank’s own funds are calculated in compliance with Art. 72 of the CRR: Own funds consist of the sum of Tier I capital (Common Equity Tier 1 (CET1)) and Tier 2 Capital.

Table 3.1.1 own fund component

(in EUR)	31/12/2019	31/12/2018	Difference	(%)
Capital	400,000,000.00	400,000,000.00	-	0.00%
Reserve & Retained Earnings	87,399,482.40	51,926,572.45	35,472,909.95	68.31%
Deduction: revaluation & Intangible Assets	1,359,980.26	(184,981.18)	1,544,961.44	-835.20%
Tier I capital	488,759,462.66	451,741,591.27	37,017,871.39	8.19%
Tier II capital	106,402,069.78	106,437,400.17	(35,330.39)	0.00%
Own funds (Tier I + Tier II)	595,161,532.44	558,178,991.44	36,982,541.00	6.63%

The Bank’s own regulatory funds as at 31st December 2019 are composed of:

- Tier 1 capital consists of paid-up capital and eligible reserves (including reported profit/loss and valuation spread, subject to prudential filter). The subscribed capital of the Bank is fixed



at €400 million, represented by fifty thousand shares without any par value since 28th November 2016. The Bank has a Tier 1 capital of €488.76 million as at 31 December 2019, an increase of €37.02 million is mainly due to the profit of 2018 financial year was considered as eligible regulatory own funds after retained earnings was audited.

- Tier 2 capital consists mainly of a subordinated loan of €106 million granted by Bank of China Luxembourg Branch, in accordance with Art. 63 of the CRR. The Bank has total Tier 2 capital of €106.40 million as at 31 December 2019.

3.2. Reconciliation of Accounting and Regulatory Equity

This section provides information about the differences of carrying amount presented in financial statement and the regulatory exposure of the Bank in accordance with the requirement of Art. 437 1 (a) of the CRR, following table is the breakdown of the balance sheet into the risk framework used to calculate the regulatory capital requirement.

TABLE 3.2.1 Reconciliation between accounting and regulatory scopes of consolidation and the mapping of financial statement categories with regulatory risk categories

(in EUR)	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	Subject to the credit risk framework	Subject to the counterparty credit risk framework	Carrying values of items:		Not subject to capital requirements or subject to deduction from capital
					Subject to the securitisation framework	Subject to the market risk framework	
Assets							
Cash in hand, balances with central banks	644,449,830	644,449,830	643,966,243	-	-	-	483,586.60
Loans and advances to credit institutions	1,720,063,988	1,720,058,074	1,720,058,074	-	-	-	-
a. repayable on demand	1,375,807,812	1,375,807,812	-	-	-	-	-
b. other loans and advances	344,256,176	344,250,262	-	-	-	-	-
Loans and advances to customers	3,365,721,635	3,373,501,773	3,373,501,773	-	-	-	-
Debt securities	315,161,411	316,255,553	316,255,553	-	-	-	-
a. issued by public bodies	315,161,411	316,255,553	-	-	-	-	-
Derivatives held for trading	-	1,905,416	-	1,905,416	-	-	-
Participating interests	31,000	31,000	31,000	-	-	-	-
Tangible assets	4,105,028	16,223,147	16,223,147	-	-	-	-
Intangible assets	251,381	251,381	-	-	-	-	251,381
Other assets	3,816,808	3,928,832	3,928,832	-	-	-	-
Prepayments and accrued income	8,402,565	-	-	-	-	-	-
Total asset	6,062,003,646	6,076,605,005	6,073,964,622	1,905,416	-	-	734,968



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Liabilities and Equity							
Amounts owed to credit institutions	2,240,953,334	2,244,926,971	-	-	-	-	2,244,926,971
a. repayable on demand	20,967,849	20,967,849	-	-	-	-	
b. with agreed maturity dates or periods of r	2,219,985,485	2,223,959,123	-	-	-	-	
Amounts owed to customers	2,670,218,756	2,673,482,371	-	-	-	-	2,673,482,371
a. repayable on demand	276,312,919	276,313,086	-	-	-	-	
b. with agreed maturity dates or periods of r	2,393,905,837	2,397,169,286	-	-	-	-	
Debt evidenced by certificates	499,939,850	500,207,090	-	-	-	-	500,207,090
Other liabilities	4,260,078	4,260,078	-	-	-	-	4,260,078
Accruals and deferred income	23,350,749	15,444,186	-	-	-	-	15,444,186
Provisions	11,257,983	11,257,984	-	-	-	-	11,257,984
a. provision for taxation	4,327,800	4,327,800	-	-	-	-	
b. other provisions	6,930,183	6,930,184	-	-	-	-	
Deferred tax liabilities		680,793	-	-	-	-	680,793
Other financial liabilities - IFRS16		12,380,538	-	-	-	-	12,380,538
Subordinated liabilities	106,000,000	106,402,070	-	-	-	-	106,402,070
Subscribed capital	400,000,000	400,000,000	-	-	-	-	400,000,000
Legal reserve	5,578,176	5,578,176	-	-	-	-	5,578,176
Other reserve	79,624,629	81,821,307	-	-	-	-	81,821,307
Currency translation reserve	1,069,257	1,069,257	-	-	-	-	1,069,257
Fair value changes of debt instruments measured at fair value through other comprehensive income	-	542,104	-	-	-	-	542,104
Profit for the financial year	19,750,834	18,552,080	-	-	-	-	18,552,080
Total liabilities and Equity	6,062,003,646	6,076,605,005	-	-	-	-	6,076,605,005

The followings are the key difference between regulatory exposure amounts and accounting carrying values under the regulatory scope of consolidation:

- The unrealized gain/loss of Derivative which is accounted in the regulatory exposure but not recognized in accounting carrying values.
 - The accrued interest receivable/payable is accounted separately in accounting carrying value, but incorporated in the principal in regulatory exposure.
 - The deferred tax liabilities are not recognized in accounting carrying value but incorporated in the regulatory liabilities.
 - Implementation of IFRS16 for long-term payables of leases is included under regulatory exposure amount but not recognized in accounting carrying amount.
- Other differences are due to the consideration of the deferred income tax liabilities.

3.3. Regulatory capital

In order to meet the requirements for disclosure specific items on own fund and the nature and amounts of the prudential filters and restrictions applied to the calculation of own funds in accordance with the Article 437(1) of the CRR are specified in the Commission Implementing Regulation (EU) No 1423/2013 of 20 December 2013.

The capital instruments main features are detailed in the table below, in accordance with the Annex II of the Regulation (EU) No 1423/2013.

Table 3.3.1 Capital instruments main features for issued common equity tier 1 capital



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Capital Instruments main features template						
1	Issuer	Bank of China (Luxembourg) S.A.	Bank of China (Luxembourg) S.A.	Bank of China (Luxembourg) S.A.	Bank of China (Luxembourg) S.A.	Bank of China (Luxembourg) S.A.
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	N/A	N/A	N/A	N/A	N/A
3	Governing law(s) of the instrument	Luxembourg Law	Luxembourg Law	Luxembourg Law	Luxembourg Law	Luxembourg Law
Regulatory treatment						
4	Transitional CRR rules	Common Equity Tier 1	Common Equity Tier 1	Common Equity Tier 1	Common Equity Tier 1	Common Equity Tier 1
5	Post-transitional CRR rules	Common Equity Tier 1	Common Equity Tier 1	Common Equity Tier 1	Common Equity Tier 1	Common Equity Tier 1
6	Eligible at solo/(sub-)consolidation/ solo & (sub-)consolidated	Solo & consolidated	Solo & consolidated	Solo & consolidated	Solo & consolidated	Solo & consolidated
7	Instrument type (types to be specified by each jurisdiction)	Registered shares	Registered shares	Registered shares	Registered shares	Registered shares
8	Amount recognised in regulatory capital (currency in EUR, as of most recent reporting date)	500,000,000 LUF (corresponding to 12,394,676.24 EUR)	EUR 5,323.76	EUR 67.6 million	EUR 120 million	EUR 200 million
9	Nominal amount of instrument	EUR 12,394,676.24	EUR 5,323.76	EUR 67.6 million	EUR 120 million	EUR 200 million
9a	Issue price	N/A	N/A	N/A	N/A	N/A
9b	Redemption price	N/A	N/A	N/A	N/A	N/A
10	Accounting classification	Shareholder's equity	Shareholder's equity	Shareholder's equity	Shareholder's equity	Shareholder's equity
11	Original date of issuance	31962	21/5/2002	38023	14/8/2012	28/11/2016
12	Perpetual or dated	Perpetual	Perpetual	Perpetual	Perpetual	Perpetual
13	Original maturity date	N/A	N/A	N/A	N/A	N/A
14	Issuer call subject to prior supervisory approval	N/A	N/A	N/A	N/A	N/A
15	Optional call date, contingent call dates and redemption amount	N/A	N/A	N/A	N/A	N/A
16	Subsequent call dates, if applicable	N/A	N/A	N/A	N/A	N/A
Coupons / dividends						
17	Fixed or floating dividend/coupon	N/A	N/A	N/A	N/A	N/A
18	Coupon rate and any related index	N/A	N/A	N/A	N/A	N/A
19	Existence of a dividend stopper	N/A	N/A	N/A	N/A	N/A
20a	Fully discretionary, partially discretionary or mandatory (in term of timing)	N/A	N/A	N/A	N/A	N/A
20b	Fully discretionary, partially discretionary or mandatory (in term of amount)	N/A	N/A	N/A	N/A	N/A
21	Existence of step up or other incentive to redeem	N/A	N/A	N/A	N/A	N/A
22	Noncumulative or cumulative	N/A	N/A	N/A	N/A	N/A
23	Convertible or non-convertible	N/A	N/A	N/A	N/A	N/A
24	If convertible, conversion trigger(s)	N/A	N/A	N/A	N/A	N/A
25	If convertible, fully or partially	N/A	N/A	N/A	N/A	N/A
26	If convertible, conversion rate	N/A	N/A	N/A	N/A	N/A
27	If convertible, mandatory or optional conversion	N/A	N/A	N/A	N/A	N/A
28	If convertible, specify instrument type convertible into	N/A	N/A	N/A	N/A	N/A
29	If convertible, specify issuer of instrument it converts into	N/A	N/A	N/A	N/A	N/A
30	Write-down features	N/A	N/A	N/A	N/A	N/A
31	If write-down, write-down trigger(s)	N/A	N/A	N/A	N/A	N/A
32	If write-down, full or partial	N/A	N/A	N/A	N/A	N/A
33	If write-down, permanent or temporary	N/A	N/A	N/A	N/A	N/A
34	If temporary write-down, description of write-up mechanism	N/A	N/A	N/A	N/A	N/A
35	Position in subordination, hierarchy in liquidation (specify instrument type immediately senior to instrument)	N/A	N/A	N/A	N/A	N/A
36	Non-compliant transitioned features	N/A	N/A	N/A	N/A	N/A
37	If yes, specify non-compliant features	N/A	N/A	N/A	N/A	N/A

Table 3.3.2 Capital instruments main features for issued tier 2 capital

Capital Instruments main features template		
1	Issuer	Bank of China (Luxembourg) S.A.
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	N/A
3	Governing law(s) of the instrument	Luxembourg Law
Regulatory treatment		
4	Transitional CRR rules	Tier 2
5	Post-transitional CRR rules	Tier 2
6	Eligible at solo/(sub-)consolidation/ solo & (sub-)consolidated	Solo & consolidated
7	Instrument type (types to be specified by each jurisdiction)	Subordinated debt
8	Amount recognised in regulatory capital (currency in million, as of most recent reporting date)	EUR 106.40 million
9	Nominal amount of instrument	EUR 106 million
9a	Issue price	N/A
9b	Redemption price	N/A
10	Accounting classification	Subordinated Liability
11	Original date of issuance	16/07/2018
12	Perpetual or dated	Dated
13	Original maturity date	17/07/2028
14	Issuer call subject to prior supervisory approval	N/A
15	Optional call date, contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
Coupons / dividends		
17	Fixed or floating dividend/coupon	Floating
18	Coupon rate and any related index	euribor 6m+115bp
19	Existence of a dividend stopper	N/A
20a	Fully discretionary, partially discretionary or mandatory (in term of timing)	Mandatory
20b	Fully discretionary, partially discretionary or mandatory (in term of amount)	Mandatory
21	Existence of step up or other incentive to redeem	N/A
22	Noncumulative or cumulative	Noncumulative
23	Convertible or non-convertible	non-convertible
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	N/A
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination, hierarchy in liquidation (specify instrument type immediately senior to instrument)	N/A
36	Non-compliant transitioned features	N/A
37	If yes, specify non-compliant features	N/A

The following table details the own fund disclosure in accordance with the Annex IV of the Regulation (EU) No 1423/2013:



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Table 3.3.3 Regulatory capital composition, prudential filters and deduction items

Own funds disclosure template		2019
Common Equity Tier 1 (CET1) capital: instruments and reserves		
1	Capital instruments and the related share premium accounts	
	of which: Instrument type 1 (ordinary shares)	400,000,000.00
	of which: Instrument type 2	
	of which: Instrument type 3	
2	Retained earnings	69,394,398.31
3	Accumulated other comprehensive income (and other reserves)	19,616,445.35
3a	Fund for general banking risk	
4	Amount of qualifying items referred to in Article 484 (3) and the related share premium accounts subject to phase out from CET1	
5	Minority interest (amount allowed in consolidated CET1)	
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	
6	Common Equity Tier 1 (CET1) capital before regulatory adjustments	489,010,843.66
Common Equity Tier 1 (CET1) capital before regulatory adjustments		
7	Additional value adjustments	
8	Intangible assets (net of related tax liability)(negative amount)	(251,381.13)
9	Total regulatory adjustments to Common Equity Tier 1 (CET1)	(251,381.13)
10	Common Equity Tier 1 (CET1) capital	488,759,462.53
Tier 2 (T2) capital: instruments and provisions		
11	Capital instruments and the related share premium accounts	106,402,069.78
12	Amount of qualifying items referred to Article 484(5) and the related share premium accounts subject to phase out from T2	
13	Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties	
14	of which: instruments issued by subsidiaries subject to phase out	
15	Credit risk adjustments	
16	Tier 2 (T2) capital before regulatory adjustments	106,402,069.78
Tier 2 (T2) capital: regulatory adjustments		
17	Total regulatory adjustments to Tier 2 (T2) capital	
18	Tier 2 (T2) capital	106,402,069.78
19	Total capital (TC=T1+T2)	
20	Total risk weighted assets	4,240,938,269.24
Capital ratios and buffers		
21	Common Equity Tier 1 (as a percentage of total risk exposure amount)	11.52
22	Tier 1 (as a percentage of total risk exposure amount)	11.52
23	Total capital (as a percentage of total risk exposure amount)	14.03
24	Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements, plus systemically important institution buffer expressed as a percentage of risk exposure amount)	2.81
25	of which: capital conservation buffer requirement	2.50
26	of which: countercyclical buffer requirement	0.31



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27	of which: systemic risk buffer requirement	0
28	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	0
29	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	11.52
Amounts below the thresholds for deduction (before risk weighting)		
30	Direct and indirect holding of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short position)	
Applicable caps on the inclusion of provisions in Tier 2		
31	Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)	
Capital Instruments subject to phase-out arrangements (only applicable between 1 Jan 2014 and 1 Jan 2022)		
32	Current cap on CET1 instruments subject to phase out arrangement	

Source: corep C01-C04

3.4. Overview of RWAs

In accordance with Article 138 (c) to (f) in the CRR, the following table shows RWA and regulatory capital requirements broken down by risk types and model approaches compared to previous year end in 2018. The capital requirement amounts have been obtained by applying 8% to the corresponding weighted risks.

Table 3.4.1 EU OV1- Overview of RWAs

(in EUR)	RWAs		Minimum capital requirements
	31/12/2019	31/12/2018	31/12/2019
Credit risk (excluding CCR)	4,082,786,505.44	3,560,720,489.61	326,622,920.44
Of which the standardised approach	4,082,786,505.44	3,560,720,489.61	326,622,920.44
Counterparty credit risk (CCR)	2,866,085.56	4,189,611.31	229,286.84
Of which mark to market			
Of which original exposure			
Of which: standardised approach for counterparty credit risk	2,866,085.56	4,189,611.31	229,286.84
Market risk	17,677,806.18	15,035,487.00	1,414,224.49
Of which the standardised approach (SA)	17,677,806.18	15,035,487.00	1,414,224.49
Operational risk	137,607,872.06	101,084,244.29	11,008,629.76
Of which basic indicator approach	137,607,872.06	101,084,244.29	11,008,629.76
Of which standardised approach			
Of which advanced measurement approach			
Total	4,240,938,269.24	3,681,029,832.21	339,275,061.54

The total RWA for the Bank was EUR 4.24 billion and increased about 15% compared to previous year end, the increase of RWA is mainly due to increase in credit risk as the result of development for corporate loan portfolio in local markets.

The RWA for both Market Risk and Operational Risk remain stable, RWA increased by EUR 2.6 million and EUR 36.52 million respectively in 2019.

3.5. Capital Buffer

The Pillar 1 CET 1 minimum capital requirement applicable to the Bank is 4.5% of the risk-weighted assets, the Pillar 1 total capital requirement is 8% and the Bank is not subject to Pillar 2 requirement (SREP add-on). In addition to this minimum capital requirement, the following combined capital buffers are fully effective in 2019. The capital conservation buffer requirement in accordance with the Art 129 of the CRD IV is 2.5% CET 1 capital of RWA. The institution-specific countercyclical buffer that applies to the Bank is the weighted average of the countercyclical capital buffers that apply in the jurisdictions where our relevant credit exposures are located. As of 31 December 2019, the countercyclical capital buffer rate was at 0.31 %.

3.5.1. Capital conservation buffer

As per the requirement in Art 129 of CRD IV, the Bank maintained a capital conservation buffer of 2.5% of its total exposures, under the form of Common Equity Tier 1.

3.5.2. Countercyclical Buffer

In accordance with Article 440 (a) and (b) of the CRR, the following table disclose the Bank's specific countercyclical buffer as well as the geographical distribution if credit exposures relevant for the calculation as set out in Commission Delegated Regulation (EU) 2015/1555.

The table below provides an overview of the Bank's countercyclical exposure and buffer requirements.

TABLE 3.5.1 Institution -specific countercyclical capital buffer In EUR

Total risk exposure amount	4,240,938,269.00
Institution specific countercyclical buffer rate	0.31%
Institution specific countercyclical buffer requirement	13,146,908.63

Countercyclical capital buffer rates are determined by Basel Committee member jurisdictions. The final bank-specific buffer add-on rate applies the weighted average of countercyclical capital buffer rates in jurisdictions to which the bank has credit exposures. The Bank does not have Trading book exposure and Securitisation exposure that relates to the calculation of specific countercyclical capital buffer as the 31 December 2019.

TABLE 3.5.2 Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer



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In EUR		exposure value under Standardised Approach	Own funds requirements for CCB	Own funds requirements weights	Country set CCyB rate	Calculation of the Bank's Ccyb Rate
Belgium	BE	240,529,168.47	19,242,333.47	6.90%	0.00%	0.00%
Bulgaria	BG	8,348,234.04	667,858.72	0.24%	0.50%	0.00%
Bermuda	BM	40,023,521.20	3,201,881.70	1.15%	0.00%	0.00%
China	CN	2,849.60	227.97	0.00%	0.00%	0.00%
Colombia	CO	9,409,693.33	752,775.47	0.27%	0.00%	0.00%
Curacao	CW	9,300,851.64	744,068.13	0.27%	0.00%	0.00%
Denmark	DK	126,061,667.60	10,541,909.60	3.78%	1.00%	0.04%
Spain	ES	144,437,194.43	8,246,565.29	2.96%	0.00%	0.00%
Finland	FI	95,253,025.09	7,620,242.00	2.73%	0.00%	0.00%
France	FR	76,929,842.61	6,154,387.42	2.21%	0.25%	0.01%
United Kingdom	GB	250,899,323.09	21,533,445.91	7.72%	1.00%	0.08%
Ghana	GH	43,918,837.44	3,513,507.00	1.26%	0.00%	0.00%
Hong Kong	HK	35,090,376.91	2,807,230.15	1.01%	2.50%	0.03%
Italy	IT	100,021,025.14	8,001,682.01	2.87%	0.00%	0.00%
Cayman Islands	KY	28,326,847.04	2,266,147.76	0.81%	0.00%	0.00%
Luxembourg	LU	333,355,719.57	26,556,381.49	9.52%	0.00%	0.00%
Monaco	MC	19,898,319.32	2,387,798.32	0.86%	0.00%	0.00%
Netherland	NL	717,874,557.96	62,387,430.62	22.36%	0.00%	0.00%
Norway	NO	30,026,480.11	2,402,118.41	0.86%	2.50%	0.02%
Poland	PL	657,549,864.63	42,622,253.24	15.28%	0.00%	0.00%
Portugal	PT	313,201,714.01	22,943,320.73	8.22%	0.00%	0.00%
Romania	RO	32,635,945.60	2,610,875.64	0.94%	0.00%	0.00%
Sweden	SE	193,022,262.74	15,441,781.01	5.54%	2.50%	0.14%
United State	US	77,533,524.74	6,202,681.98	2.22%	0.00%	0.00%
British Virgin Islands	VG	1,383,660.26	110,692.82	0.04%	0.00%	0.00%
		3,585,034,506.57	278,959,596.86			0.31%

3.5.3. Supervisory Review and Evaluation Process (SREP) buffer requirement

As per CSSF regulation 17-04, the Bank is not considered a systemically important credit institution in Luxembourg. As a consequence, the systemically important buffer for the Bank is 0%.

3.6. Leverage Ratio (Article 451 CRR)

The Bank manages leverage ratio on the consolidated base, RMD is responsible for monitoring the leverage ratio via the Bank's Key Risk Indicators, reporting on a quarterly basis. An internal limit has been set to the following:

- Leverage ratio \geq 4% Green Zone
- 3.5% \leq Leverage ratio < 4% Amber Zone
- Leverage ratio < 3.5% Red Zone

The Bank considers that there is excessive leverage risk when the leverage ratio falls below 3.5%. In case of an internal breach, a meeting should be convened by the Risk Management Department, together with the Finance Department and other relevant Departments. The reason of the breach and the remediation action are then analyzed and reported promptly to the Management Body and to the Board of Directors, as appropriate.

The mitigation measures may include, but are not limited to:

- Adjusting the Balance sheet and Off-Balance sheet structure
- Increasing the Tier 1 capital by capital injection, incorporation of previous profit etc.

Under CRR/CRD framework the non-risk based leverage ratio is intended to act as a supplementary measure to the risk based capital requirements. Its objectives are to constrain the build-up of leverage in the banking sector, helping avoid destabilizing deleveraging processes which can damage the broader financial system and the economy, and to reinforce the risk based requirements with a simple, non-risk based “backstop” measure. The current framework does not provide for a mandatory minimum leverage ratio to be complied with.

The leverage ratio is calculated in accordance with Article 429 of the CRR as per Delegated Regulation (EU) 2015/62 of 10 October 2014 published in the Official Journal of the European Union on January 17 2015. As at 31st December 2019, the Leverage Ratio amounts to 7.18%, using the fully phased-in definition of Tier 1. This exceeds regulatory minimum requirement of 3%.

The following tables disclose template are in accordance of the Commission Implementing Regulation (EU) No 2016/200 of 15 February 2016.

Table 3.6.1 LR1 - Summary comparison of accounting assets vs. leverage ratio exposure measure

1	Total consolidated assets as per published financial statements	6,062,003,646.00
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	-
3	Adjustment for fiduciary assets recognised on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	-
4	Adjustments for derivative financial instruments	10,330,427.75
5	Adjustment for securities financing transactions (ie repos and similar secured lending)	-
6	Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	722,435,079.27
7	Other adjustments	12,695,943.43
8	Leverage ratio exposure measure	6,807,465,096.45

Source: COREP C47

Table 3.6.2: LR2 - Leverage ratio common disclosure template



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		a	b
		2019	2018
On-balance sheet exposures			
1	On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs), but including collateral)	6,074,699,589.43	5,166,545,429.51
2	(Asset amounts deducted in determining Basel III Tier 1 capital)	-251,381.13	-
3	Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of rows 1 and 2)	6,074,448,208.30	5,166,545,429.51
Derivative exposures			
4	Replacement cost associated with <i>all</i> derivatives transactions (where applicable net of eligible cash variation margin and/or with bilateral netting)	10,330,427.75	15,948,056.62
5	Add-on amounts for PFE associated with <i>all</i> derivatives transactions	-	-
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the operative accounting framework	-	-
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	-	-
8	(Exempted CCP leg of client-cleared trade exposures)	-	-
9	Adjusted effective notional amount of written credit derivatives	-	-
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	-	-
11	Total derivative exposures (sum of rows 4 to 10)	10,330,427.75	15,948,056.62
Securities financing transaction exposures			
12	Gross SFT <i>assets</i> (with no recognition of netting), after adjusting for sale accounting transactions	-	-
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-	-
14	CCR exposure for SFT assets	-	-
15	Agent transaction exposures	-	-
16	Total securities financing transaction exposures (sum of rows 12 to 15)	-	-
Other off-balance sheet exposures			
17	Off-balance sheet exposure at gross notional amount	722,435,079.27	837,149,012.98
18	(Adjustments for conversion to credit equivalent amounts)	0.00	0.00
19	Off-balance sheet items (sum of rows 17 and 18)	722,435,079.27	837,149,012.98
Capital and total exposures			
20	Tier 1 capital	488,759,462.53	451,741,591.27
21	Total exposures (sum of rows 3, 11, 16 and 19)	6,807,213,715.32	6,019,642,499.11
Leverage ratio			
22	Basel III leverage ratio	7.18%	7.50%

Source: COREP C47

The capital measure for the leverage ratio is the Tier 1 capital taking into fully phased-in definition, the exposure measure corresponds to the sum of the following exposures: (a) on-balance sheet exposures; (b) derivative; (c) off-balance sheet items.

As at 31 December 2019, the Bank's leverage ratio decreased slightly to 7.18% compare with previous year of 7.50%. The leverage ratio remains stable through 2019, main factors that impacted the leverage ratio are the on-balance-sheet exposure of loans and the off-balance-sheet exposure of loan commitments, there were no other specific factors identified which had any material impact on the calculation of leverage ratio in 2019.

4. Capital Adequacy

The capital management approach of the Bank is driven by its strategic and organizational requirements, taking into account the regulatory, economic and commercial environments in which it operates. It is our objective to maintain a strong capital base to support the business development and to meet regulatory capital requirements at all time.

As per relevant provisions set in CRR, CRD IV and CSSF 07/301, the Tier 1 and Tier 2 capitals of the Bank are used to mitigate:

Pillar 1

- Credit risk, with an allocated capital of 8% of Risk Weighted Assets;
- Counterparty credit risk capital allocation resulted from derivative transactions are calculated according to the original method with original maturity option;
- Market risk (mainly foreign currency risk), with an allocated capital of 8% of the overall net currency position, if the net position exceeds 2% of the Bank's own funds;
- Operational risk, with an allocated capital of 15% of basic indicator.

Pillar 2

- IRRBB risk, concentration risk, counterparty credit risk, are assessed and internal capital are allocated based on the stress test results. The liquidity risk is considered separately in ILAAP report.

4.1. Internal Capital Adequacy Assessment Process ("ICAAP")

Concerning the internal capital adequacy assessment method, the Bank follows a "Pillar II" approach to calculate its own internal capital requirements. In this approach, the Bank assesses Regulatory Capital Requirements for the risks of the Pillar 1 (Credit Risk, Market Risk and Operational Risk) in accordance with the methods laid down in CRR, in which a minimum prudential own funds is required.

Additionally, the Bank performs an Internal Assessment of Capital Requirement to address the risks

which are not covered or not fully captured by the minimum prudential own funds requirements. The stress test method is used to quantify the capital requirement.

The purpose of ICAAP report is as the followings:

- Informs the Bank's Board of Directors on how the Bank assesses its risks; how the Bank intends to mitigate those risks, and how much current and future capital, as well as liquidity capacity are deemed necessary to support the Bank's operations in light of those risks.
- Allow CSSF to collect the relevant information to perform the SREP assessment.
- Be used by the management of the Bank in the strategic management.

The fact that the ICAAP report is regularly reviewed at the highest levels of the firm's organization structure means that the Bank's risk management policies and processes are regularly being challenged. Within an institution's internal governance framework, the ICAAP is a process to ensure that the AM:

- Adequately anticipates, identifies, measures, aggregates and monitors the Bank's risks;
- Ensures that the Bank holds adequate internal capital in relation to the Bank's risk profile;
- Uses sound risk management systems and develops them further.

Maintaining and continuously reviewing the Bank's ICAAP helps to ensure that the Bank keeps focusing on the risks it faces.

The results of this assessment are summarized below:

Table 4.1.1 Summary of Capital Adequacy Assessment

2019 (in EUR)	Pillar I		Pillar II
	Regulatory Capital Requirements		Internal Assessment of Capital Requirements
Credit Risk	326,852,207.28		326,852,207.28
Market Risk	1,414,224.49		9,991,185.98
Operational Risk	11,008,629.76		396,666.03
Concentration Risk			1,559,786.36
Counterparty Credit Risk			2,422,008.00
Other risk			5,951,615.32
Capital requirement	339,275,061.54		347,173,468.97
CET 1 Capital	488,759,462.53		488,759,462.53
CET 1 Ratio	11.52%		11.26%
Tier 1 Capital	488,759,462.53		488,759,462.53
Tier 1 Ratio	11.52%		11.26%
Own funds	595,161,532.31		595,161,532.31
Capital Available	255,886,470.77		247,988,063.34
Total Capital Ratio	14.03%		13.71%

As at 31st December 2019, under the regulatory requirement the Bank's total capital requirement was EUR 339.28 million while under the Bank's internal assessment of its total capital requirement amounted to EUR 347.17 million, leaving EUR 247.99 million of capital available.

The total capital ratio of the Bank, under Pillar I, was 14.03%. The capital adequacy ratio of the Bank under Pillar II stood at 13.71% according to Pillar 1 calculation. The ratio shows that for 100 units of risk taken by the Bank, there are 14.03 units of eligible own funds to cover the risk.

4.2. Capital Planning

The basis for the capital planning model is the Bank's three-year business plan. The objective of internal capital planning is to ensure the future capital adequacy ratio would be in line with the business strategy and within the risk appetite tolerance.

Although the Bank's business model remains traditional corporate lending driven, some forward looking strategic adjustment has been made so as to:

- Promote green and sustainable economy through favourable credit access conditions for specific environment friendly, infrastructure construction sectors;
- Reduce RWA by investing in high quality rating clients.
- Seeking new business opportunity in light of fintech revolution;
- Manage the existing loan portfolio with multiple options such as securitization, asset disposal and transfer if necessary;

4.3. Stress and Scenario Testing

In accordance with the Circular CSSF 11/506, the Bank performs stress tests covering all material risks exposed. With the validation of AM, we performed a scope analysis on stress tests, elaborated the stress test method and integrated the results into Pillar 2 capital requirement considerations.

The AM is regularly informed on results and decides on corrective measures, written annual plan required including main characteristics. Heads of relevant departments contribute to efficiency, and to ensure flexibility to easily and quickly react to changed situations, competent and sufficient personnel and adequate infrastructure. In 2019, a set of stress tests were performed on:

- Liquidity Risk
- Interest rate Risk on Banking book
- Interest rate Risk on Investment portfolio
- Concentration Risk
- Counterparty Credit Risk
- Operational Risk

5. Credit Risk

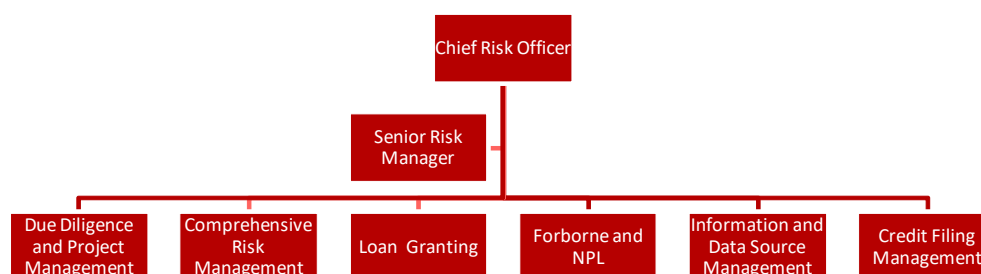
Credit risk is defined as the potential that a bank borrower or counterparty will fail to meet its obligations in accordance with agreed terms, including the counterparty credit risk, concentration credit risk and country credit risk. Credit risk exists in all activities where success depends on counterparty, issuer or borrower performance. The Bank's credit risk can be found in the traditional lending activities (both on the balance sheet and off the balance sheet), and in financial market activities where a money market or derivatives contract is concluded. More widely, credit risk can be accentuated by the concentration factor and by country risk. Among the risks the Bank takes in the

normal course of business, credit risk is the most important and generates the largest regulatory capital requirement.

5.1. Credit risk governance

The goal of credit risk management in the Bank is to maximise a bank’s risk-adjusted rate of return by maintaining credit risk exposure within acceptable parameters. The CRO and each team need to manage the credit risk inherent in the entire portfolio as well as the risk in individual credits or transactions. The Bank maintains efficient and effective internal system to identify, measure, monitor and control credit risk as well as to determine that they hold adequate capital against these risks and that they are adequately compensated for risks incurred.

5.1.1. Risk management framework



5.1.2. Policy

Risk Management department of the Bank has established general and specific procedural policies which are in line with the Bank’s risk appetite. These policies guide the analysis, monitoring, reporting thought the whole credit life in the Bank. Risk Management takes the responsibilities of credit issuance and drawdown operation of the Bank to strengthen the prevention and control of credit risk. As part of the loan monitoring task, the Information and Data Source Management supervises changes in the credit risks with regards to the bank’s credit portfolio by analysing loan indicators and reviewing counterparties’ ratings. The Risk Management department also draw up the policies covers corporate credit portfolio management and loan provision, NPL management etc.

5.1.3. Reporting of material credit risk events

The Bank issues Administrative Measure for reporting material credit risk events in order to enhance and regulate active risk management and improve the Bank’s speed of response to and ability to mitigate material credit risk. Event refers to any material negative impact on credit asset safety and asset quality of the Bank.

The management of material credit risk events shall put prevention first, strengthen the monitoring and analysis of external macro economy, financial market, industry credit status, enterprise operation and its changes, and judge the risk status, so as to guarantee early detection, reporting, handling and mitigation of risks. The material credit risk events shall be responded to and handled in a quick and efficient manner. The branches at different levels shall present timely reports to Risk Management department.

5.1.4. Risk control measure

Credit risk measurement is primarily access through internal rating system before the Bank allocate any credit line to the customer. The credit rating of each customer corresponds to an evaluation of the level of default risk borne by the counterparty and is expressed by means of an internal rating scale. The Bank operating on single credit limit system for customers, which means credit risk limits are set for each of the counterparty and establish the maximum acceptable level for each one. The county limits, industry limit, and product limit may also be imposed by the Risk Management department in light of changes in the latest macro or micro economy situation. Risk Management monitors credit exposures, and issue risk notice where necessary.

Facility limit management

The facility management adopts the hierarchical management at the bank level and customer level respectively. The Bank formulated the measure on limit usage, splitting and transferring corporate customer valid credit line

Credit asset risk classification

The Bank establishes regulation of credit asset risk classification in order to effectively identify and measure credit risk, objectively reflect credit asset quality and enhance risk control of credit asset. The risk classification of credit assets is managed in a centralized manner, and the experts of Risk Management department are responsible for reviewing and determining the risk classification of credit assets. RMD conduct credit asset risk classification under the respective authorities. Among various factors that affecting credit assets classification, the Bank identifies key factors to assess and classify credit assets, based on the importance under the primary definition of risk classification.

Credit rating of corporate customers

Customers' credit rating, as a component of the Bank's bi-dimensions internal rating system for non-retail credit risk exposure, is used by the Bank to evaluate the debtors' default risk based on internal data and standards. The credit rating results only represent the ordinal ranking of debtors' relative risk across the Bank.

Customers' credit rating results are important reference for the Bank to carry out credit approval, customer access, risk monitoring, limit management, post-lending management, credit policy, risk reporting, economic capital, risk appetite, provision, risk pricing and performance evaluation. The rating is reviewed on quarterly base, which helps to identify any adverse change of client credit situation.

IFRS ECL management

In accordance with IFRS 9 requirements, based on the change in credit quality since initial recognition of financial instruments, ECL under different periods of time should be recognised, and the new standard outlines a “three-stage” model to calculate the ECL. The Bank establishes criteria for identify and recognize the indicators for each stage, and list of information may be relevant in assessing significant increase since initial recognition of credit risk.

5.1.5. Post-loan management

Post-lending management of corporate loans refers to the behaviour of management covering from the time of corporate loan drawdown or activation through to the time of full repayment and settlement.

Customers of the Bank are classified in light of the substantial risk level and put under differentiated management with different frequencies of post-lending management reporting. Customer-specific risk management shall be carried out in combination with the post-lending management guidelines on the spheres of customers, products and guarantees, where differentiated risk identification and control measures will be taken, and post-lending management strategies be fixed. A series of risk identification, assessment and reporting measures shall be actively taken against high-risk customers and significant credit risk events, while strengthening efficient and targeted management.

5.2. Credit risk exposures

The Bank’s credit risk exposure will be analysed at this section, according to the guideline on disclosure requirement under Part Eight of Regulation (EU) No 575/2013 different risk metric is used.

5.2.1. Total and average amount of credit exposure by exposure classes

According to Article 442 (c) in the CRR, the below table represents the year-end total and annual average exposure expressed in net values. For on-balance-sheet items, the net value is the gross carrying value of exposure less allowances/impairments. For off-balance-sheet items, the net value is the gross carrying value of exposure less provisions. Credit risk exposures values are shown after accounting offsets but before credit risk mitigation and figures are obtained by using the standardised approach. The average credit exposure is computed as the average of the net exposure values observed at the end of each quarter of the year 2019.

Table 5.2.1 EU CRB-B – Total and average net amount of exposures



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(in EUR)	Net value of exposure at the end of the period	Average net exposures over the period
Central governments or central banks	960,221,796.10	578,745,312.27
Institutions	1,757,852,006.79	1,142,635,604.56
Corporate	4,055,147,101.79	3,849,689,861.42
Of which: SMEs	-	-
Retails	654,370.24	897,017.27
Of which: SMEs	-	-
Secured by mortgages on immovable property	452,830,772.79	456,038,674.75
Of which: SMEs	-	-
Exposures in default	-	6,587,500.00
Items associated with particularly high risk	19,898,319.32	19,898,319.32
Equity exposure		31,000.00
Other exposures	20,666,565.23	22,756,971.18
Total	7,267,270,932.26	6,077,280,260.76

5.2.2. Geographical breakdown of credit exposures

In the Article 442 (d) of the CRR, the table below shows the total exposure expressed in terms of net value broken down by exposure classes and geographic areas at year end of 2019. The geographical distribution is based on the legal residence of the counterparty or issuer.



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Table 5.2.2 EU CRB-C – Geographical breakdown of exposures

(In EUR)	Europe	of which: Luxembourg	of which: Netherlands	of which: Belgium	of which: Poland	of which: Portugal	United States and Canada	Asia	of which: Hong Kong	Other geographical areas	Total
Central governments or central banks	643,966,243.47	596,419,831.80	9,964,535.66	2,511,116.26	33,453,448.66	1,617,311.090	316,255,552.63				960,221,796.10
Institutions	1,664,728,737.32	1,527,152,197.16	637,322.58	377,711.45	18,716,106.08	164,405.590	75,525,721.11	17,597,548.36	2,222,012.970		1,757,852,006.79
Corporate	3,476,342,562.76	373,803,798.96	717,604,083.61	329,425,087.73	449,579,962.13	289,207,909.810	82,502,020.52	233,153,637.87	175,424,793.980	263,148,880.64	4,055,147,101.79
Of which: SMEs											-
Retails	654,370.24	654,370.24									654,370.24
Of which: SMEs											-
Secured by mortgages on immovable property	452,830,772.79	2,690,786.59	66,887,768.87		248,576,225.44	51,965,735.450					452,830,772.79
Of which: SMEs											-
Exposures in default											-
Items associated with particularly high risk	19,898,319.32										19,898,319.32
Equity exposure											-
Other exposures	20,666,565.23	20,182,978.63									20,666,565.23
Total standardised approach	6,279,087,571.13	2,520,903,963.38	795,093,710.72	332,313,915.44	750,325,742.31	342,955,361.94	474,283,294.26	250,751,186.23	177,646,806.95	263,148,880.64	7,267,270,932.26

As at 31 December 2019, majority of the credit risk exposure was mainly concentrated in Europe (86.4% of total) with exposure for Luxembourg of 34.7%, Netherlands of 10.9%, Poland of 10.3%, and Portugal of 4.7% and Belgium of 4.6%. The Bank's credit activities are more and more oriented towards European clients. With regards to Central Governments and Central Banks exposures, the main counterparties of the bank are the Central Bank of Luxembourg and the United States bank. Corporate activities were mostly in Netherlands of 9.9% and Institutions activities were in Luxembourg of 21%.

5.2.3. Exposure breakdown by industry

According to Article 442 (e) of the CRR, the table below shows the net value of exposure broken down by exposure class and industry at the end of year 2019. The industry classification is based on NACE codes (NACE (Nomenclature des Activités Économiques dans la Communauté Européenne) is a European industry standard classification system for classifying business activities).



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Table 5.2.3 EU CRB-D – Concentration of exposures by industry or counterparty types

(In EUR)	Agriculture, forestry and fishing	Mining and quarrying	Manufacturing	Electricity, gas, steam and air conditioning supply	EWater supply; sewerage; waste management and remediation activities	Construction	Wholesale and retail trade; repair of motor vehicles and motorcycles	Transport and storage	Accommodation and food service activities
Central governments or central banks									
Institutions									
Corporate	18,919,170.37	110,987,226.26	1,074,076,409.29	171,525,773.98	81,546,419.94	139,493,610.560	763,283,652.850	412,309,079.900	37,849,174.040
Of which: SMEs									
Retails									
Of which: SMEs			10,223,064.40					49,116,821.890	
Secured by mortgages on immovable property									
Of which: SMEs									
Exposures in default									
Items associated with particularly high risk									
Equity exposure									
Other exposures									
Total	18,919,170.37	110,987,226.26	1,084,299,473.69	171,525,773.98	81,546,419.94	139,493,610.56	763,283,652.85	461,425,901.79	37,849,174.04
(In EUR)	Information and communication	Financial and insurance activities	Real estate activities	Professional, scientific and technical activities	Administrative and support service activities	Human health and social work activities	Retail	Other services activities	Total
Central governments or central banks		643,966,243.47						316,255,552.630	960,221,796.100
Institutions		1,757,852,006.79							1,757,852,006.790
Corporate	436,678,736.91	255,018,412.79	151,073,919.32	233,343,819.96	122,848,124.31	16,025,564.860		30,168,006.450	4,055,147,101.790
Of which: SMEs									-
Retails							654,370.240		654,370.240
Of which: SMEs									59,339,886.290
Secured by mortgages on immovable property			389,912,880.85				3,578,005.650		393,490,886.500
Of which: SMEs									-
Exposures in default									-
Items associated with particularly high risk			19,898,319.32						19,898,319.320
Equity exposure									-
Other exposures		2,875.65						20,663,689.580	20,666,565.230
Total	436,678,736.91	2,656,839,538.70	560,885,119.49	233,343,819.96	122,848,124.31	16,025,564.86	4,232,375.89	367,087,248.66	7,267,270,932.26

As at 31 December 2019, the sectors “Financial and insurances activities” and “Manufacturing” represented the highest exposures with respectively 36.56% and 14.92% of the total exposures. The Bank maintained close cooperation with BOC domestic branches and continues to invest in low RWA cost counterparties such as Central Governments or strong financial institutions.

5.2.4. Exposure breakdown by residual maturity

According to Article 442 (f) of the CRR, the table below shows the net value of exposure broken down by exposure class and residual maturities at 31 December 2019.

Table 5.2.4 EU CRB-E – Maturity of exposures

(In EUR)	Net exposure value					Total
	on demand	<= 1 year	> 1 year <= 5 years	> 5 years	No stated maturity	
Central governments or central banks	643,966,243.47	155,790,215.41	160,465,337.22			960,221,796.10
Institutions	1,375,807,812.12	382,044,194.67				1,757,852,006.79
Corporate	233,914,357.01	374,524,486.29	3,339,781,511.31	106,926,747.18		4,055,147,101.79
Of which: SMEs						-
Retails				654,370.24		654,370.24
Of which: SMEs						-
Secured by mortgages on immovable property			347,416,619.82	105,414,152.97		452,830,772.79
Of which: SMEs						-
Exposures in default						-
Items associated with particularly high risk			19,898,319.32			19,898,319.32
Equity exposure						-
Other exposures					20,666,565.23	20,666,565.23
Total standardised approach	2,253,688,412.60	912,358,896.37	3,867,561,787.67	212,995,270.39	20,666,565.23	7,267,270,932.26

The above table shows 96.8% of the total exposure does not exceed 5 years term. Only 2.9% of the exposure over a longer period of five years and these exposures consist of mainly retail banking mortgage activity and syndication loan to corporate. The proportion of tenor in Middle and Long Term exposures increased due to development of longer term loans to the local market (bilateral and syndicated loans).

Exposures classified as “no stated maturity” represent 0.3% of the total exposures and are essentially composed of other asset and tangible asset.

5.2.5. Credit quality of exposures

According to Article 442 (g) of the CRR, the tables below provide asset quality information of the Bank. The amounts shown are based on IFRS accounting values according to the regulatory scope of consolidation. An exposure is being classified as default if the default criteria are met according to Article 178 of the CRR. Credit risk adjustment refers to only the specific credit risk adjustment and it consist of all types of allowance for credit losses held against financial instruments subject to impairment according to IFRS 9 for the current year. The Bank does not record any credit risk adjustment which qualifies as general credit risk adjustment.

Table 5.2.5 EU CR1-A Credit quality of exposures by exposure class and instrument class and instrument



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in EUR	Gross carrying value of		Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges of the period	Net values (a+b-c-d)
	Defaulted exposures	Non-defaulted exposures					
Central governments or central banks	-	960,221,796.10	-	-	-	-	960,221,796.10
Regional governments or local authorities	-	-	-	-	-	-	-
Public sector entities	-	-	-	-	-	-	-
Multilateral Development Banks	-	-	-	-	-	-	-
International Organizations	-	-	-	-	-	-	-
Institutions	-	1,757,864,334.72	-12,327.93	-	-	-	1,757,852,006.79
Corporate	-	4,071,332,563.22	-16,185,461.43	-	-	-	4,055,147,101.79
Retails	-	654,720.24	-350.00	-	-	-	654,370.24
Secured by mortgages on immovable property	-	453,994,068.35	-1,163,295.56	-	-	-	452,830,772.79
Exposures in default	31,000,000.00	-	-31,000,000.00	-	-	-	-
Items associated with particularly high risk	-	20,001,000.00	-102,680.68	-	-	-	19,898,319.32
Covered bonds	-	-	-	-	-	-	-
Claims on institutions and corporate with a short-term credit assessment	-	-	-	-	-	-	-
Collective investments undertakings (CIU)	-	-	-	-	-	-	-
Equity exposures	-	-	-	-	-	-	-
Other items	-	20,666,565.23	-	-	-	-	20,666,565.23
Total standardized approach	31,000,000.00	7,284,735,047.86	-48,464,115.60	-	-	-	7,267,270,932.26
of which :							
Loans	-	5,140,480,346.28	-46,920,499.31	-	-	-	5,093,559,846.97
Debt Securities	-	316,255,552.63	-	-	-	-	316,255,552.63
Off-balance sheet exposures	-	1,184,035,912.50	-1,543,616.29	-	-	-	1,182,492,296.21

Table 5.2.6 EU CR1-B Credit quality of exposures by industry

in EUR	Gross carrying value of		Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges of the period	Net values (a+b-c-d)
	Defaulted exposures	Non-defaulted exposures					
Agriculture, forestry and fishing	-	18,965,330.60	-46,160.23	-	-	-	18,919,170.37
Mining and quarrying	-	111,225,667.48	-238,441.22	-	-	-	110,987,226.26
Manufacturing	-	1,092,370,570.51	-8,071,096.82	-	-	-	1,084,299,473.69
Electricity, gas, steam and air conditioning supply	-	172,043,549.37	-517,775.39	-	-	-	171,525,773.98
EWater supply; sewerage; waste management and remediation activities	-	81,760,338.95	-213,919.01	-	-	-	81,546,419.94
Construction	-	139,796,416.60	-302,806.04	-	-	-	139,493,610.56
Wholesale and retail trade; repair of motor vehicles and motorcycles	31,000,000.00	765,144,032.84	-32,860,379.99	-	-	-	763,283,652.85
Transport and storage	-	462,410,177.33	-984,275.54	-	-	-	461,425,901.79
Accommodation and food service activities	-	38,011,425.66	-162,251.62	-	-	-	37,849,174.04
Information and communication	-	438,274,426.25	-1,595,689.34	-	-	-	436,678,736.91
Financial and insurance activities	-	2,994,402,784.73	-644,003.82	-	-	-	2,993,758,780.91
Real estate activities	-	562,519,458.63	-1,634,339.14	-	-	-	560,885,119.49
Professional, scientific and technical activities	-	234,059,496.91	-715,676.95	-	-	-	233,343,819.96
Administrative and support service activities	-	123,146,104.55	-297,980.24	-	-	-	122,848,124.31
Human health and social work activities	-	16,060,213.89	-34,649.03	-	-	-	16,025,564.86
Retails	-	4,234,850.24	-2,474.35	-	-	-	4,232,375.89
Other services activities	-	30,310,203.32	-142,196.87	-	-	-	30,168,006.45
Total standardized approach	31,000,000.00	7,284,735,047.86	-48,464,115.60	-	-	-	7,267,270,932.26

5.2.6. Credit quality of exposures by geographical area

In the Article 442(h) of the CRR, the table below provides breakdown of the default and non-default of the Bank's on- and off-balance sheet exposures subject to the credit risk framework by significant geographical areas as well as countries. The geographical distribution is based on the legal residence

of the counterparty or issuer.

Table 5.2.7 EU CR1-C Credit quality of exposures by geographical area

In EUR	Gross carrying value of		Specific credit risk	General credit risk	Accumulated	Credit risk	Net values
	Defaulted exposures	non-defaulted exposures	adjustments	adjustments	write-offs	adjustment charges of the	
Europe	31,000,000.00	6,295,768,785.31	-47,681,214.18	-	-	-	6,279,087,571.13
<i>of which:</i>							
Belgium	-	333,341,138.11	-1,027,222.67	-	-	-	332,313,915.44
Germany	-	88,856,664.24	-361.43	-	-	-	88,856,302.81
France	-	166,363,144.63	-309,125.43	-	-	-	166,054,019.20
Luxembourg	31,000,000.00	2,522,016,069.20	-32,112,105.82	-	-	-	2,489,903,963.38
Netherlands	-	803,195,715.31	-8,102,004.59	-	-	-	795,093,710.72
Spain	-	185,213,835.89	-411,566.61	-	-	-	184,802,269.28
Poland	-	752,796,755.28	-1,987,426.37	-	-	-	750,809,328.91
Portugal	-	343,685,911.61	-730,549.67	-	-	-	342,955,361.94
Italy	-	100,786,014.07	-408,372.53	-	-	-	100,377,641.54
North America	-	666,255,068.46	-537,347.28	-	-	-	665,717,721.18
<i>of which:</i>							
United States	-	474,531,734.50	-277,064.60	-	-	-	474,808,799.10
Cayman islands	-	78,783,399.86	-170,480.27	-	-	-	78,953,880.13
South and Central America	-	18,739,371.26	-28,826.29	-	-	-	18,768,197.55
Asia	-	250,825,261.58	-74,075.35	-	-	-	250,751,186.23
<i>of which:</i>							
China	-	73,141,562.51	-39,925.20	-	-	-	73,181,487.71
Hong Kong	-	177,680,957.10	-34,150.15	-	-	-	177,646,806.95
Other geographical areas	-	53,146,561.25	-142,652.50	-	-	-	53,003,908.75
Total	31,000,000.00	7,284,735,047.86	-48,464,115.60	-	-	-	7,236,270,932.26

5.3. Impairment, forbearance exposure and non-performing loans

5.3.1. Definition of Default

The bank must include all products and positions that are potentially at risk. Default is defined in the Basel II context (Article 178 CRR) as follows:

Default of an obligor (debtor or guarantor): A default shall be considered to have occurred with regard to a particular obligor when either or both of the following have taken place:

- the Bank considers that the obligor is unlikely to pay (hereinafter referred to as the “UTP”) its credit obligations to the Bank, including the parent undertakings and all cross border branches, in full, without recourse by the Bank to actions such as realizing security(if held);
- the obligor is past due more than 90 days on any material credit obligation to the Bank, including the parent undertakings and all cross border branches.

Our Bank shall assess the materiality of a credit obligation past due against the following threshold, which comprises two components:

- Absolute component

The absolute component shall be expressed as a maximum amount for the sum of all



amounts past due owed by a non-retail obligor to our Bank, including the parent undertaking and all cross-border branches (hereinafter the 'credit obligation past due'). The maximum amount shall not exceed EUR 500 or the equivalent of that amount in the relevant original currency.

b. Relative component

The relative component shall be expressed as a percentage reflecting the amount of the credit obligation past due in relation to the total amount of all on-balance sheet exposures to that a non-retail obligor of our Bank, including the parent undertaking and all cross-border branches, excluding equity exposures. The percentage shall be set at 1 % currently

The Bank has a granular risk classification on its assets taking into account specific characteristics. The five loan quality categories are:

- Performing
- Special Mention
- Substandard
- Doubtful
- Loss

the "performing" and "special mention" categories are considered as performing, while the "substandard", "doubtful" and "loss" categories are classified as nonperforming loans (NPL), for which impairment should be recognized.

"Past due" loan: A "past due" loan is a loan for which contractual payments are not being made in time. Loans are placed in non-accrual status when they become 90 days past due.

5.3.2. Provisions for credit facilities

The Bank evaluates its loan situation in a timely, accurate and prudent manner and makes ample provision, pursuant to the principle of "categorizing accurately and making ample provision to reflect actual profits and operating performance" during routine business, and according to the requirements of local regulatory authorities and external auditors.

The allowance for loan impairment losses to non-performing loans is now 100% percentage further enhancing risk resilience.

Expected Credit Loss (ECL) under IFRS9 standard

In July 2014, the International Accounting Standards Board (IASB) added the impairment requirements related to the accounting for expected credit losses on an entity's financial assets and commitments to "International Financial Reporting Standard 9 Financial Instruments" in order to extend credit. Those requirements eliminate the threshold that was in IAS 39 for the recognition of credit losses. Under the impairment approach in "International Financial Reporting Standard 9 Financial Instruments", it is no longer necessary for a credit event to have occurred before credit losses are recognised. Instead, an entity always accounts for expected credit losses, and changes in those expected credit losses. The amount of expected credit losses is updated at each reporting date

to reflect changes in credit risk since initial recognition, consequently, more timely information is provided about expected credit losses.

The Bank adopted IFRS 9 standards from 1st January 2018. After two year's functioning which is now mapped with Internal Rating model, the Bank has engaged a series of measure to improve the calibration of internal rating model and to increase the accuracy of credit provision.

The "Internal Credit Rating Policies" will strengthen the Bank's IFRS 9 rating review governance.

In order to facilitate early identification of changes in risk profiles and ensure the internal rating to be more responsive to indicators of potential or actual deterioration in credit risk, including improvement on the application of internal rating in credit grating process, credit review process and post loan management.

ECL recognition

At 31st December 2019, the total on- & off-balance amount of ECL (SA Consolidated) was EUR 48.46 million, of which EUR46.92 million for loan impairment on the balance sheet, together with EUR 1.54 million for off balance sheet exposures.

Breakdown of ECL by stages

ECL Stages	Original exposure	Credit adjustment	Net values
Stage 1	4,431,563,659.38	-12,024,963.95	4,419,538,695.43
Stage 2	20,284,831.11	-5,439,151.65	14,845,679.46
Stage 3	31,000,000.00	-31,000,000.00	-
Total	4,482,848,490.49	-48,464,115.60	4,434,384,374.89

5.3.3. Forborne exposures

Forborne exposures are debt contracts in respect of which forbearance measures have been extended. Forbearance measures consist of concessions towards a debtor facing or about to face difficulties in meeting their financial commitments. Those measures include in particular the granting of extensions, postponements, renewals or changes in credit terms and conditions, including the repayment plan.

Once certain forbearance criteria are met, the credit files are re-classified as restructured loans and are added to a forbearance list closely followed by RMD. In order to comply with the regulatory standard, the Bank has set up a special committee called the Asset Disposal Committee which (i) identifies the criteria leading to the forborne classification including updating client's rating, (ii) deploys a strategy for changing loan terms and conditions, such as determine the new repayment interest rate and extension period, (iii) promotes the regulation and compliance of asset disposal and write-offs.

As at 31 December 2019, the Bank's forborne exposures amounted to EUR51.28 million which related to two restructuring companies.

Table 5.3.1 CR1-E Non-performing and forborne exposures

	Gross carrying value of performing and non-performing exposures						
		Of which performing but past due > 30 days and <= 90 days	Of which performing forborne		Non-performing forborne		
					Of which defaulted	Of which impaired	Of which forborne
Debt securities	-	-	-	-	-	-	-
Loans and advances	5,784,446,589.75	-	20,284,831.11	-	31,000,000.00	-	31,000,000.00
Off-balance-sheet exposures	1,184,035,912.50	-	-	-		v	
	Accumulated impairment and provisions and negative fair value adjustments due to credit risk				Collaterals and financial guarantees received		
	On performing exposures		On non-performing		On non-performing exposures	Of which forborne exposures	
		Of which forborne		Of which forborne			
Debt securities	-	-	-	-	-	-	
Loans and advances	-36,439,151.65	-5,439,151.65	-31,000,000.00	-31,000,000.00	-	-	
Off-balance-sheet exposures	-	-	-	-		-	

5.3.4. Non-performing exposures

According to EBA definition, non-performing exposures correspond to loans in default, or overdue period > 90 days.

As at end of 2019, the Bank non-performing exposures amount to EUR 31 million.

5.4. Credit risk mitigation

When granting credit facilities to customer the Bank's approach is based on the capacity to repay by borrower rather than placing primary reliance on credit risk mitigates. Depending on a customer's risk portfolio and type of product, facilities may be provided unsecured. Mitigation of credit risk is a key aspect of effective risk management and takes many forms.

The most common method of mitigating credit risk is to take collaterals, the Bank divides collateral into Tier I and Tier II, and managed separately by different class. Tier I collateral refers to cash, cash equivalent and others that can be evaluated through external professional institution with easy realization or liquidation such as cash, bonds, time deposits etc., whereas Tier II collateral refers to those collaterals with difficulties to evaluate, liquidate or register, including inventory, trade receivable and equipment etc. The Bank's collateral policies cover the acceptability, structuring and terms with regards to the availability of credit risk mitigation, together with the setting of suitable valuation parameters, internal policies are subject to regular review to ensure that they are supported by solid evidence and continue to fulfil the intended purpose.

Main types of collateral

The Bank has the following main categories of collateral under the regulatory point of view:

-
- Pledges of liquid assets
 - Mortgage residential
 - Mortgage commercial
 - Pledges of business asset

Guarantee

Guarantee refers to personal guarantee, first demand guarantees which complements the borrower's ability to fulfil its obligation under the legal contract and as such is provided by third parties, such as letter of credit, letter of guarantee and insurance contract.

Main type of guarantor and their creditworthiness

The main type of guarantor are other entities within BOC's group, other financial institutions and corporate. The Creditworthiness of guarantee provider is incorporated with the credit assessment process for borrowers.

Collateral valuation

Valuation of collaterals refers to the conduct and process where the external specialized valuation agency recognised by the Bank appraises and delivers opinion on the value of the collateral. Valuation management is a dynamic and continual process ranging from pre-lending and valuation when a transaction is initiated and approved to collateral revaluation in the existence of credit and in disposal of assets. Valuation should be conducted in an objective, independent and scientific and prudent manner, following generally applied valuation standards.

Additional haircuts may then be applied to the valuation of the collateral if there is currency mismatch between the currency of the loan exposure and the currency of the pledged securities after initial LTV ratio is considered.

Information about market or credit risk concentrations

Concentration risk within credit risk mitigation taken may occur if collateral is related to one issuer, country, industry or market. The Bank is proactively monitoring the collateral concentration risk by using a number of tools and setting threshold during the credit assessment process.

Recognition of credit risk mitigation in capital calculation

Credit risk mitigation is used to reduce credit risk associated with an exposure, which may reduce potential losses in the event of obligor default or other specified credit events.

Credit risk mitigation that meets certain regulatory criteria may be used to improve risk parameters and reduce RWA charge against a given obligor. Collateral that meets the regulatory condition is referred as eligible collateral. Eligibility criteria are specified in Article 195 to 204 of the CRR. The Bank recognises of collateral as eligible credit risk mitigation is fully consistent with all applicable local regulations and regulatory permission.

Overview of credit risk mitigation techniques

In the Article 453(f) and (g) of the CRR, the below table provides an overview of the exposure value covered by regulatory eligible CRM and includes all collateral and financial guarantees used as credit

risk mitigates for all secured exposures based on the standardised approach is used for RWA calculations.

Table 5.4.1 EU CR3 CRM techniques- Overview

In EUR	Exposures unsecured - Carrying amount	Exposures to be secured	Exposures secured by collateral	Exposures secured by financial guarantees	Exposures secured by credit derivatives
Total loans	5,771,946,737	504,105,406	320,866,317	183,239,088	-
Total debt securities	316,255,553	-	-	-	-
Total exposures	6,088,202,290	504,105,406	320,866,317	183,239,088	-
Of which defaulted	-	-	-	-	-

The Bank does not have any credit derivatives as credit risk mitigate.

5.5. Standardised approach

The Bank uses the standardised approach for credit risk to determine its minimum capital requirement in accordance with the CRR. The standardised approach provides weighted risk figures based on external ratings given by External Credit Assessment Institutions (ECAI's) as indicated in the CRR. In order to apply the standardised approach for risk weighted exposure, the Bank uses external ratings assigned by the following rating agencies: Standard & Poor, Moody and Fitch.

The rating used for regulatory capital calculation is the lowest amongst the three ratings. If no external rating is available, the standardised approach provides specific risk weights defined by the regulator.

Table 5.5.1 Credit rating agencies and credit quality step under the standardised approach

Standard & Poor's	Moody's	Regulatory credit quality step
AAA to AA-	Aaa to Aa3	1
A+ to A-	A1 to A3	2
BBB+ to BBB-	Baa1 to Baa3	3
BB+ to BB-	Ba1 to ba3	4
B+ to B-	B1 to B3	5
CCC+ and below	Caa and below	6

Risk weights are mainly determined in relation to the credit quality step and the exposure class.

The following table shows credit risk exposure before credit conversion factor (CCF) and credit risk mitigation (CRM) and the exposure-at-default (EAD) broken down by exposure classes and split into on- and off-balance sheet exposures under the standardised approach.

Table 5.5.2 EU CR4 Standardised approach - credit risk exposure and credit risk mitigation (CRM) effects



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In EUR	Exposures before CCF and CRM		Exposures post-CCF and CRM		RWA and RWA density	
	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Cff-balance sheet	RWA	RWA density
Central governments or central banks	960,221,796	-	960,221,796	-	-	-
Institutions	1,729,388,502	28,463,505	2,068,421,189	193,536,223	598,657,630	20%
Corporates	2,901,118,311	1,154,028,791	2,562,739,993	528,898,856	3,211,032,012	104%
Retail	654,370	-	-	-	-	-
Secured by mortgages on immovable property	452,830,773	-	452,830,773	-	225,932,492	50%
Exposures in default	-	-	-	-	-	-
Exposures associated with particularly high risk	19,898,319	-	19,898,319	-	29,847,479	150%
Other assets	20,666,565	-	20,666,565	-	20,182,979	98%
Total	6,084,778,636	1,182,492,296	6,084,778,636	722,435,079	4,085,652,591	60%



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In the application of Article 444(e), the following table shows the exposure-at-default post conversion factor and risk mitigation broken down by exposure classes and risk weights, under the standardised approach.

Table 5.5.3 EU CR5 – Standardised approach

In EUR Exposure classes	Risk weight						Total	Of which unrated
	0%	20%	35%	50%	100%	150%		
Central governments or central banks	960,221,796						960,221,796	-
Institutions	93,789,763	1,618,087,318		550,080,332			2,261,957,413	-
Corporates					2,852,852,524	238,786,325	3,091,638,849	460,057,217
Retail							-	-
Secured by mortgages on immovable property			3,219,298	449,611,475			452,830,773	-
Exposures in default							-	-
Exposures associated with particularly high risk						19,898,319	19,898,319	-
Other assets	483,587				20,182,979		20,666,565	-
Total	420,291,442	1,312,521,650	2,796,618	420,210,313	3,703,568,663	138,715,859	6,807,213,715	460,057,217

5.6. Counterparty Credit Risk

Counterparty credit risk (“CCR”) means the risk that the counterparty defaults before the last cash flow under contract is paid and fails to make payment in accordance with the contract.

All OTC transactions are monitored within the credit limits that are set for each individual counterparty, the customer relationship manager shall initiate the credit application with the support of the financial market and institutions departments and manage overall credit limit. CCR limit shall be included in the overall credit granted by the Bank to the customer, subject to approval in accordance with the total credit approval authority and procedure and should follow global post-lending management. The limit is reviewed annually. The market value of the derivatives and the margin level are daily controlled and report via EMIR. The counterparty credit risk is managed under the “Counterparty Credit Risk Management Measure” framework, whose scope is detailed below:

- Over-the-Counter (“OTC”) transactions;
- Security financing transactions, including repurchase/reverse repurchase, security lending and margin lending transaction;
- Transactions with central counterparty.

At the current stage, the Bank is only exposed to a certain number of OTC derivatives transactions which belongs to the first category. As at 31 December 2019, there were three counterparties with which the Bank has concluded OTC derivatives and under the scope of the CCR framework.

In order to determine exposure value, the Bank has decided to apply the original exposure method with option of original maturity as per article 275 of CRR.

5.6.1. CCR limit setting

The CCR limit of corporate customers is divided into OTC derivatives, SFTs and CCP transactions by type of product. It is valid one year after the approval date.

Regarding banking institutions, CCR limit shall be included into category-II risks. As for non-banking institutions, the treasury transaction limit (non-banking) shall be set.

5.6.2. CCR reporting

A CCR report including the information mentioned in below table is prepared and reported to the management body on a monthly basis. Counterparty Credit Risk monitoring report as at 31 December 2019

Basic information of customer						Risk information					
Name of counterparty	Type of derivatives	Expired Date	External rating	Internal rating	Signed ISDA (Y/N)	Approved CCR limit (Or treasury activities limit in EUR)	Nominal amount (EUR)	Total absolute value of valuation losses at client's side (In EUR)	Margin received (In EUR)	Limit occupation (In EUR)	Collateral adequacy ratio
CGNEE BELGIUM WIND ENERGY COMPANY SA	IRS/Floor Option	29/12/2023	N/A	AA1	Y	2,691,120	28,032,500	197,012	2,691,120	2,064,313.30	96.34%
Cowin Worldwide Corporation	HUI LI DA	From March to May 2020	N/A	A1	Y	316,755,732	81,732,627	0	81,732,627	N/A	100.00%
WOLF IMMOBILIEN POLE Cap Floor Option		30/09/2020	N/A	AA2	Y	22788512.44	44,852,000	0	211,926	0	100.00%

The above monitoring table shows that the collateral adequacy ratio is high enough to cover the

potential loss beard by client.

Regarding the nature of these transactions, the cap Floor is concluded to cap the client's interest rate risk on loan granted by the Bank. The Forward transaction is to limit the exchange rate risk of the future business in flow. The combined IRS/Floor option is to hedge the potential future EUR interest rate increase. And Finally HUI LI DA is a FX forward product combined with a trade finance product. Since the derivatives are used as a tool of risk hedge, there is no positive correlation between the market risk factor and the client's default probability. Thus there is no wrong way risk identified from these transactions.

The three transactions are concluded with a non-financial counterparty. A capital requirement is calculated according to the Original Exposure Method with the option of original maturity as per CRR art. 275, the CVA calculation is exempted accordingly.

5.6.3. Analysis of CCR exposures by model approach

In the application of Article 439(f) in CRR, the following table shows the methods used for calculating the regulatory requirements for CCR exposure including the main parameters for each method. The bank uses the Original exposure method to measure the exposure value of instruments subject to capital requirements for CCR.

Table 5.6.1 EU CCR1 - Analysis of CCR exposure by approach

(In EUR)	Notional	Replacement cost/current market value	Potential future credit exposure	EEPE	Multiplier	EAD post CRM	RWAs
Mark to market							
Original exposure	10,330,427.75					10,330,427.75	2,866,085.56
Standardised approach							
IMM (for derivatives and SFTs)							
<i>Of which securities financing transactions</i>							
<i>Of which derivatives and long settlement transactions</i>							
<i>Of which from contractual cross-product netting</i>							
Financial collateral simple method (for SFTs)							
Financial collateral comprehensive method (for SFTs)							
VaR for SFTs							
Total							2,866,085.56

5.6.4. Standardised approach - CCR exposures by exposure class and risk weight
Pursuant to Article 444 (e) in the CRR, the following table provides the counterparty credit risk exposures under the standardised approach, broken down by risk weights and regulatory exposure classes. “Unrated” includes all exposures for which a credit assessment by a nominated ECAI is not available, and therefore the standard risk weights are used according to their exposure classes as described in CRR.

Table 5.6.2 EU CCR3 – Standardised approach – CCR exposures by regulatory portfolio and risk

In EUR	Risk weight		Total	Of which unrated
	Exposure classes	20%		
Institutions	9,330,428	-	9,330,428	-
Corporates		1,000,000	1,000,000	-
Total	9,330,428	1,000,000	10,330,428	-

6. Market Risk

Market risk is the risk of an adverse changes in market price (interest rate, exchange rate, stock price and commodity price), which cause loss to a bank's on- and off-balance-sheet businesses. Market risk includes interest rate risk and stock price risk in the trading book, as well as the exchange rate risk and commodity price risk faced by a bank. Market risk is directly linked to a bank's regulatory capital for market risk. Market risk under the second pillar includes interest rate risk in the banking book, and mainly refers to the negative impact caused by interest rate changes on a bank's net interest income or on the value of its equity.

6.1. Market risk governance

6.1.1. Market risk management framework

The Bank's management on market risk split into Banking Booking and Trading Booking respectively,

Banking Book Related Risk Management

The Bank's treasury risk management's scope includes investment portfolio, funding activities, interbank money market activities as well as derivatives in the banking book. The “Treasury Risk Management Policy (2018 version)” has been elaborated to the followings:

- Specify the risk management measures for each type of treasury business;
- Define the risk limit (indicator) for treasury business;
- Clarify the reporting line and timeframe for any breach and incident;
- Integrate the new product management principal during the new treasury activities approval.

Trading Book Related Risk Management:

Promoted by the “loan +” strategy, the Bank starts to develop more OTC derivatives activities on behalf of clients. To follow this business trend and the risk profile change in trading book, the Bank has introduced widely the counterparty credit risk management as well as EMIR Implementation project.

The above-mentioned risk management regulation have the following objectives:

- Counterparty acceptance review. According to the derivatives risk management capacity, the counterparties are classified into two categories towards which the Bank applies the differentiation management in term of collateral requirement, counterparty credit risk exposure limit, etc.
- Monitor effectively the collateral adequacy ratio;
- Define the segregation of duties between front office, middle office and back office regarding the MtM valuation, collateral management, as well as dispute resolution, etc.
- Determine the risk exposure measurement method in order to calculate the capital requirement;
- Clarify the reporting line and the triggered threshold as well as the timeframe;
- Allocate adequately capital requirement resulted from counterparty credit risk.

6.1.2. Market risk policy

The “Market Risk Management Policy” covers the overall market risk management framework which includes the definition of market risk, the classification of the banking book and trading book, the internal governance, the identification, monitoring, measurement, reporting of market risk as well as the capital allocation.

The Bank does not take any speculative positions for its own account. The management of market risk results from mainly the trading book on behalf of clients and the Banking Book (including investment portfolio).

“Emir” policy clarifies the responsibilities of dispute resolution. A periodical legal enforceability of collateral assessment is also performed by legal function of the Bank.

6.2. Market risk monitoring

Addressing the different types of transactions, the Bank maintains control guidance in respect of market risk management, and performs monitoring based on stated frequency and methods. As at 31st December 2019, various indicators indicated that the current operating situation is in excellent state (please refer to the following table for details), and are well controlled, within limits and benchmarks.

Table 6.2.1 Market risk indicators as at 31 December 2019



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Portfolio	Risk Indicator	Tolerance Level Limit	Monitoring Frequency	31/12/2019
Banking Book	SWAP Authorization (USD/CNH FX Swap Adjusted Volume in USD)	\$270,000,000	Daily/Monthly	0
	SWAP Authorization (Other Currency FX Swap Adjusted Volume in USD)	\$930,000,000	Daily/Monthly	\$1,873,679.80
	SWAP Authorization (FX Swap Nominal / Total Assets)	FX Swap Nominal / Total Assets < 2	Monthly	0.00774%
Investment Book	PVBP	\$300,000	Daily	(\$99,205.09)
	Stress test on bond portfolio	\$80,000,000	Daily	(\$19,605,083.87)
Trading Book	Foreign Exchange Position	\$1,000,000	Daily	\$448,449.03
	PVBP	\$3,000	Daily	\$28.16
	VaR	\$150,000	Daily	\$3,771.76
	P&L	Loss > - \$60,000	Daily	\$269,075.88

Along with the market risk indicator, the fair-value check, late trading transaction as well as cancelled (&reissued) transactions are investigated daily to detect any potential dealer’s “operational risk” linked to the transactions.

6.3. Risk control measurement

A set of market risk management tools is in place to effectively measure and mitigate market risk. The IRRBB is measured by the ratio of Economic Value of Equity versus Own Funds. The exchange rate risk is calibrated by the foreign exposure limit. Market risk measurement tools such as VAR2 and PVBP3 were implemented and the results are monitored daily against internal limits. In conclusion, the market risk management framework in place allows the Bank to prepare and anticipate remedial actions in case of adverse market movements.

6.3.1. Interest risk in the Banking Book

IRRBB refers to the current or prospective risk to a bank’s capital and its earnings, arising from the impact of adverse movements in interest rates on the banking book. The banking book of the Bank experiences a material impact on its net interest income (hereafter “NII”) and / or a material impact on the economic value of equity (hereafter “EVE”) due to adverse changes of level or term structure of interest rates.

IRRBB management

IRRBB management is aimed at, through effective management, controlling the adverse impact on the overall earnings and economic value of the Bank due to the movement of interest rates within the acceptable level under the overall business strategy and risk appetite, and promoting a sustainable growth of the Bank’s earnings.

The Bank’s activity constitutes almost exclusively banking book, meaning client lending/deposit and market funding. As a consequence, IRRBB is a material risk for the Bank.

Defined in IRRBB Policy, the sources of Interest Rate Risk include the (reprising) gap risk, basis risk and option risk. Following the EBA Guideline GL/2015/08 transposed in Luxembourg via update of CSSF circular 12/552 and 16/642, as well as EBA Guideline GL/2018/02, the Bank has enhanced

² VAR: Value at Risk

³ PVBP: Price Value of a Basis Point

significantly the internal governance of IRRBB management.

The Bank's RMD is responsible to oversight IRRBB management under risk appetite and tolerance defined and approved by management body.

IRRBB policy

A reviewed IRRBB policy is issued in 2019 to set up internal governance, to define IRRBB identification model, to adopt an adequate measurement approach, to design stress test scenario with reasonable assumption and finally to establish an effective reporting line.

IRRBB mitigation tool are in place such as banking book interest rate derivatives as well as management measure to change the asset/liability structure.

Risk monitoring

Closely linked with liquidity risk management, the Bank's IRRBB focuses on (reprising) gap risk which arises from the term structure of banking book positions. The basis risk and option risk is minor for the following reasons:

- Majority of the loan are priced at floating rate with Libor/Euribor;
- The retail mortgage loan portfolio is insignificant (less than 1% of portfolio size).

IRRBB stress scenario

Stress testing of IRRBB is mainly used for assessing the potential loss of earning and economic value of the Bank under extremely adverse market conditions.

The Bank has implemented the six stress test scenarios pertained by the EBA guideline.

As a starting point, the Bank identifies currencies eligible for IRRBB calculation. The selected currencies must form at least 90% of total exposure and the selected currency should be at least 5% of Bank's total assets or liabilities.

The Bank categorizes its interest-sensitive assets, liabilities and off-balance sheet positions into a series of re-pricing time bands resulting in a maturity/re-pricing schedule gap forming the basis of the calculation. The re-pricing time bands (re-pricing tenors or time buckets) that are taken into account are in full compliance with guidelines at EBA/GL/2018/02. The re-pricing time bands shall be applicable to each material currency separately.

For non-maturity deposits (NMDs), the Bank can analyze customer behaviours based on relevant historical data of the business, validate and calibrate results of customer behaviour analysis results regularly. Under this regulatory driven waiver, Risk Management Department applies average re-pricing tenor of up to 5 years for corporate deposits on demand. Regarding retail deposits on demand, no modifications are applied, hence in that case all retail deposits on demand are presented in the nearest re-pricing tenor possible (overnight), until further notice. The rationale behind this approach relies on the deposit profile the Bank, based on which retail deposits do not represent material risk.

The stress test result is obtained by EVE/NII change, all material currencies aggregated under each

scenario. The worst case of the six prescribed stress test is taken into consideration of EVE ratio as well as internal capital allocation.

The Bank has set up an alert threshold to early warn for significant negative impact to EVE from IRRBB calculation results. The threshold of an “early warning signal” has been set at 15% of Tier 1 capital. Where the decline in EVE is greater than 15% of the institution’s Tier 1 capital under any of the six scenarios, RMD should report within 5 working days to BOD, authorized management and inform CSSF.

The NII fluctuation ratio threshold is set up as 20% of interest income forecast. The following table provide results of these scenarios

Table 6.3.1 IRRBB stress test

Scenarios	Significant Currencies			Impact on EV (in thousands of EUR)	% of Own Fund	% of Tier I capital
	EUR	USD	PLN			
Parallel up	-2827.15	-520.39	354.06	(3,170.51)	-0.53%	-0.65%
Parallel down	0.00	-594.18	-160.40	(754.58)	-0.13%	-0.15%
Short rate positive	10766.48	20867.30	102.47	15,868.13	2.67%	3.25%
Short rate negative	0.00	0.00	-160.90	(160.90)	-0.03%	-0.03%
Flatten	10270.42	9264.80	473.58	10,004.40	1.68%	2.05%
Steepen	-267.85	-9333.48	-389.85	(9,991.19)	-1.68%	-2.04%

As at 31 December 2019, the worst result is a EVE decline of 9.9 million under steepen scenario, which represent -1.67% of own fund and -2.04% of Tier I capital.

6.4. Market risk exposures

The Bank’s market risk exposures mainly come from foreign exchange risk and interest rate risk. According to the Market Risk Standardised approach, total exposure to be considered for foreign exchange risk is the maximum between the total of long and short positions in the foreign currency, net short and long positions in each currency other than the capital currency shall be translated at spot rates into the capital currency. The higher of these two totals, regardless of its sign, shall constitute the credit institution’s overall net currency position, if the net position exceeds 2% of the Bank’s own funds.

The following table provide the breakdown of the net currency position of the foreign exchange exposure.

Table 6.4.1 Net currency position as at the 31 December 2019

Currency	Currency Code	Net Position
Danish Krone	DKK	19,704.12
Zloty	PLN	12,548,837.78
Swedish Krona	SEK	5,039,272.19
Swiss Franc	CHF	2.24
US Dollar	USD	35,448.70
Norwegian Krone	NOK	28,140.19
Other		6,400.95
Total		17,677,806.18

At the 31 December 2019, total net currency exposure amount to EUR 17.68 million, of which Zloty represented highest exposure of 70.99%, followed by Swedish Krona of 28.51%. “Other” refers to Macanese pataca, which represents an insignificant foreign exchange exposure for the Bank.

6.5. Capital requirement for market risk

Market risks of the Bank are treated under the Basel III standardised approach. The table below presents the bank’s regulatory capital required broken down by risk type.

Table 6.5.1 EU MR1- Market risk under the standardised approach

In EUR	RWAs	Capital requirements
Outright products		
Interest rate risk (general and	-	-
Equity risk (general and specific)	-	-
Foreign exchange risk	17,677,806.18	1,414,224.49
Commodity risk	-	-
Option		
Simplified approach	-	-
Delta-plus method	-	-
Scenario approach	-	-
Securitisation (specific risk)	-	-
Total		1,414,224.49

7. Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, staff and IT system, or from external events. It includes legal risk but excludes strategic and reputation risk. It is relevant to every aspect of the Bank’s business and covers a wide spectrum of issues. Losses arising through fraud, unauthorized activities, errors, omission, inefficiency, systems failure or from external events all fall within the definition of operational risk.

7.1. Operational risk governance

7.1.1. Policy

The Operational Management Policy established for the purpose to improve the Bank's operational risk management framework, enhancing the operational risk management capacity, effectively managing the operational risk, reducing impact of incidents and the losses from operational risk.

The operational risk management system penetrates into each business process and each operational sector, cover all the departments, branches and positions, and it should be performed by all the staffs.

7.1.2. Risk reporting and monitoring

The operational risk management matches our Bank's internal and external environments, make timely adjustment and improvement based on the changes in the business strategies, concepts, as well as changes in external economic, political and regulatory environments.

Risk Management department make reports on operational risk to the Risk and Internal Control Committee, the Board Risk Committee of the Bank on quarterly basis. All staffs from the First Line of defense department shall report to the Head of department for any operational risk matter.

In the aspect of operational risk management, the Risk and Internal Control Committee maintains the overall operation of the Bank's operational risk management framework, assessing the effectiveness of operational risk management framework and system, identifying the deficiencies and weaknesses of operational risk management framework, making decision on relevant improvement measures and supervising the implementation thereof.

7.1.3. Risk control

The operational risk management measures accommodate the specific business scale, complexity and characteristic, and seek for a reasonable balance between the risk management cost and return. To ensure an effective control over the operational risk in operation management activities, our Bank's operational risk management must regularly assess the adequacy of the operational risk control measures or other mitigation measures and determine the acceptability of operational risk after implementation of those measures.

The inherent risk is attributed for each of these processes taking into account the potential impact of the specified activity and its likelihood of occurrence. The residual risk is calculated after mitigation factor which consists of the quality of the controls in place (control design and effectiveness implementation, systems supporting the activity, documentation and human resources). Should the residual risk (final result) is not acceptable, remediation/action plans have to be initiated to reduce the identified risk at the required (the "acceptable") level. High residual risks have to be prioritized.

If the operational risk is unacceptable due to the residual risk, the remedial measures are to be adopted and must be recorded formally. The person liable for rectification must be specific, and he or

she should, regularly monitor the implementation of the remedial measures and ensure that this operational risk problem could be resolved within the limited rectification time.

7.2. Risk measurement

Bank classifies operational risk in respect of operational risk cause, operational risk event and its impact, in order to have a unified and consistent “common language” for operational risk management of the whole bank.

The Bank uses three tools to manage residual operational risk: KRI, LDC and RACA.

In addition, the Bank monitors the operational risk alerts generated by in-house operational risk system called G-map. Key risk models related to the main business line are monitored by the system. In case one of the models is triggered by an “abnormal transaction”, an alert appears in the system. Investigations and supporting documents are required for each alert in order to exclude the operational risk factor.

7.3. Operational risk event and data collection

In 2019, the Bank completed its annual RACA review which involved all sub-branches and 10 business lines. As at 31st December 2019 the Bank has monitored 56 risk indicators which are based on requirements from local regulations and H.O. The risk indicator dashboard reflects a more dynamic monitoring of various risk areas and offers an efficient overview to the management body the level of the risks. All system alerts were business exceptions with reasonable explanations. They had no impact of operational risk behind these transactions. 18 incidents occurred in 2019. The Bank managed to keep low to medium severity of all events, which is in line with the Bank’s business scope and simplification of product.

7.4. Capital requirement for operational risk

The Bank uses the Basic Indicator Approach for operational risk to determine its minimum capital requirements, in accordance with the CRR.

This capital requirement is equal to 15% of the basic indicator defined in CRR art 315. The calculation of the basic indicator is based on the simple arithmetic average over three years of the sum of net interest income and net non-interest income of the Bank.

Table 7.4.1 Capital requirement for operational risk as at 31 December 2019

Operational risk - P&L	YEAR 2018	YEAR 2017	YEAR 2016
Gross income	90,797,640.27	84,465,596.20	44,909,358.82
3-years average	73,390,865.10		
Basic Indicator approach Article 315 of the CRR	15%		
Capital requirement	11,008,629.76		
Total operational risk exposure amount	137,607,872.06		

8. Liquidity Risk

Liquidity risk is a bank's capacity to fund increase in assets and meet both expected and unexpected cash and collateral obligations at a reasonable cost and without incurring unacceptable losses. It also arises from the Bank's failure to recognize or address changes in market conditions that affect the ability to liquidate assets quickly and with minimal loss in value. Liquidity risk exposure is present in various funding situations, but primarily deposit and lending activities. Again, interest rate and market risks may have a close correlation to the Bank's liquidity position. This type of risk may affect the Bank's ability to establish new relationships or services or to continue servicing existing relationships. It can expose the Bank to litigation, financial loss, or damage to its reputation.

8.1. Liquidity Risk Management Framework

The responsibility of Risk Management of the Bank lies with its Board of Directors. The Board is responsible for establishing and communicating to the Authorised Management (AM) the liquidity policy, governing liquidity risk taking and liquidity risk management as well as liquidity planning, management and adequacy. The Board entrusts the AM with the implementation of this Policy through adequate procedures. The Board monitors this implementation at least once a year, to ensure that the Bank manages its liquidity and the related risks.

The Board determines and approves the strategy and objectives in relation to risk taking and management, including liquidity planning, management and adequacy as per Group guidelines and delegates the implementation to the AM. The Board monitors the implementation of the policy by the AM and is committed to maintain and strengthen the control environment to ensure that risks are minimized and properly monitored.

In order for the Board to formulate and approve a sound liquidity strategy that will adequately cover relevant risks in the Bank's operations, that will support its business plan and will adhere to EU rules and regulations,

The Board reviews and approves ILAAP on a yearly basis. Additionally, governance structure of liquidity risk management includes BRCC, the AM, ALCO, Board Audit Committee and Internal Audit Department and other functional departments of the Bank such as FD, FMID and RMD.

8.1.1. Funding strategy management

The Bank mainly borrows and lends within BOC group, including cross-border branches and Branch. In principle, the Bank does not directly get funding source from market as it has no external rating. The market participant outside of the BOC group has no transaction limit with the Bank. In case the Bank need to finance a small currency loan (PLN, SEK etc), it obtains the corresponding currency via currency swap with the Branch.

8.2. Risk measurement



FD acts as a first line of defense for liquidity management. It liaises with FMID, cross-border branches and business departments on a daily basis to manage the daily liquidity inflow/outflow and calculate the liquidity risk indicators. These indicators include liquidity ratios and liquidity gaps, which compare liquidity reserves with liquidity needs and ratio then report to the regulatory body.

8.3. Liquidity coverage ratio

As the main short-term liquidity reference indicator, the LCR requires the bank to hold sufficient High-Quality Liquid Assets (HQLA) to cover its total net cash outflows over 30 days.

The Bank has set as a liquidity priority to maintain a solid liquidity coverage ratio, enabling smooth management of operational outflows without needing to activate additional liquidity measures. The area marked in green refers to the internal buffers of the Bank (which acts as an “early warning area” for the LCR performance and is set between 120% and 130%).

Table 8.3.1 LCR ratio overview as at 31 December 2019

(In EUR)	31/12/2018	31/12/2019
Total HQLA	386,454,619	912,017,998
Net cash outflows	260,262,646	458,703,277
LCR Ratio	148.49%	198.83%
Regulatory limit		100%
Internal Limit		120%
Trigger		130%

The above table shows LCR ratio has increased substantially to 198.83% in 2019 compare to 148.49 at end of 2018. The total external funding sources which include bond issuance, corporate, financial institution and retail deposits represented 58.69% of total funding source of the Bank. The funding structure of the Bank can be considered as stable and diversified. The following shows detailed information in accordance with the circular CSSF 18/676 on LCR disclosure.

Table 8.3.2 LCR disclosure template



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LIQ1 - Liquidity Coverage Ratio (LCR)			
		a	b
		Total unweighted value	Total weighted value
High-quality liquid assets			
1	Total HQLA		912,017,998
Cash outflows			
2	Retail deposits and deposits from small business customers, of which:	44,589,990	6,233,621
3	Stable deposits	-	-
4	Less stable deposits	44,589,990	6,233,621
5	Unsecured wholesale funding, of which:	2,273,769,024	1,672,739,224
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	-	-
7	Non-operational deposits (all counterparties)	2,273,769,024	1,672,739,224
8	Unsecured debt	-	-
9	Secured wholesale funding	-	-
10	Additional requirements, of which:	920,118,042	151,216,707
11	Outflows related to derivative exposures and other collateral requirements	3,608	3,608
12	Outflows related to loss of funding on debt products	-	-
13	Credit and liquidity facilities	920,114,434	151,213,099
14	Other contractual funding obligations	262,715,655	-
15	Other contingent funding obligations	7,411,885	4,623,556
16	TOTAL CASH OUTFLOWS	3,508,604,596	1,834,813,108
Cash inflows			
17	Secured lending (eg reverse repos)	-	-
18	Inflows from fully performing exposures	1,545,350,192	1,497,706,402
19	Other cash inflows	-	-
20	TOTAL CASH INFLOWS	1,545,350,192	1,376,109,831
			Total adjusted value
21	Total HQLA		912,017,998
22	Total net cash outflows		458,703,277
23	Liquidity Coverage Ratio (%)		198.83%

8.4. Net Stable Funding Ratio

This is the Liquidity standard requiring banks to hold enough long-term stable funding to cover the duration of their long term assets. For both funding and assets, long term available stable funding (ASF), the portion of capital and eligible liabilities mainly defined as > 1 year, with declining allowable amounts of stable funding < 1 year. Required stable funding (RSF) is the denominator of the ratio, being the amount of stable funding that the bank is required to hold, given the liquidity requirements of its on and off-balance sheet exposures.

The Bank is required to maintain an NSFR > 75% since January 2020, 60% from October 2018 until December 2019.

The ratio is calculated and monitored daily, NSFR daily calculations are communicated to relevant management departments and include all cross-border branches

8.5. Encumbered assets

An asset is considered encumbered if it has been pledged or if it is subject to any form of arrangement to secure, collateralize or credit enhance any transaction from which it cannot be freely withdrawn and used for funding purposes. The Bank fully recognizes the risks associated with increased levels of asset encumbrance; these risks can be summarized into four categories:

- Limited reserves to pledge in case of emergency: potentially encumbered balance sheets have fewer assets available for encumbrance, i.e. Assets that act as an available liquidity buffer and that can be used for unexpected future liquidity needs, such as liquidity outflows from committed credit lines, margin calls on derivative positions, significant deposits outflows etc.
- Strong connection between liquidity and market valuation and / or haircuts: whenever the cash value of encumbered assets decreases for any reason, the Bank has to provide additional collateral (additional encumbrance occurs) to offset the above decrease of the value
- Increased structural subordination of unsecured depositors / “crowding out” of unsecured funding: the shift towards secured funding and the resulting asset encumbrance may imply lower recovery rates for unsecured creditors and hence increased costs of unsecured wholesale funding, potentially leading to crowding – out of unsecured wholesale funding. Bank funding excessively skewed towards secured funding and increasing encumbrance of high quality assets can negatively impact the rating received by institutions and hence generate further increases in encumbrance and additional downgrades.
- In conjunction with the previous point, high levels of encumbrance can precipitate depositors’ loss of confidence in time of crisis.

As per EBA Guidelines on the disclosure of encumbered and unencumbered assets (the EBA Guidelines 2014/03) transposed in Luxembourg through CSSF circular 15/605, the Bank has assessed its encumbered and unencumbered asset level.

Table 8.5.1 ratio⁴ of encumbrance asset as at 31st December 2019

⁴ Asset encumbrance ratio = (Encumbered assets + Collateral received re-used) / (Total assets + Total collateral received).

(in EUR)	31/12/2019
Ratio of asset encumbrance	
Encumbered assets	49,417,384.66
Collateral received	-
Total encumbered assets	49,417,384.66
Total non-encumbered Assets	6,027,187,620.57
Total assets	6,076,605,005.23
Ratio	0.81%

This ratio measures the asset encumbrance of credit institutions in Europe in a harmonised way. The overall weighted average encumbrance ratio calculated and published regularly by the EBA, in 2019 this limit is 25%, and the Bank had very low level of asset encumbrance compared to other institutions.

Table 8.5.2 Sources of encumbrance asset as at 31st December 2019

(in EUR)	31/12/2019
Sources of encumbrance	
OTC derivatives	730,000.00
Central Bank Reserves	48,687,384.66
Total amount	49,417,384.66

The Bank has had very limited encumbered assets in December 2019; the source of encumbrance stems primarily from central bank reserves which are part of the Bank's own funds and cannot be withdrawn in time of stress. Additionally, there is a limited amount of EUR 0.73 million for 2019, stemming from variation margin purposes. The total amount reached EUR 49.42 million at year end.

9. Other Risks

9.1. Concentration Risk

Identification

Concentration risk refers to the losses an institution could suffer from a group of exposures or activities whose intrinsic value depends on a common set of risk factors. All approved borrowing limits are subject to credit analysis and assessment as set out in the Bank's lending policies and procedures and the large exposures policy.

Mitigation

The Bank is exposed to a concentration of risks due to the fact that a certain volume of business is conducted with few clients. The Bank monitors the concentration risk on a dynamic basis.

- *Credit Concentration Risk*

In 2018, the Bank, adhering to the moderate risk appetite, issued corporate credit portfolio management scheme to control concentration risk by monitoring the limit on Industry, Region, Term,



Currency and Customer dimensions.

Moreover, the concentration risk is calibrated by large exposure scheme.

- *Liability Concentration Risk*

The Bank analyzed liability concentration risk. The funding source is mainly intergroup finance and corporate client deposit. Taking into consideration the diversification and number of the clients, the funding concentration risk is medium.

- *Operational Concentration Risk*

Operational risk concentration (OPRC) means any single operational risk exposure or group of operational risk exposures with the potential to produce losses large enough to worsen the Bank's overall risk profile so that its financial health or its ability to maintain its core business is threatened. It may not always be apparent that multiple risk factors are correlated as this may only be revealed under stressed market conditions.

- *Credit-Liquidity Concentration Risk*

Failure of material counterparties impairs the Bank's cash flow and its ability to meet commitments. Its liquidity management process (including compliance with the liquidity coverage ratio, the Bank's recovery plan, ...) ensures that the Bank's cash flow will not suffer to the point where the institution cannot fulfil its obligations in terms of liquidity.

- *Credit-Market Concentration Risk*

Counterparties may be closely related, or identical, or where unsystematic or un-diversifiable risk (i.e. the part of the market risk which derives not from general price movements but from specific ones due to, for example, changes in the perception of the inherent credit risk of an issuer) may exist. We believe that this type of inter-risk concentration is unlikely to occur as we do not grant credit facilities in addition to investing in the equity of a company. We have strict exposure limits on our clients.

Lending in foreign currency to domestic borrowers is exposed to both market (FX rate) and credit risk. When the domestic currency depreciates, the value of the loan in the domestic currency increases which (by increasing the cost of instalments) may reduce the ability of borrowers to repay. Our portfolio is increasingly Euro denominated and therefore less subject to this type of risk.

- *Market-Liquidity Concentration Risk*

Interruptions, increased volatility, rapid changes in value or the drying up of markets for certain instruments may negatively affect the liquidity of a given institution. This risk is also considered in our preventive control framework at the Bank level and therefore does not require a capital allocation in addition to the capital already determined. The scenario of a combined market-liquidity risk occurrence is well considered in the Bank's recovery plan.

Another cause of market risk concentration is a change in the risk preference of market participants. Greater uncertainty about the economic outlook could lead to reluctance to buy risky positions. Risk premiums on all risky products will rise and their prices will fall. This increases the correlations between different asset classes. Some markets will possibly dry up completely because market participants are no longer willing to buy those products. The Bank, although holding a diversified portfolio, could theoretically suffer losses. The risk concentration caused by a change in the risk premium and the accompanying change in correlations ("correlation breakdown") is immaterial to the Bank as its activity is limited to low-risk countries.

Rise in risk premium could be one of the sources of an inter-risk concentration between market risk and liquidity risk. The Bank can generate less liquidity by selling assets because of the lower prices. It

is possible that some assets cannot be sold at acceptable prices if the markets are illiquid as a consequence of market participants' risk aversion. The Bank has no authorization to sell the asset at discount price, if certain portfolio is about to exceed internal set limit, the Bank are normally sell assets to other sister branch within BOC group and therefore no premiums are therefore considered.

Measurement

The quantification of concentration risk is performed through stress test which is part of ICAAP process.

9.2. Business/Strategy Risk

Identification

Business/Strategic risk results from adverse business decisions or the improper implementation of those decisions. This risk is a function of the compatibility of an organization's strategic goals, the business strategies developed to achieve those goals, the resources deployed to support achievement of those goals, and the quality of implementation. Strategic risk includes the misalignment of business and technology strategic plans, the failure to achieve economies of scale in scale-driven businesses or improper market positioning and pricing of products and services.

Properly managing these risks is not only critical to the conduct of safe and sound banking activities, but also crucial to the success of the Bank.

Mitigation

The overall business strategy is defined by H.O. Beijing and readjusted each year. However, the Bank has the ability to adapt and elaborate its own strategy by incorporating the specificity of the Bank's business profile and the local business environment features (e.g. commercial, legal, culture etc).

Management and monitoring of these risks are performed through various means across the Bank and the oversight of the BOD.

The business/strategy risk is managed through early identification of future business/product exposure and related implementation of risk mitigation tools. These processes are facilitated by the New Product Committee, which provides a dialogue platform for the various departments involved.

Measurement

Both business and strategy risks are subject to the internal capital assessment process. An additional amount is allocated to the capital requirement regarding these risks.

9.3. Reputational Risk

Identification

Reputation risk is the potential that negative publicity regarding an institution's business practices, whether true or not, will cause a decline in the customer base, costly litigation, or revenue reductions, often as a result of poor earnings, regulatory censure, significant fraud or litigation and failure to provide services or products in conformity to the local market. This type of risk is often closely linked to operational risk and would affect the Bank's ability to establish new relationships or services or to continue servicing existing relationships.



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Mitigation

A regular assessment of reputational risk is performed, including collecting information on the reputational risk issues and the loss occurred, preventing future occurrence by improving the existing procedures and services.

Regarding a confirmed reputational issue, a complete evaluation is done by identifying the exact cause, the degree of impact (from 1- 5) on the following aspects:

- 1) Public image and market position;
- 2) External rating and share price (if applicable);
- 3) Legal and supervision;
- 4) Comprehensive management and procedure flow;
- 5) Enterprise culture and deontology.

The probability to transfer to other types of risk is also evaluated.

Measurement

The reputational risk is subject to the internal capital assessment. An additional amount is allocated to the capital requirement regarding this risk.

10. Remuneration Policy and Practices

10.1. Key pillars

The Policy aims at regulating the remunerations of employees whose activity has a material impact on the risk profile of Bank of China (Luxembourg) S.A. and its activities. The Policy adheres to the principle of effective risk management and sound business practices in line with the long-term interests of the Bank. The provisions set out hereinafter shall, in general, outline the principle of implementing sound remuneration practices, and shall, in particular, apply the performance criteria and assessment process as defined and annually revised by BANK OF CHINA H.O. This current Policy was approved by the Board of Directors (BoD) and is effective within Bank of China (Luxembourg) S.A. To both reflect Bank of China (Luxembourg) S.A.'s cores values and comply with the regulatory requirements in terms of remuneration policy and principle, the Policy was defined around the following pillars:

- Maintain a sound and effective risk management framework: The Policy and its associated practices aim at defining the remuneration within Bank of China (Luxembourg) S.A. with a view to protect the interests of Bank of China (Luxembourg) S.A.'s clients, providers, employees, shareholders as well as Bank of China (Luxembourg) S.A.'s financial sustainability in a long-term perspective. The Policy is consistent with and promotes sound and effective risk management, does not induce excessive risk-taking and is fully aligned with Bank of China (Luxembourg) S.A.'s aim to efficiently manage conflicts of interests and promote best banking practices.
- Attract and retain talent with competitive remuneration packages: Client satisfaction and protection remain at the heart of the philosophy of Bank of China (Luxembourg) S.A. Bank of China (Luxembourg) S.A. wishes to attract, retain and motivate highly qualified professionals in their respective domains. Therefore, Bank of China (Luxembourg) S.A. offers remuneration



packages that, while in line with market practices, are attractive and competitive, both in terms of amounts and structure. The remuneration components granted by Bank of China (Luxembourg) S.A. to its staff are regularly benchmarked through market studies performed by internal or external consultants, in order to verify the positioning of its remuneration packages in comparison to any given reference market. The remuneration analyses may be carried out at local or international level and aim to provide a benchmark of Bank of China (Luxembourg) S.A.'s position against comparable financial institutions. By decision of the BoD, *ad hoc* measures may be envisaged in certain entities of Bank of China (Luxembourg) S.A. when significant distortions are observed, with a view to enable Bank of China (Luxembourg) S.A. to attract the talent it needs and keep those already in position. Although remuneration must be kept attractive, it must respect the budgetary framework set by the BoD and not jeopardize the financial situation of Bank of China (Luxembourg) S.A.

- Link between performance and remuneration: Variable remuneration is part of the standard compensation package offered by Bank of China (Luxembourg) S.A. To protect the interests of all stakeholders, variable remuneration must be aligned with short, mid and long-term collective and individual performance. Effective performance is therefore subject to strict assessment rules that primarily aim at preventing excessive risk-taking behaviour. More generally, Bank of China (Luxembourg) S.A. does not reward failure.
- Comply with the regulatory framework: The Policy complies with the requirements on remuneration policy and practices in the financial sector that has been defined by applicable rules and competent regulators, including the CSSF.
- Foster transparency: Transparency is a keystone of the Policy. Detailed information on the Policy's rules and practices is made available both internally and externally. It is essential for Bank of China (Luxembourg) S.A.'s employees to have clarity about the rules governing their remuneration and it is Bank of China (Luxembourg) S.A.'s responsibility to inform its staff members in a timely and appropriately way about any amendments which might affect them.
- Ensure group consistency: BANK OF CHINA (LUXEMBOURG) S.A. has established and maintained this Policy at Group level to ensure a group-wide consistency in its remuneration practices. In this context, the Policy is applied as such throughout all BANK OF CHINA (LUXEMBOURG) S.A. subsidiaries and branches in Luxembourg and in all other countries where Bank of China (Luxembourg) S.A. is present. The Boards of Directors of these entities are responsible for its implementation locally. Local adaptations are however at times introduced in order to (i) face local market demands or (ii) apply potentially more restrictive regulatory provisions imposed by the local regulators. Bank of China (Luxembourg) S.A. regularly carries out internal audits in entities in Luxembourg and abroad to verify the compliance by such entities with the Policy.

Designated Identified Staff ("Material Risk Takers")

According to the Delegated regulation (EU) No 604/2014, this Policy provides details on the remuneration of persons who fall within the scope, individually identified by Bank of China (Luxembourg) S.A. as "Material Risk Takers" and as further specified in Section 1.3 below.

The Policy refers, in particular, to the following Executive Members and Control Functions:

- Executive Members (3 persons):
 - General Manager/CEO (1 person)



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- Deputy General Manager (2 persons)

 - Other Executive Members (5 persons):
 - Rotterdam Branch: General Manager (1 person)
 - Brussels Branch: General Manager (1 person)
 - Poland Branch: General Manager (1 person)
 - Stockholm Branch: General Manager (1 person)
 - Lisbon Branch: General Manager (1 person)

 - Control Functions (3 persons):
 - Head of Risk Management – Chief Risk Officer (CRO) (1 person)
 - Head of Internal Audit – Chief Audit Officer (CAO) (1 person)
 - Head of Compliance – Chief Compliance Officer (CCO) (1 person)

As at 31 December 2019, there were total of 11 material risk takers in the Bank. The above roles delegate some functions to their direct subordinates. This delegation respects proper approval procedures.

10.2. Board of Directors

The Bank is headed by an effective Board of Directors which meets regularly, directs and controls the Bank. As at 31/12/2018, the BOD was composed of six board members including 2 non-executive Directors (one located in Luxembourg acting as a Chairman and one located in Beijing occupying a prominent position with Bank of China Limited), 3 independent non-executive members and the General Manager of the bank. It is the Bank's senior "governing body". Non-executive Directors who are not compensated through a variable remuneration for their role as Directors at the Bank and are therefore not subject to the specific requirements for variable remuneration applicable to staff whose professional activities have a material impact on the institution's risk profile (Material Risk Takers). During the year, a total of 4 Board of Directors' meetings were carried out, which deliberated on various topics with the consultation of Authorized Management and the internal control functions. The Remuneration Policy is adopted by the BOD. It will be reviewed on an annual basis by the Human Resource Department with the support of the control functions. Any update related to the strategy made to the Policy will be subject to the authorization of the BOD.

The Bank's BOD handles the following responsibilities:

- Defining the general principles of this Policy;
- Approving this Remuneration Policy;
- Ensuring the supervision of the implementation of this Policy;
- Reviewing this Policy as well as any future change made to it, as suggested by the Authorized Management accordingly within the applicable guidelines;
- Ensuring, on a regular basis, that the Bank has the appropriate remuneration procedures in place.
- There is no remuneration committee.

10.3. Authorized Management

The Authorized Management (conducting persons) of the Bank is responsible for the implementation



of the present remuneration policy by:

- Taking all necessary measures for implementing the present Remuneration Policy and keep the present policy and the remuneration falling within its scope under review in the light of legislative, regulatory and market developments;
- Reporting as often as it deems necessary, but at least once a year, to the Board of Directors about the implementation of the present Remuneration Policy;
- Proposing for approval to the Board of Directors the global amount to be allocated to the increase of the fixed remuneration and to the variable remuneration (budgeting phase);
- Defining the people and the amounts of the discretionary salary increases once the global amounts are approved;
- Defining the people and the amounts for the discretionary bonuses once the global amounts are approved;
- Defining the people and the target amounts of the standard bonus in line with the approved budget.

10.4. Control Functions

In accordance with the provisions set out in the Circulars, all competent control functions are involved in the design, ongoing oversight of the Bank's remuneration policy, as well as conducting a yearly internal review of the Policy. The Policy is reviewed on an annual basis.

The Head of Chief Risk Officer is responsible for:

- Assessing whether the variable remuneration structure affects the risk profile of the Bank. The CRO will also determine the capital allocation associated with the Remuneration Policy and the annual ICAAP report.

The Chief Compliance Officer is responsible for:

- Assessing if the remuneration structure is compliant with legislation, regulations and internal policies.

The Chief Internal Auditor function is responsible for:

- Assessing the Remuneration Policy according to article 38-5 d) of the law of 23 July 2015.

10.5. Human Resource Function

The Policy is updated by Human Resource Department under the review of the Authorized Management to include any changes which would be introduced by the Board of Directors and by updating the appendices to the Remuneration Policy if necessary, the updated Policies then reported to and adopted by the Board of Directors. A copy of the Policy must be transmitted to the Chief Internal Auditor and can be consulted by the CSSF upon request.

Others

- Remuneration of the senior staff responsible for heading the control functions is available for the oversight of the Board of Directors.
- The remuneration structure of control functions personnel does not compromise their independence or create conflicts of interest in their advisory role to Board of Directors.



- Variable remuneration for control functions is therefore based on function-specific objectives and not determined directly by the Bank-wide performance criteria.

a) Disclosure of Remuneration strategy and procedure internally:

The Human Resource Department is in charge of disclosure of Remuneration strategy and procedure internally through the release of policy, website, statement etc., ensuring that:

- The member of staff concerned should know in advance the criteria that will be used to determine their remuneration;
- The information regarding the policy which is disclosed internally should reveal at least the details which are disclosed externally;
- Confidential quantitative aspects of the remuneration of staff members shall not be subject to internal disclosure;
- The information of Annex 2, regarding the remuneration policy and practices of the institution for those categories of staff whose professional activities have a material impact on its risk profile.

b) Disclosure of Remuneration strategy and procedure externally:

Disclosure of the Remuneration strategy and procedure is included in the Bank's financial statements. According to the article 450 of CRR and the proportionality aspect that applicable to Bank of China (Luxembourg) S.A. The following information is disclosed for Bank of China (Luxembourg) S.A.:

- information concerning the decision-making process used for determining the remuneration policy, as well as the number of meetings held by the main body overseeing remuneration during the financial year, including, if applicable, information about the composition and the mandate of the remuneration committee, the external consultant whose services have been used for the determination of the remuneration policy and the role of the relevant stakeholders;
- information on link between remuneration and performance;
- the most important design characteristics of the remuneration system, including information on the criteria used for performance measurement and risk adjustment, deferral policy and vesting criteria;
- the ratios between fixed and variable components of the remuneration set in accordance with Article 94(1)(g) of Directive 2013/36/EU;
- Information on the performance criteria on which the entitlement to shares, options or variable components of remuneration is based;
- The main parameters and rationale for any variable component scheme and any other non-cash benefits;
- Aggregate quantitative information on remuneration broken down by business area;
- Aggregate quantitative information on remuneration, broken down by senior management and members of staff whose actions have a material impact on the risk profile of the institution, indicating the following:
 - The amounts of remuneration for the financial year split into fixed and variable remuneration, and the number of beneficiaries
 - (i) The amounts and forms of variable remuneration, split into cash, shares, share-linked instruments and other types;



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- (ii) The amounts of outstanding deferred remuneration split into vested and unvested portions;
 - (iii) The amounts of deferred remuneration awarded during the financial year, paid out and reduced through performance adjustments.
 - (iv) The bank does not offer any guaranteed payment.
 - (v) The Bank does not offer any severance payment
 - Upon demand from the Member State or competent authority, the total remuneration for each member of the management body or senior management.

c) With reference to the article 38-10 of the Law of 23 July 2015 and the article 450 of the CRR, the following information about individuals in the EUR 1 million pay brackets would be annually communicated to the CSSF: number of individuals, business area involved, and main elements of salary, bonus, long-term award and pension contribution. For the financial year 2018, the Bank has no individual staff whose remuneration equals to or has exceeded the amount of EUR 1 million. Pursuant to the 38-11 of the Law of 23 July 2015, Bank of China (Luxembourg) S.A. will set out a statement on website and relevant means that will be maintained regularly to explain how the Bank complies with the requirements of articles 38-1 to 38-9 of the Law.

10.6. Variable Remuneration components

The Bank's employees are eligible for an annual variable remuneration, which is granted in accordance with the applicable performance criteria and assessment process. The assessment of performance is not only on the basis of the Bank's financial results, but also on other non-quantifiable factors, including but not limited to the staff's improvement that positively contributes to the long-term benefits of the Bank.

Employees engaged in control functions are remunerated in accordance with the achievements of the objectives linked to their functions, independent of the performance of the business areas they control. The remuneration of the senior officers in the risk management and compliance functions is available for the oversight of the Board of Directors.

Remunerations are linked to the Bank's business performance which is reflected through its overall key performance indicator. The score of the indicator is calculated by using a multi-year roll-over weighted formula fixed by the H.O, ensuring that the assessment process is based on longer-term performance spreading over the business cycle.

Based on the score according to the indicator, remunerations are calculated using the formula and coefficients fixed by the H.O., and revised on a yearly basis. Maximum limits (where applicable) on the percentage of A-rated individual performance are also set by HO according to the Bank's performance, while in line with the local policy, CSSF circular 15/622, the total amount of the variable remuneration allocated to a person falling in the category of "Identified staff", may not exceed maximum of 100% of the total fixed remunerations. For higher ratios, approval of the shareholders is required, but limited to a ratio of 200%. Any approval should be notified to the CSSF with standard templates as provided by circular CSSF 15/622.

The following indicative settings may apply to the maximum variable remuneration. The AM retains discretion to decide other settings which should be flagged to Board of Directors.

Position	Maximum variable remuneration(as % of the total remuneration)
Executive members	Up to 50%
Other Executive members	Up to 50%
Control functions	Up to 45%
Additional management personnel	Up to 50%
Staff	Up to 45%

The Bank's Key Performance Indicator (KPI)

The Bank's KPIs for 2019 are based on the financial results, business development and risk management & compliance objectives.

Guaranteed Variable Remuneration (cash-based compensation)

The Bank does not offer guaranteed payments (e.g. material retention, exit and welcome packages). If this is used in exceptional circumstances, it will be subject to strict internal review and governance and allowed to the extent that risk alignment requirements are properly applied. Fixed component will need to represent a sufficiently high proportion of the total remuneration in line of education, degree of seniority, level of expertise and skills required. Variable remuneration should be based on performance achieved over time and decrease as a result of negative performance and can be reduced to zero as necessary. Welcome packages if used will be limited to the first year of employment.

Bonus Withholding

In cases where the performance criteria are not met by the individual concerned, or where business operation of the Bank deteriorates, the Bank shall reserve the rights to withhold remunerations, whether in whole or in part, as it sees fit.

Claw Back

The Bank also reserves the rights to demand full or partial repayment from the individual who has been awarded remunerations based on data which is subsequently found to be fraudulent.

Severance Pay

The Bank does not offer guaranteed retention or exit packages. In cases of early termination of a contract, the Bank will only make severance payments which are in accordance with the provisions of the applicable employment law and contract law. In addition any severance payment should reflect performance achieved over time and should not reward failure.

Other fixed Benefits to all staff

- Lunch vouchers;
- Birthday allowance;
- Festival allowance;

Non applicable benefits

- Stock option
- Company car
- Pension plan

Aggregate quantitative information on remuneration, broken down by senior management and members of staff whose actions have a material impact on the risk profile of the institution indicating the following:

The amounts of remuneration for the financial year 2019 split into fixed and variable remuneration and the number of beneficiaries.

Senior Management and Risk Takers	Fixed Remuneration EURO yearly	Total Variable Remuneration 2019 in EURO	No. of Beneficiaries
Total	4,228,140.61	2,958,528.85	32

The amounts and forms of variable remuneration, split into cash, shares, share-linked instruments and other types

Total Variable Remuneration in 2019				
Senior Management and Risk Takers	Cash in EUR)	Shares	Share-linked Instruments	Other types
Total	2,958,528.85	-	-	-

The amounts of outstanding deferred remuneration split into vested and unvested portions

Senior Management and Risk Takers	Outstanding Deferred Remuneration 2019 (EUR)	Vested Portions
Total	975,227.96	-

Amounts of deferred remuneration awarded during the financial year 2019 in EUR

Senior Management and Risk Takers	Paid Out	Reduced
	(Deferred 2014+2015+2016)	
Total	841,537.86	-

New sign-on and severance payments made during the financial year 2019, and the number of beneficiaries of such payments

Senior Management and Risk Takers	New sign-on and severance payments	Number of beneficiaries
Total	-	-

The amounts of severance payments awarded during the financial year, number of beneficiaries and highest such award to a single person

Senior Management and Risk Takers	Amounts of severance payments awarded 2019	Number of beneficiaries	Highest such award to a single person
Total	-	-	-

Based on the current version of the remuneration policy, we came to the opinion that no capital should be allocated to the risk associated with the remuneration of the Bank.

10.7. Diversity and recruitment policy

The Bank shall need to attract, motivate and retain high-calibre staff necessary to obtain business results and ensure that:

- Position design shall be standardized, and recruitment qualifications and standards shall be rationally defined according to the business development strategy and business management requirements of the Bank. Local laws and regulations as well as rules of the Bank shall be strictly observed, and the recruitment procedures shall be performed in a standardized and complete manner.
- Select excellent talents through competition, and prioritize quality over quantity. Candidates may take part in exams and appraisals
- Steps are taken to achieving diversity in the employee profile of the Bank, including members of the Board, to represent a variety of views and experience. This will include, amongst others, such factors as age, gender, and educational and professional background. It will also include achieving an appropriate balance between locally-hired employees and expatriates from the BOC H.O.
- Control cost and enhanced efficiency. Within the total annual headcount and allocation plan, yearly recruitment shall be conducted in line with business development targets. Staff allocation priorities shall be clarified, and staff distribution structure shall be optimized in order to improve input-output efficiency.

Regarding the recruitment policy for the selection and appointment of the Management Body member to fill vacancies, the assessment will consider the candidate good repute, the balance of knowledge, skills, diversity, time and availability to perform his/her duties, gender, experience and the number of executive and non-executive directorships of the candidate.

The members of the Management Body and Key function holders must have sufficient knowledge, skills and experience to fulfil their individual position in the Bank, and the management body must collectively possess adequate knowledge, skills and experience to understand the bank's activities including the main risks. The suitability of the Management Body member is assessed according to the EBA guidelines.

For the year 2019, there was no new Board member. As regards the foreseeable changes in 2020, at the level of the Executive Members and Control Functions one additional member will be assessed to replace one departed general manager.