

# **Bank of China (Europe) S.A.**

## **Pillar III Disclosure Report of 2021**

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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
BCM	Business Continuity Management
BCP	Business Continuity plan
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
DRP	Disaster Recovery plan
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

## List of Acronyms

FD	Financial Department
FMID	Financial Market and Institution Department
GDPR	the General Data Protection Regulation
H.O.	Head Office
HQLA	High Quality Liquid Asset
IAD	Internal Audit Department
IASA	International Accounting Standards Board
IASB	International Accounting Standards Board
IBOR	Inter-Bank Offered Rate
ICAAP	Internal Capital Adequacy Assessment Process
ICT	Information and Communication Technology
IFRS	International Financial Reporting Standards
ILAAP	Internal Liquidity Adequacy Assessment Process
IMM	Internal Model Method
IRRBB	Interest Rate Risk on the Banking Book
ITS	Implementing Technical Standards
KPI	Key Performance Indicator
KRI	Key Risk Indicator
LCR	Liquidity Coverage Ratio
LDC	Loss Data Collection
LFS	Law of 5 April 1993 on the financial sector
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
OCR	Overall Capital Requirement
OPRC	Operational Risk Concentration

## List of Acronyms

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
RCSSF	Reglement CSSF
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
SFT	Security Financing Transaction
SREP	Supervisory Review and Evaluation Process
TREA	Total Risk Exposure Amount
TSCR	Total SREP Capital Requirement
VAR	Value at Risk
VAT	Value-added Tax
VPN	Virtual Private Network
UTP	Unlikely to Pay

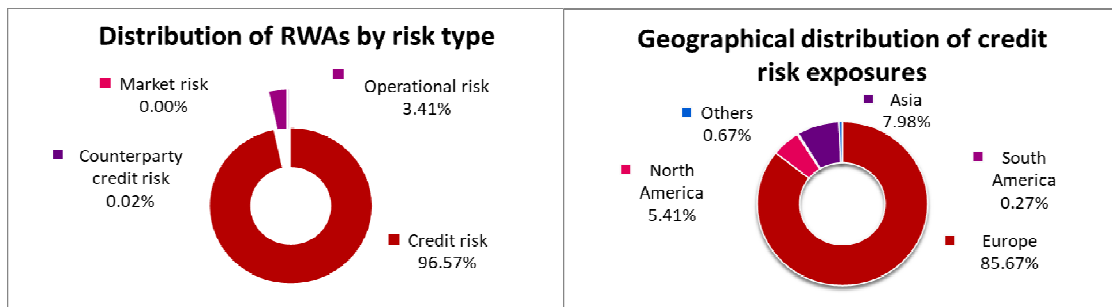
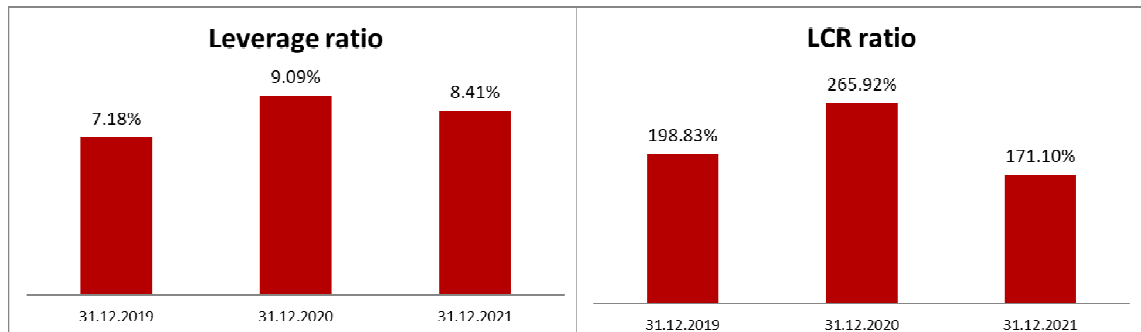
## EBA tables and templates

Key Metrics and Overview of Risk-weighted Exposure Amount		CRR articles	Reference
EU KM1	Overview of risk weighted exposure amounts	Article 447 (a) to (g) Article 438 (b)	Section Key Indicators
EU OV1	Overview of risk weighted exposure amounts	Article 438 (d)	Table 3.6.1
EU OVC	ICAAP information	Article 438 (a) (c)	Section 4
EU INS1	Insurance participations	Article 438 (f)	N/A
EU INS2	Financial conglomerates information on own funds and capital adequacy ratio	Article 438 (g)	N/A
Disclosure of risk management policies and objectives		CRR articles	Reference
EU OVA	Institution risk management approach	Article 435 (1)	Section 2.3
EU OVB	Disclosure on governance arrangements	Article 435 (2)	Section 2.1 and 2.2
Disclosure of the scope of application		CRR articles	Reference
EU U1	Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories	Article 436 (c)	Table 3.4.1
EU U3	Outline of the differences in the scopes of consolidation (entity by entity)	Article 436 (b)	N/A
EU U2	Main sources of differences between regulatory exposure amounts and carrying values in financial statements	Article 436 (d)	N/A
EU UIA	Explanations of differences between accounting and regulatory exposure amounts	Article 436 (b)	Section 3.4
EU PV1:	Prudent valuation adjustments (PVA)	Article 436 (e)	N/A
EU U1B	Other qualitative information on the scope of application	Article 436 (f) (g) (h)	Section 1.3
Disclosure of own funds		CRR articles	Reference
EU CC1	Composition of regulatory own funds	Article 437 (a) (d) (e) (f)	Table 3.3.1
EU CC2	Reconciliation of regulatory own funds to balance sheet in the audited financial statements	Article 437 (a)	N/A
EU CCA	Main features of regulatory own funds instruments and eligible liabilities instruments	Article 437 (b) (c)	Table 3.5.1
Disclosure of countercyclical capital buffers		CRR articles	Reference
EU CCyB1	Geographical distribution of credit exposures relevant for the calculation of the countercyclical buffer	Article 440 (a)	Table 3.7.1
EU CCyB2	Amount of institution-specific countercyclical capital buffer	Article 440 (b)	Table 3.7.2
Disclosure of the leverage ratio		CRR articles	Reference
EU LR1 - LRSum	Summary reconciliation of accounting assets and leverage ratio exposures	Article 451(1) (b)	Table 3.8.1
EU LR2 - LRCom	LRCom: Leverage ratio common disclosure	Article 451(1) (2) (3)	Table 3.8.2
EU LR3 - LRSpI	Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)	Article 451(1) (b)	Table 3.8.3
EU LRA	Free format text boxes for disclosure on qualitative items	Article 451(1) (d) (e)	Section 3.8
Disclosure of liquidity requirements		CRR articles	Reference
EU LIQA	Liquidity risk management	Article 435(1) Article 451a(4)	Section 8
EU LIQ1	Quantitative information of LCR	Article 451a(2)	Table 8.4.1
EU LIQB	On qualitative information on LCR, which complements template EU LIQ1	Article 451a(2)	Section 8.4
EU LIQ2	Net Stable Funding Ratio	Article 451a(3)	Table 8.5.1
Disclosure of credit risk quality		CRR articles	Reference
EU CRA	General qualitative information about credit risk	Article 435(1) (a) (b) (d) (f)	Section 5.1
EU CRB	Additional disclosure related to the credit quality of assets	Article 442 (a) (b)	Section 5.1
EU CQ3	Credit quality of performing and non-performing exposures by past due days	Article 442 (c) (d)	Table 5.2.6
EU CR1-A	Maturity of exposures	Article 442 (g)	N/A
EU CR2	Changes in the stock of non-performing loans and advances	Article 442 (f)	Table 5.2.2
EU CR1	Performing and non-performing exposures and related provisions	Article 442 (c) (f)	Table 5.2.1
EU CQ1	Credit quality of forborne exposures	Article 442 (c)	Table 5.2.4
EU CQ4	Quality of non-performing exposures by geography	Article 442 (c) (e)	Table 5.2.7
EU CQ5	Credit quality of loans and advances by industry	Article 442 (c) (e)	Table 5.2.8
EU CQ7	Collateral obtained by taking possession and execution processes	Article 442 (c)	N/A
EU CR2a	Changes in the stock of non-performing loans and advances and related net accumulated recoveries	Article 442 (c) (f)	Table 5.2.3
EU CQ2	Quality of forbearance	Article 442 (c)	Table 5.2.5
EU CQ6	Collateral valuation - loans and advances	Article 442 (c)	N/A
EU CQ8	Collateral obtained by taking possession and execution processes – vintage breakdown	Article 442 (c)	N/A
Disclosure of the use of credit risk mitigation techniques		CRR articles	Reference
EU CRC	Qualitative disclosure requirements related to CRM techniques	Article 453 (a) to (e)	Section 5.4
EU CR3	CRM techniques overview: Disclosure of the use of credit risk mitigation techniques	Article 453 (f)	Table 5.4.1
EU CRD	Qualitative disclosure requirements related to standardised model	Article 444 (a) to (d)	Section 5.5
EU CR4	Standardised approach – Credit risk exposure and CRM effects	Article 453 (g) (h) (i) Article 444 (e)	Table 5.5.2
EU CR5	Standardised approach	Article 444 (e)	Table 5.5.3

Disclosure of the use of the IRB approach to credit risk		CRR articles	Reference
EU CRE	Qualitative disclosure requirements related to IRB approach	Article 452 (a) to (f)	N/A. The Bank uses the standardised approach
EU CR6-A	Scope of the use of IRB and SA approaches	Article 452 (b)	N/A. The Bank uses the standardised approach
EU CR6	IRB approach – Credit risk exposures by exposure class and PD range	Article 452 (g)	N/A. The Bank uses the standardised approach
EU CR7	IRB approach – Effect on the RWEAs of credit derivatives used as CRM techniques	Article 453 (j)	N/A. The Bank uses the standardised approach
EU CR7-A	IRB approach – Disclosure of the extent of the use of CRM techniques	Article 453 (g)	N/A. The Bank uses the standardised approach
EU CR8	RWEA flow statements of credit risk exposures under the IRB approach	Article 438 (h)	N/A. The Bank uses the standardised approach
EU CR9	IRB approach – Back-testing of PD per exposure class (fixed PD scale)	Article 452 (h)	N/A. The Bank uses the standardised approach
EU CR9.1	IRB approach – Back-testing of PD per exposure class (only for PD estimates according to point (f) of Article 180(1) CRR)	Article 452 (h) Article 180(1) (f)	N/A. The Bank uses the standardised approach
Disclosure of specialised lending		CRR articles	Reference
EU CR10	Specialised lending and equity exposures under the simple risk weighted approach	Article 438 (e)	N/A
Disclosure of exposures to counterparty credit risk		CRR articles	Reference
EU CCRA	Qualitative disclosure related to CCR	Article 439 (a) to (d)	Section 5.6
EU CCR1	Analysis of CCR exposure by approach	Article 439 (f) (g) (k) (m)	Table 5.6.1
EU CCR2	Transactions subject to own funds requirements for CVA risk	Article 439 (h)	Table 5.6.2
EU CCR3	Standardised approach – CCR exposures by regulatory exposure class and risk weights	Article 439 (l) Article 444 (e)	Table 5.6.3
EU CCR4	IRB approach – CCR exposures by exposure class and PD scale	Article 439 (l) Article 452 (g)	N/A. The Bank uses the standardised approach
EU CCR5	Composition of collateral for CCR exposures	Article 439 (e)	N/A
EU CCR6	Credit derivatives exposures	Article 439 (j)	N/A
EU CCR7	RWEA flow statements of CCR exposures under the IMM	Article 438 (h)	N/A
EU CCR8	Exposures to CCPs	Article 439 (i)	N/A
Disclosure of the use of standardised approach and internal model for market risk		CRR articles	Reference
EU MR1	Market risk under the standardised approach	Article 445	Table 6.5.1
EU MRA	Qualitative disclosure requirements related to market risk	Article 435 (1) (a) to (d)	Section 6.2
EU MRB	Qualitative disclosure requirements for institutions using the internal Market Risk Models	Article 455 (a) (b) (c) (f)	N/A. The Bank uses the standardised approach
EU MR2-A	Market risk under the internal Model Approach (IMA)	Article 455 (e)	N/A. The Bank uses the standardised approach
EU MR2-B	RWA flow statements of market risk exposures under the IMA	Article 438 (h)	N/A. The Bank uses the standardised approach
EU MR3	IMA values for trading portfolios	Article 455 (d)	N/A. The Bank uses the standardised approach
EU MR4 -	Comparison of VaR estimates with gains/losses	Article 455 (g)	N/A
Disclosure of operational risk		CRR articles	Reference
EU ORA	Qualitative information on operational risk	Articles 435(1) Article 446 and 454	Section 7
EU OR1	Operational risk own funds requirements and risk-weighted exposure amounts	Articles 446 and 454	Table 7.4.1
Disclosure of exposures to securitisation positions		CRR articles	Reference
EU SEC1	Securitisation exposures in the non-trading book	Point (j) of Article 449	N/A
EU SEC2	Securitisation exposures in the trading book	Point (j) of Article 449	N/A
EU SEC3	Securitisation exposures in the non-trading book and associated regulatory capital requirements - institution acting as originator or as sponsor	Point (k)(i) of Article 449	N/A
EU SEC4	Securitisation exposures in the non-trading book and associated regulatory capital requirements - institution acting as investor	Point (k)(ii) of Article 449	N/A
EU SEC5	Exposures securitised by the institution - Exposures in default and specific credit risk adjustments	Point (l) of Article 449	N/A
Disclosure of remuneration policy		CRR articles	Reference
EU REMA	Remuneration policy	Article 450(1) (a) (b) (c) (d) (e) (f) (j) and (k) Article 450(2)	Section 10
EU REM1	Remuneration awarded for the financial year	Article 450(1) (h)(i)-(ii)	Table 10.6.1
EU REM2	Special payments to staff whose professional activities have a material impact on institutions' risk profile (identified staff)	Article 450(1) (h)(v) to (vii)	N/A
EU REM3	Deferred remuneration	Article 450(1) (h)(iii) and (iv)	Table 10.6.2
EU REM4	Remuneration of 1 million EUR or more per year	Article 450(1) (i)	N/A
EU REM5	Information on remuneration of staff whose professional activities have a material impact on institutions' risk profile (identified staff)	Article 450(1) (g)	Table 10.6.3
Encumbered and unencumbered assets		CRR articles	Reference
EU AE1	Encumbered and unencumbered assets	Article 443	Table 8.6.1
EU AE2	Collateral received and own debt securities issued	Article 443	Table 8.6.2
EU AE3	Sources of encumbrance	Article 443	Table 8.6.3
EU AE4	Accompanying narrative information	Article 443	Section 8.6

## Key Indicators as at 31 December 2021

	Solvency ratio		
	31.12.2019	31.12.2020	31.12.2021
CET1 Capital ratio	11.52%	12.23%	10.76%
Tier 1 ratio	11.52%	15.86%	13.92%
Total Capital ratio	14.03%	18.44%	16.15%



## EU KM1 - Key metrics template

In EUR Million		a	b	c	d	e
		31/12/2021	31/12/2020	31/12/2019	31/12/2018	31/12/2017
<b>Available own funds (amounts)</b>						
1	Common Equity Tier 1 (CET1) capital	510.83	504.99	488.76	451.74	421.97
2	Tier 1 capital	660.84	655.00	488.76	451.74	421.97
3	Total capital	767.16	761.41	595.16	558.18	430.32
<b>Risk-weighted exposure amounts</b>						
4	Total risk-weighted exposure amount	4,749.03	4,128.68	4,240.94	3,681.03	3,078.16
<b>Capital ratios (as a percentage of risk-weighted exposure amount)</b>						
5	Common Equity Tier 1 ratio (%)	10.76%	12.23%	11.52%	12.27%	13.71%
6	Tier 1 ratio (%)	13.92%	15.86%	11.52%	12.27%	13.71%
7	Total capital ratio (%)	16.15%	18.44%	14.03%	15.16%	13.98%
<b>Additional own funds requirements based on SREP (as a percentage of risk-weighted exposure amount)</b>						
EU 7a	Additional own funds requirements to address risks other than the risk of excessive leverage (%)	1.00%	1.00%	0.00%	0.00%	0.00%
EU 7b	of which: to be made up of CET1 capital (percentage points)	0.56%	0.00%	0.00%	0.00%	0.00%
EU 7c	of which: to be made up of Tier 1 capital (percentage points)	0.75%	0.00%	0.00%	0.00%	0.00%
EU 7d	Total SREP own funds requirements (%)	9.00%	9.00%	8.00%	8.00%	8.00%
<b>Combined buffer requirement (as a percentage of risk-weighted exposure amount)</b>						
8	Capital conservation buffer (%)	2.50%	2.50%	2.50%	2.50%	2.50%
EU 8a	Conservation buffer due to macro-prudential or systemic risk identified at the level of a Member State (%)	0.00%	0.00%	0.00%	0.00%	0.00%
9	Institution specific countercyclical capital buffer (%)	0.09%	0.04%	0.31%	0.21%	0.19%
EU 9a	Systemic risk buffer (%)	0.00%	0.00%	0.00%	0.00%	0.00%
10	Global Systemically Important Institution buffer (%)	0.00%	0.00%	0.00%	0.00%	0.00%
EU 10a	Other Systemically Important Institution buffer	0.00%	0.00%	0.00%	0.00%	0.00%
11	Combined buffer requirement (%)	2.59%	2.54%	2.81%	2.71%	2.69%
EU 11a	Overall capital requirements (%)	11.59%	11.54%	10.81%	10.71%	10.69%
12	CET1 available after meeting the total SREP own funds requirements (%)	6.26%	6.73%	7.02%	7.77%	9.21%
<b>Leverage ratio</b>						
13	Leverage ratio total exposure measure	7,856.53	7,206.21	6,807.47	5,711.75	5,404.14
14	Leverage ratio	8.41%	9.09%	7.18%	7.91%	7.81%
<b>Additional own funds requirements to address risks of excessive leverage (as a percentage total exposure measure)</b>						
EU 14a	Additional own funds requirements to address the risk of excessive leverage (%)	0.00%	-	-	-	-
EU 14b	of which: to be made up of CET1 capital (percentage points)	0.00%	-	-	-	-
EU 14c	Total SREP leverage ratio requirements (%)	0.00%	-	-	-	-
<b>Leverage ratio buffer and overall leverage ratio requirement (as a percentage total exposure measure)</b>						
EU 14d	Leverage ratio buffer requirement (%)	0.00%	-	-	-	-
EU 14e	Overall leverage ratio requirements (%)	0.00%	-	-	-	-
<b>Liquidity Coverage Ratio</b>						
15	Total high-quality liquid assets (HQLA) (Weighted value - average)	612.37	637.42	912.02	386.45	568.14
EU 16a	Cash outflows - Total weighted value	1,431.58	958.80	1,834.81	1,041.05	1,625.39
EU 16b	Cash inflows - Total weighted value	1,258.49	1,933.87	1,376.11	952.84	1,357.20
16	Total net cash outflows (adjusted value)	357.90	239.70	458.70	260.26	406.35
17	Liquidity coverage ratio (%)	171.10%	265.92%	198.83%	148.49%	139.82%
<b>Net Stable Funding Ratio</b>						
18	Total available stable funding	3,729.42	3,350.94	-	-	-
19	Total required stable funding	3,430.94	3,093.28	-	-	-
20	NSFR ratio (%)	108.70%	108.33%	-	-	-

## 1. Introduction

### 1.1. Regulatory framework

This Pillar III report complements the capital adequacy assessment and the supervisory review process of Bank of China (Luxembourg) S.A. (hereinafter “the Bank”<sup>1</sup>). 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.

On 16 April 2019, the European Parliament (EP) approved the final agreement on a package of reforms proposed by EC to strengthen the resilience and resolvability of European banks. The package of reforms comprises certain amendments to CRR and CRD IV commonly referred to as ‘CRR II’ and CRD V’. On 27 June 2019, the Banking Reform Package came into force, subject to various transitional and staged timetables.

The Basel Committee’s framework is based on three pillars. Pillar I on minimum capital requirements, which defines the rules for the calculation of credit, market and operational risk. Pillar II is about Supervisory Review and Evaluation Process (SREP), which requires banks to undertake an internal capital adequacy assessment process (ICAAP) to identify and assess risks, also those not included in Pillar I, and maintain sufficient capital to face these risks, and an internal liquidity adequacy assessment process (ILAAP) focusing on maintaining sufficient liquidity (and funding) risk management. Pillar III is on market discipline and transparency, requiring disclosures to allow investors and other market participants to understand the risk profiles of individual banks.

The Pillar III 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.

The Pillar III report as of 31<sup>st</sup> December 2021 is prepared in accordance with the highest standard. In June 2020, the EBA published the final ITS on public disclosures (Pillar III) that implements changes introduced in the revised Capital Requirements Regulation (CRR II). Those EBA templates in order to comply with CRR II are applicable since June 2021.

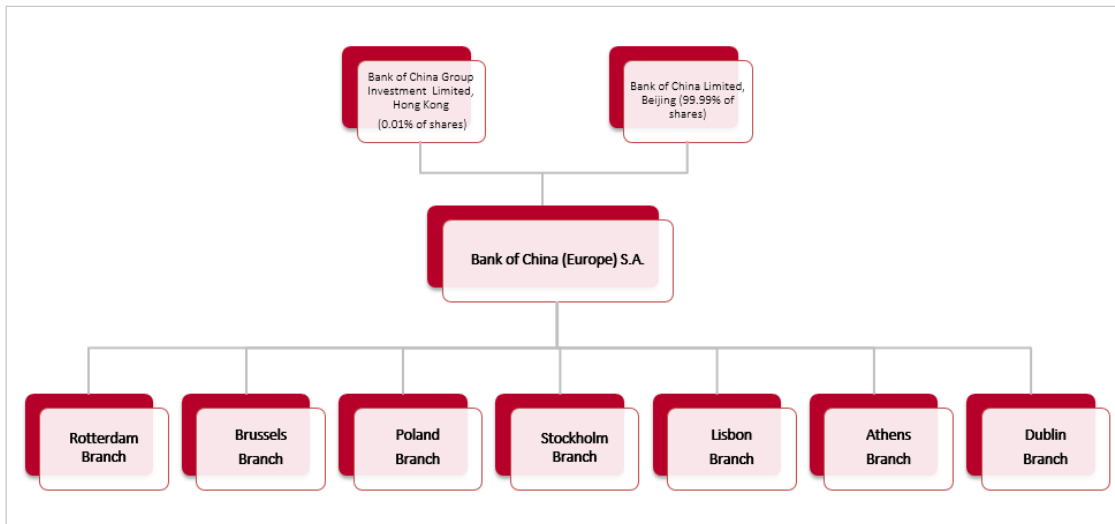
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<sup>1</sup> For purposes of this report, unless the context otherwise requires, the terms “the Bank”, “we”, “us” and “our” refer to Bank of China (Europe) S.A., including its Rotterdam Branch, Brussels Branch, Poland Branch, Stockholm Branch, Lisbon Branch, Athens Branch and Dublin Branch, namely Bank of China (Europe) S.A. Rotterdam Branch, Bank of China (Europe) S.A. Brussels Branch, Bank of China (Europe) S.A. Poland Branch, Bank of China (Europe) S.A. Stockholm Branch, Bank of China (Europe) S.A. Lisbon Branch, Bank of China S.A. (Europe) Athens Branch and Bank of China S.A. (Europe) Dublin Branch.

## 1.2. Bank of China (Europe) S.A.

Bank of China (Luxembourg) S.A. is a fully-owned subsidiary 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. The Bank maintains 7 cross-border branches in continental Europe.

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 (EU) No. 575/2013 and Directive 2013/36/EU.

The report includes the Bank and its seven branches.

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

The Bank publishes the Pillar III Report in accordance with Art. 433 of the CRR on 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 2021

### Intermediate Parent Undertaking Developments

The Bank has been chosen to become the Intermediate Parent Undertaking (IPU) of the Bank Of China in Europe. In line with article 21b of the CRD, institutions belonging to third-group country with a total value of assets in the European Union greater or equal than EUR 40 bio must establish an IPU in the EU.

To ensure a smooth transition with controllable risks, BOC Group plans to establish the IPU through four steps:

- Firstly, the amendment of the Bank's Name: The corporate name of BOC Luxembourg has changed from "Bank of China (Luxembourg) S.A." to "Bank of China (Europe) S.A."
- Secondly, change the shareholders of BOC (Europe) S.A.: BOC Luxembourg has two shareholders, including Bank of China Ltd. (Head Office) and Bank of China Group Investment Ltd. (Hong Kong) (hereinafter "BOCGI") with 99.99% and 0.01% shares respectively. Head Office would buy the shares held by BOCGI and become the single shareholder of BOC (Europe) S.A. in 2022.

- Thirdly, BOC (Europe) S.A. to acquire BOC CEE: BOC Europe will acquire, in 2022, BOC CEE, as well as its European branches (Austria, Czech Republic and Romania).
- Fourthly, BOC (Europe) S.A. to acquire BOC Serbia: Once BOC Europe has acquired BOC CEE as a whole, BOC Serbia will be transferred to BOC Europe for fulfilling the requirement of circular No. 111 issued by Chinese Ministry of Finance.

## 1.6. Key changes in 2021 Pillar III Report

### Regulatory updates

The following regulatory updates formed part of CRR as amended by CRR II prior to 31 December 2020 and EBA guidelines have already been applied in these disclosures, whereas the implementation of the draft ITS will be done after the European Commission has approved them.

### EBA Guidelines on reporting and disclosure as a result of the CRR “quick fix” adjustments in response to the COVID-19 pandemic

Regulation (EU) 2020/873 of the European Parliament and of the Council of 24 June 2020 amending Regulations (EU) No 575/2013 and (EU) 2019/876 (CRR II) as regards certain adjustments in response to the Covid-19 pandemic (CRR ‘quick fix’) was published in the Official Journal of the EU on 26 June 2020.

The CRR ‘quick fix’ is part of a series of measures taken by European institutions to mitigate the impact of the Covid-19 pandemic on institutions across EU Member States. In addition to the flexibility already provided in the existing rules, the CRR ‘quick fix’ introduces certain adjustments to the CRR, including temporary measures, intended to enhance credit flows to companies and households, thereby supporting the EU’s economy. The adjustments that have an impact on our disclosures are as follows:

- frontloading from CRR II the possibility of temporarily excluding certain exposures to central banks from the calculation of an institution’s total exposure measure (Article 500b of Regulation (EU) No 575/2013);
- frontloading from CRR II the possibility to not deduct from CET1 capital certain software assets, but to assign RWA instead. The scope of assets subject to this exemption was defined by Commission Delegated Regulation (EU) 2020/2176 published on 22 December 2020; and
- A 2 year extension transitional arrangements for mitigating the impact on own funds of the introduction of IFRS 9 (Article 473a (8) of Regulation (EU) No 575/2013).

In August 2020, the EBA issued guidelines to provide institutions with the necessary clarifications on how to apply the measures set out in the CRR ‘quick fix’. These Guidelines are an interim solution until the new comprehensive Implementing Technical Standards (ITS) on disclosure start to apply.

### EBA Guidelines on reporting and disclosure of exposures subject to measures applied in response to the COVID-19 crisis

In response to the need to address negative economic consequences of COVID-19 pandemic, the European Union (EU) and Member States have introduced a wide range of mitigating measures to support the real economy and the financial sector. As part of such measures, some Member States have introduced legislative moratoria on loan repayments granting the borrowers various forms of payment holidays on their existing loans. In other Member States similar measures have been introduced under individual institutions’ industry-coordinated initiatives. Many Member States have also introduced various forms of public guarantees to be applied to new lending.

As a coordinated approach to the collection of information regarding the application of the payment

moratoria to the existing loans and public guarantees to new lending in response to COVID-19 pandemic, the EBA introduced additional disclosure requirements covering both aspects. The guidelines are built on the existing definitions of Commission Implementing Regulation (EU) No 680/2014 (FINREP) and put forward strictly in the context of the Covid-19 pandemic, and are therefore expected to be time-limited.

This report includes 3 new tables per the EBA guidelines (EBA/GL/2020/07) published in June 2020 which introduced additional disclosure requirements in relation to the application of payment moratoria to existing loans as well as new lending subject to public guarantees schemes.

**Final draft ITS on institutions' public disclosures of the information referred to in Titles II and III of Part Eight of Regulation (EU) No 575/2013**

In June 2020, the EBA published the final draft ITS on public disclosures by institutions that implements changes introduced in the revised Capital Requirements Regulation (CRR II). The publication of the ITS is a major step forward towards promoting market discipline through enhanced and comparable public disclosures for stakeholders, and towards keeping the reporting requirements in line with the evolving needs for Supervisory Authorities' risk assessments.

The disclosure ITS optimise the Pillar III policy framework for credit institutions by providing a single overarching package that brings together all previous pieces of regulation and incorporates all prudential disclosures, thus facilitating implementation by institutions and improving clarity for users of such information. The ITS implement the disclosures in a way to ensure that market participants have sufficient and comparable information to assess the risk profiles of institutions, in line with the Basel Committee's Pillar III standards and with the increased standardisation of institutions' public disclosures. This reinforces the ultimate objective of market discipline. The CRR II definitions for 'small and non-complex institutions' and 'large institutions' support proportionality of Pillar III disclosures. In addition, the ITS include thresholds to trigger additional disclosures for large banks based on their risk profiles. The ITS on disclosure have been developed in accordance with the mandate included in Article 434a of Regulation (EU) NO 575/2013.

As the sanitary crisis was still a threat for the world during 2021, these measures still applied until end of 2021.

## 2. Risk Management

The Bank continued to improve its risk management systems in line with the BOC Group's strategies and ensuring compliant operations. Amid the global spread of COVID-19 and the economic downturn, the Bank strengthened emergency management, established a pandemic response mechanism at the Group level, focused on potential risks in key areas, and reinforced the risk management and control of the Bank and its cross-border branches.

The Bank continued to improve the compliance of its effective risk data aggregation and risk reporting, actively responded to reform of the inter-bank offered rate (IBOR), to ensure compliant operations. The Bank also refined its risk management systems and processes, promoting and developing the "Three Lines of Defence" culture for risk management, and strengthening the development of business departments as the middle office of risk control. Currently, the risk function of the Bank is operating on a stable and smooth way and all aspects of risk are and were within the Bank capacity and appetite.

### 2.1. Internal Governance

As stated in article 9 of the CSSF Circular 12/552 and amended by 21/785, Internal Governance shall ensure in particular sound and prudent business management, including the risks inherent to them.

### 2.2. Risk management framework

In order to achieve governance objectives, 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 also includes the supporting function such as the Finance and IT functions.

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

The third line consists of the audit function (internal and external) 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 exposure risk 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 'Internal Control Self-Assessment' which is independently reviewed by the Internal Auditor and supervised by the H.O. since 2007. The last Internal Control Self Assessment was performed in 2021.

### Second line of defence

**The Risk Management Department (RMD)** has the responsibility of the day-to-day management pertaining to credit risk, market risk, liquidity 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 legal team** has the responsibility to effectively identify legal risks of the Bank, and to proactively manage these risks. The 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.

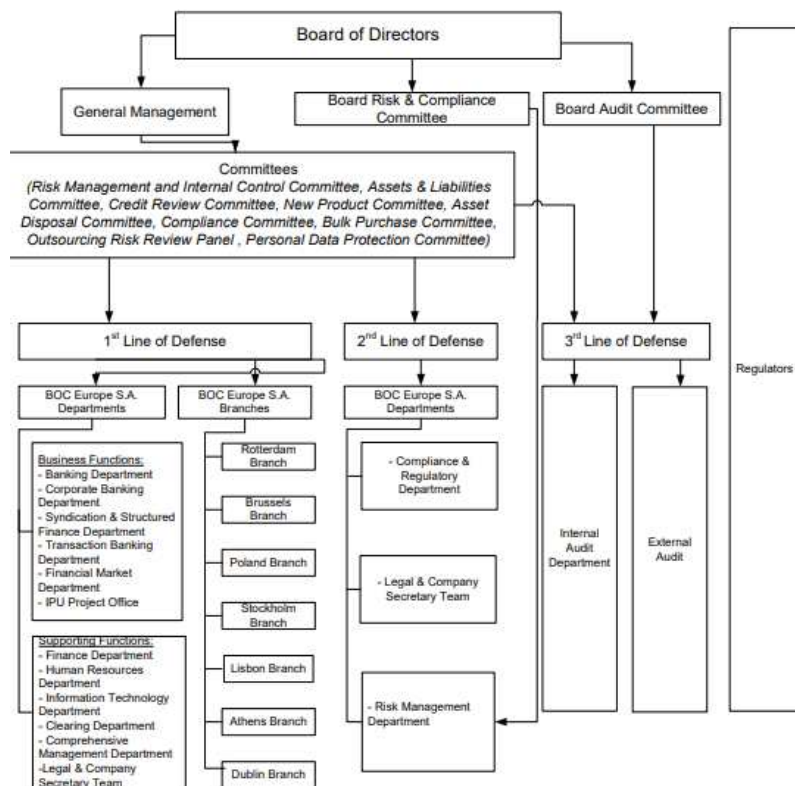
### Third line of defence

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

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.

## The control governance and framework



The Enterprise Risk Management (ERM) Framework policy was put in place on November 15, 2021 following the overall requirements of the Bank Of China Group's 14th Five-Year Plan for the development of an enterprise risk management system and the optimization plan, and following guidelines on internal governance and risk management in the EU and international banking sector, in order to establish an enterprise risk management system in the coming IPU Regional Centre under the EU regulatory framework, Bank of China (Europe) S. A. and its cross-border branches and subsidiaries.

## 2.3. Structure and Organization of Risk Management

### 2.3.1. Board of Directors

The Board of Directors has the overall responsibility for the Bank. It monitors and bears responsibility for the implementation of key elements of the central administration, internal governance and risk management arrangements, including but not limited to the followings:

- the business strategy and its long-term financial interests, solvency, liquidity situation and risk appetite. The development and maintenance of a sustainable business model requires all material risks being taken into account, including environmental, social and governance risks;
- the risk strategy, including the risk appetite and the overall framework for risk-taking and risk management of the institution;
- the strategy with respect to regulatory and internal capital and liquidity reserves;
- the guiding principles related to the remuneration policy;
- the guiding principles related to business continuity and crisis management.

The Board of Directors meets regularly, directs and oversees the Bank. It has the duty to individually and collectively exercise their powers in the best interest of the Bank. In addition, the board is

supported by two specialised committees for performing its duties: the Board Audit Committee and the Board Risk and Compliance Committee.

During the year of 2021, a total of 4 Board of Directors' ordinary meetings, 1 extraordinary meeting and 1 decision in writing, 4 Board Audit Committee meetings and 4 Board Risk and Compliance Committee and one Recovery Plan workshop were carried out, which deliberated on various topics with the consultation of Authorised Management and the internal control functions as appropriated.

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 include a systematic dashboard where all the Key Performance Indicators and limits are indicated, as well as deliver stress-testing results on market and liquidity to the BOD.

All the material matters which would affect the Bank's overall risk profile and any breach on the internal limits is promptly reported to the BOD. There were no significant deficiencies or breaches in 2021 to be reported.

**The Board Audit Committee (BAC)** assists the Board of Directors in the areas of financial information, internal control, including internal audit as well as the audit by the *réviseur d'entreprises agréé*.

During the year 2021, 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 auditors by:
  - Reviewing the annual financial statements and the Management Letter if any;
  - Debriefing with the external auditors;
  - Following up of the Management Letter points if there are any;
  - Recommendation for the appointment of external auditor 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 has discussed.

**The Board Risk & Compliance Committee ("BRCC").** BRCC advises the Board of Directors on aspects related to the overall risk and risk appetite strategy and also assists it in assessing the correlation between the incurred risks, the Bank's ability to manage these risks, and the internal and regulatory capital and liquidity reserves.

In 2021, four meetings were held during the year discussing several topics: regular risk and compliance function reports, annual ICAAP/ILAAP report, annual recovery plan, Pillar III disclosure report, liquidity risk management policy, asset encumbrance policy and KRI dashboard monitoring, compliance plan, Customer Due Diligence (CDD) measures, best execution policy, Anti-Money Laundering & Terrorist Financing and Sanctions, Risk Appetite Framework and Risk Appetite Statement etc. were reviewed. The BRCC also participated actively on the Bank's internal risk policies/regulations elaboration and approval. In 2021, the BRCC also focused on the risks induced by COVID-19 and closely followed the assets quality through the moratorium list, special mention list, IFRS 9 Stage 2 list and ECL provision level. The potential operational risk related to remote working

during the Covid-19 was also a recurring topic that was reviewed.

### 2.3.2. General management

It is composed of the General Manager and Deputy General Managers, the Authorised Management (AM) is in charge of the effective, sound and prudent day-to-day management of the activities (and inherent risks). AM exercise in compliance with the strategies and guiding principles approved by the Board of Directors and the applicable regulations, by considering and safeguarding the Bank's long-term financial interests, solvency and liquidity situation. The authorised management critically assesses all the proposals, explanations and information submitted to its decisions, which include following main responsibilities:

- To ensure the activities of the Bank are compliant with the existing law and regulations;
- 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.

### 2.3.3. 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 2021, the Bank had the following committees:

Committee	Responsibilities
<b>Assets &amp; Liabilities Committee</b>	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.
<b>Risk Management and Internal Control Committee</b>	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.
<b>Credit Review Committee</b>	Responsible for appraising the credit risk on the Bank's loan project.
<b>New Product Committee</b>	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.
<b>Compliance Committee</b>	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.
<b>Bulk Purchase Committee</b>	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.
<b>Investment Committee</b>	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.
<b>Personal Data Protection Committee</b>	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.
<b>Asset Disposal Committee</b>	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.

**The Outsourcing Risk Review Panel (ORRP):** The Bank's updated outsourcing policy was approved in July 2020 and requires to setup an Outsourcing Risk Review Panel ("ORRP"). The ORRP was set up in July 2020 and is composed of the Head of the following departments/teams: legal, compliance, finance, risk management, human resources, comprehensive management and IT, as well as business experts within the Bank if necessary. ORRP is responsible for conducting risk review and putting forward review opinions on outsourcing applications and outsourcing catalogues.

#### 2.3.4. 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 mission and objective 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 (regulatory and internal ones), analyses results by using relevant monitoring tool and systems. Periodical reports are produced and shared with the General Management and the BOD. Necessary risk information is disclosed to investors or public pursuant to the regulatory 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 are taken following the 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.

#### 2.3.5. 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;
- Common reporting (COREP) and Large Exposures reports.

### 2.3.6. 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 institutions.

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.

### 2.3.7. Risk identification and quantification

The Bank assesses its material risks and non-material risks by taking into consideration 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.

### 2.3.8. Risk appetite

The risk appetite refers to the overall risk type and level that the Bank is willing to bear within its risk capacity in order to satisfy the expectation of shareholders, depositors, investors, regulators and other stakeholders and ensure stable operations and sustainable development to achieve strategic goals and business plans.

The risk appetite is an important component of the business and risk strategies of the Bank, and guides operation and management.

The Bank aims to see steady business development and continuous profit growth; ensure effective risk control and fully-implemented compliance; gain better corporate governance practices and optimizes management procedures; and completes institutional integration and makes integrated regional development more mature, seeking to become a "localized", "modernized" and "digitalized" bank.

The Bank applies rigorous control over credit extension to industries with high energy consumption, high pollution and overcapacity.

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

### 3. Own Funds

The calculation of the regulatory capital requirements is done following the “Regulation (EU) No 575/2013” as amended “Regulation (EU) 2019/879” on prudential requirements for credit institutions and investment firm” (Capital Requirements Regulation or CRR as amended CRR II) and the “Directive 2013/36/EU” as amended “Directive 2019/878/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 amended CRD V) as implemented into Luxembourg Law. The information in this section is based on the regulatory principles of consolidation.

As at 31 December 2021, the breakdown of prudential regulatory capital requirement was the following:

Regulatory minimum of capital requirement	31/12/2021	31/12/2020
Minimum requirement for CET1 capital	5.06%	4.50%
Tier 1 capital	6.75%	6.00%
Additional CET1 SREP requirements	1.00%	1.00%
Total SREP capital requirement	9.00%	9.00%
Minimum requirement for capital conservation buffer	2.50%	2.50%
countercyclical buffer	0.09%	0.04%
<b>Overall Capital Requirement (OCR)</b>	<b>11.59%</b>	<b>11.54%</b>

As of 1 January 2014, the CRR/CRD IV capital rules entered into force and were amended in 2019 with the CRRII/CRD V. According to CRR/CRD IV capital adequacy rules, the Common Equity Tier 1 ratio has to be at least 4.5%, the Tier 1 ratio at least 6 % and the total capital ratio at least 8% of all risk-weighted assets. This was not changed in the CRR II /CRD V.

The Bank also complies with additional prudential requirements. Since the 1<sup>st</sup> January 2020, the Bank maintains an overall capital requirement (OCR) which is sum of the total SREP capital requirement (TSCR) and the combined buffer requirement.

#### 3.1. Total SREP Capital Requirement

The TSCR, which must be met at all times, is set at 9% of the Bank’s Total Risk Exposure Amount as defined in article 92(3) of CRR.

Of these 9% of TREA:

- 8% of TREA represent own funds requirements as specified in Article 92(1) of CRR;
- 1% of TREA represent the additional own funds (in excess of the requirements specified in Article 92 of CRR) further to article 28(1) of CSSF Regulations 15-02, of which 100% must be CET1 capital.

#### 3.2. The Combined buffer Requirement

The combined buffer requirement is the CET1 capital corresponding to the sum of the following:

- 2.5% of TREA corresponding to the capital conservation buffer as defined in Article 59-5 LFS;
- The amount of CET1 resulting from the application of CSSF Regulation 15-01(countercyclical capital buffer), if applicable;
- The higher of the amount of CET1 resulting from the application of Article 59-9 LFS (buffer for the other systemically important institutions – OSII-buffer) and Article 59-10 and 59-11 LFS (systemic risk buffer), if applicable.

### 3.3. Structure of Own fund

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

The Bank's own regulatory funds as at 31<sup>st</sup> December 2021 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 EUR 400 million, represented by fifty thousand shares without any par value since November 28, 2016.
  - Additional Tier I capital consists of EUR 150 million of perpetual loan issued on June 24, 2020 in compliance with CRR art 52-54. Bank of China Limited, Luxembourg Branch, subscribed that loan.
  - The Bank has a Tier 1 capital of EUR 660.84 million as at December 31, 2021. The increase in 2021 is mainly due to the 2020's profit brought forward.
- Tier 2 capital consists of a subordinated loan amounted to EUR 106 million granted by Bank of China Luxembourg Branch in compliance with CRR art 63. The Bank disposes a total Tier 2 capital of EUR 106.32 million as of December 31, 2021.

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

TABLE 3.3.1 Regulatory capital composition, prudential filters and deduction items

Composition of regulatory own funds		Amounts in EUR Million
<b>Common Equity Tier 1 (CET1) capital: instruments and reserves</b>		
1	Capital instruments and the related share premium accounts	400.00
	of which: Instrument type 1	
	of which: Instrument type 2	
	of which: Instrument type 3	
2	Retained earnings	91.38
3	Accumulated other comprehensive income (and other reserves)	19.84
EU-3a	Funds for general banking risk	
4	Amount of qualifying items referred to in Article 484 (3) CRR and the related share premium accounts subject to phase out from CET1	
5	Minority interests (amount allowed in consolidated CET1)	
EU-5a	Independently reviewed interim profits net of any foreseeable charge or dividend	
6	<b>Common Equity Tier 1 (CET1) capital before regulatory adjustments</b>	<b>511.22</b>
<b>Common Equity Tier 1 (CET1) capital: regulatory adjustments</b>		
7	Additional value adjustments (negative amount)	-0.09
8	Intangible assets (net of related tax liability) (negative amount)	-0.30
9	Empty set in the EU	
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38 (3) CRR are met) (negative amount)	
11	Fair value reserves related to gains or losses on cash flow hedges of financial instruments that are not valued at fair value	
12	Negative amounts resulting from the calculation of expected loss amounts	
13	Any increase in equity that results from securitised assets (negative amount)	
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	
15	Defined-benefit pension fund assets (negative amount)	
16	Direct, indirect and synthetic holdings by an institution of own CET1 instruments (negative amount)	
17	Direct, indirect and synthetic holdings of the CET 1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	
18	Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	
19	Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	
20	Empty set in the EU	

EU-20a	Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative	
EU-20b	of which: qualifying holdings outside the financial sector (negative amount)	
EU-20c	of which: securitisation positions (negative amount)	
EU-20d	of which: free deliveries (negative amount)	
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability where the conditions in Article 38 (3) CRR are met) (negative amount)	
22	Amount exceeding the 17,65% threshold (negative amount)	
23	of which: direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities	
24	Empty set in the EU	
25	of which: deferred tax assets arising from temporary differences	
EU-25a	Losses for the current financial year (negative amount)	
EU-25b	Foreseeable tax charges relating to CET1 items except where the institution suitably adjusts the amount of CET1 items insofar as such tax charges reduce the amount up to which those items may be used to cover risks or losses (negative amount)	
26	Empty set in the EU	
27	Qualifying AT1 deductions that exceed the AT1 items of the institution (negative amount)	
27a	Other regulatory adjustments to CET1 capital (including IFRS 9 transitional adjustments when relevant)	
28	<b>Total regulatory adjustments to Common Equity Tier 1 (CET1)</b>	<b>-0.39</b>
29	<b>Common Equity Tier 1 (CET1) capital</b>	<b>510.83</b>
<b>Additional Tier 1 (AT1) capital: instruments</b>		
30	Capital instruments and the related share premium accounts	150.01
31	of which: classified as equity under applicable accounting standards	
32	of which: classified as liabilities under applicable accounting standards	
33	Amount of qualifying items referred to in Article 484 (4) CRR and the related share premium accounts subject to phase out from AT1 as described in Article 486(3) CRR	
EU-33a	Amount of qualifying items referred to in Article 494a(1) CRR subject to phase out from AT1	
EU-33b	Amount of qualifying items referred to in Article 494b(1) CRR subject to phase out from AT1	
34	Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interests not included in row 5) issued by subsidiaries and held by third parties	
35	of which: instruments issued by subsidiaries subject to phase out	
36	<b>Additional Tier 1 (AT1) capital before regulatory adjustments</b>	<b>150.01</b>
<b>Additional Tier 1 (AT1) capital: regulatory adjustments</b>		
37	Direct, indirect and synthetic holdings by an institution of own AT1 instruments (negative amount)	
38	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	

39	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	
40	Direct, indirect and synthetic holdings by the institution of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)	
41	Empty set in the EU	
42	Qualifying T2 deductions that exceed the T2 items of the institution (negative amount)	
42a	Other regulatory adjustments to AT1 capital	
<b>43</b>	<b>Total regulatory adjustments to Additional Tier 1 (AT1) capital</b>	
<b>44</b>	<b>Additional Tier 1 (AT1) capital</b>	<b>150.01</b>
<b>45</b>	<b>Tier 1 capital (T1 = CET1 + AT1)</b>	<b>660.84</b>
<b>Tier 2 (T2) capital: instruments</b>		
46	Capital instruments and the related share premium accounts	106.32
47	Amount of qualifying items referred to in Article 484 (5) CRR and the related share premium accounts subject to phase out from T2 as described in Article 486(4) CRR	
EU-47a	Amount of qualifying items referred to in Article 494a (2) CRR subject to phase out from T2	
EU-47b	Amount of qualifying items referred to in Article 494b (2) CRR subject to phase out from T2	
48	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	
49	of which: instruments issued by subsidiaries subject to phase out	
50	Credit risk adjustments	
<b>51</b>	<b>Tier 2 (T2) capital before regulatory adjustments</b>	<b>106.32</b>
<b>Tier 2 (T2) capital: regulatory adjustments</b>		
52	Direct, indirect and synthetic holdings by an institution of own T2 instruments and subordinated loans (negative amount)	
53	Direct, indirect and synthetic holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	
54	Direct, indirect and synthetic holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	
54a	Empty set in the EU	
55	Direct, indirect and synthetic holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)	
56	Empty set in the EU	
EU-56a	Qualifying eligible liabilities deductions that exceed the eligible liabilities items of the institution (negative amount)	
EU-56b	Other regulatory adjustments to T2 capital	

57	Total regulatory adjustments to Tier 2 (T2) capital	
58	Tier 2 (T2) capital	106.3169783
59	Total capital (TC = T1 + T2)	767.1603424
60	Total Risk exposure amount	4749.033892
<b>Capital ratios and requirements including buffers</b>		
61	Common Equity Tier 1 (as a percentage of total risk exposure amount)	10.76%
62	Tier 1 (as a percentage of total risk exposure amount)	13.92%
63	Total capital (as a percentage of total risk exposure amount)	16.15%
64	Institution CET1 overall capital requirement (CET1 requirement in accordance with Article 92 (1) CRR, plus additional CET1 requirement which the institution is required to hold in accordance with point (a) of Article 104(1) CRD, plus combined buffer requirement in accordance with Article 128(6) CRD) expressed as a percentage of risk exposure amount)	7.65%
65	of which: capital conservation buffer requirement	2.50%
66	of which: countercyclical buffer requirement	0.09%
67	of which: systemic risk buffer requirement	
EU-67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	
EU-67b	of which: additional own funds requirements to address the risks other than the risk of excessive leverage	0.56%
68	<b>Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)</b>	<b>6.26%</b>
69	[non relevant in EU regulation]	
70	[non relevant in EU regulation]	
71	[non relevant in EU regulation]	
<b>Amounts below the thresholds for deduction (before risk weighting)</b>		
72	Direct and indirect holdings of own funds and eligible liabilities of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	
73	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 17.65% thresholds and net of eligible short positions)	
74	Empty set in the EU	
75	Deferred tax assets arising from temporary differences (amount below 17,65% threshold, net of related tax liability where the conditions in Article 38 (3) CRR are met)	
<b>Applicable caps on the inclusion of provisions in Tier 2</b>		
76	Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)	
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	57.34
78	Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap)	
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	

Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2014 and 1 Jan 2022)		
80	Current cap on CET1 instruments subject to phase out arrangements	
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	
82	Current cap on AT1 instruments subject to phase out arrangements	
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	
84	Current cap on T2 instruments subject to phase out arrangements	
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	

### 3.4. Reconciliation of Accounting and Regulatory Equity

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

TABLE 3.4.1 EU LI1 – Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories

(in EUR million)	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: Subject to the securitisation framework Subject to the market risk framework		Not subject to capital requirements or subject to deduction from capital
<b>Assets</b>							
Cash in hand, balances with central banks	494.49	494.49	494.10	-	-	-	0.38
Loans and advances to credit institutions	2,489.44	2,488.22	2,488.22	-	-	-	-
	831.43	831.43	-	-	-	-	-
a. repayable on demand							
b. other loans and advances	1,658.01	1,656.79	-	-	-	-	-
Loans and advances to customers	3,719.63	3,727.97	3,727.97	-	-	-	-
Debt securities	174.23	174.24	174.24	-	-	-	-
a. issued by public bodies	174.23	174.24	-	-	-	-	-
Derivatives held for trading		0.18	-	0.18	-	-	-
Tangible assets	5.53	15.49	15.49	-	-	-	-
Intangible assets	0.30	0.30	-	-	-	-	0.30
Other assets	3.49	8.96	8.96	-	-	-	-
Prepayments and accrued income	7.32	-	-	-	-	-	-
<b>Total asset</b>	<b>6,894.42</b>	<b>6,909.85</b>	<b>6,908.99</b>	<b>0.18</b>	<b>-</b>	<b>-</b>	<b>0.69</b>
<b>Liabilities and Equity</b>							
Amounts owed to credit institutions	2,262.22	2,262.37	-	-	-	-	2,262.37
a. repayable on demand	48.55	48.55	-	-	-	-	-
b. with agreed maturity dates or periods of notice	2,213.66	2,213.81	-	-	-	-	-
Amounts owed to customers	3,002.15	3,002.62	-	-	-	-	3,002.62
a. repayable on demand	443.00	443.00	-	-	-	-	-
b. with agreed maturity dates or periods of notice	2,559.15	2,559.62	-	-	-	-	-
Debt evidenced by certificates	799.00	799.95	-	-	-	-	799.95
Other liabilities	6.25	32.39	-	-	-	-	32.39
Accruals and deferred income	15.97	-	-	-	-	-	-
Provisions	14.50	7.67	-	0.18	-	0.18	7.49
a. provision for taxation		1.75	-	-	-	-	-
b. other provisions	14.50	5.92	-	0.18	-	0.18	-
Deferred tax liabilities		0.37	-	-	-	-	0.37
Other financial liabilities - IFRS16		10.56	-	-	-	-	10.56
Subordinated liabilities	256.00	256.33	-	-	-	-	256.33
Subscribed capital	400.00	400.00	-	-	-	-	400.00
Legal reserve	6.57	-	-	-	-	-	-
Other reserve	95.28	112.82	-	-	-	-	112.82
Currency translation reserve	(1.09)	(1.09)	-	-	-	-	(1.09)
Fair value changes of debt instruments measured at fair value through other comprehensive income		(0.52)	-	-	-	-	(0.52)
Profit for the financial year	37.58	26.37	-	-	-	-	26.37
<b>Total liabilities and Equity</b>	<b>6,894.42</b>	<b>6,909.85</b>	<b>-</b>	<b>0.18</b>	<b>-</b>	<b>0.18</b>	<b>6,910</b>

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

- The unrealized gain/loss of derivatives 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.
- Unrealized gains on the Bond portfolio investment are not recognized in accounting carrying value but incorporated 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.

### 3.5. 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 3.5.1 EU CCA: Main features of regulatory own funds instruments and eligible liabilities instruments

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.	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	N/A	N/A
3	Governing law(s) of the instrument	Luxembourg Law	Luxembourg Law	Luxembourg Law	Luxembourg Law	Luxembourg Law	Luxembourg Law	Luxembourg Law
Regulatory treatment								
4	Transitional CRR rules	CET1	CET1	CET1	CET1	CET1	AT1	Tier 2
5	Post-transitional CRR rules	CET1	CET1	CET1	CET1	CET1	AT1	Tier 2
6	Eligible at solo/(sub-)consolidation/ solo & (sub-)consolidated	Solo & consolidated	Solo & 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	Perpetual loan	Subordinated debt
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	EUR 150.01 million	EUR 106.32 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	EUR 150 million	EUR 106 million
9a	Issue price	N/A	N/A	N/A	N/A	N/A	N/A	N/A
9b	Redemption price	N/A	N/A	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	Subordinated Liability	Subordinated Liability
11	Original date of issuance	31962	21/5/2002	38023	14/8/2012	28/11/2016	5/6/2020	16/07/2018
12	Perpetual or dated	Perpetual	Perpetual	Perpetual	Perpetual	Perpetual	Perpetual	Dated
13	Original maturity date	N/A	N/A	N/A	N/A	N/A	N/A	17/07/2028
14	Issuer call subject to prior supervisory approval	N/A	N/A	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	N/A	N/A
16	Subsequent call dates, if applicable	N/A	N/A	N/A	N/A	N/A	N/A	N/A

<b>Coupons / dividends</b>									
17	Fixed or floating dividend/coupon	N/A	N/A	N/A	N/A	N/A	Floating	Floating	
18	Coupon rate and any related index						euribor 6m+166bps	euribor 6m+115bps	
19	Existence of a dividend stopper	N/A	N/A	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	Fully discretionary	Mandatory	
20b	Fully discretionary, partially discretionary or mandatory (in term of amount)	N/A	N/A	N/A	N/A	N/A	Fully discretionary	Mandatory	
21	Existence of step up or other incentive to redeem	N/A	N/A	N/A	N/A	N/A	N/A	N/A	
22	Noncumulative or cumulative	N/A	N/A	N/A	N/A	N/A	Non-cumulative	Non-cumulative	
23	Convertible or non-convertible	N/A	N/A	N/A	N/A	N/A	Non-convertible	Non-convertible	
24	If convertible, conversion trigger(s)	N/A	N/A	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	N/A	N/A	
26	If convertible, conversion rate	N/A	N/A	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	N/A	N/A	
28	If convertible, specify instrument type convertible into	N/A	N/A	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	N/A	N/A	
30	Write-down features	N/A	N/A	N/A	N/A	N/A	Yes	N/A	
31	If write-down, write-down trigger(s)	N/A	N/A	N/A	N/A	N/A	Write down trigger is 7% of CET 1 Ratio of the issuer.	N/A	
32	If write-down, full or partial	N/A	N/A	N/A	N/A	N/A	Permanent and irrevocable.	N/A	
33	If write-down, permanent or temporary	N/A	N/A	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	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	N/A	N/A	
36	Non-compliant transitioned features	N/A	N/A	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	N/A	N/A	

### 3.6. 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 2020. The capital requirement amounts are obtained by applying 8% to the corresponding weighted risks.

Table 3.6.1 EU OV1- Overview of RWAs

Amount in EUR million		Risk weighted exposure amounts (RWEAs)		Total own funds requirements
		31/12/2021	31/12/2020	31/12/2021
1	Credit risk (excluding CCR)	4,586.17	3,961.00	366.89
2	Of which the standardised approach	4,586.17	3,961.00	366.89
3	Of which the foundation IRB (FIRB) approach			
4	Of which slotting approach			
EU 4a	Of which equities under the simple riskweighted approach			
5	Of which the advanced IRB (AIRB) approach			
6	Counterparty credit risk - CCR	0.86	3.70	0.07
7	Of which the standardised approach			
8	Of which internal model method (IMM)			
EU 8a	Of which exposures to a CCP			
EU 8b	Of which credit valuation adjustment - CVA			
9	Of which other CCR	0.86	3.70	0.07
15	Settlement risk			
16	Securitisation exposures in the non-trading book (after the cap)			
17	Of which SEC-IRBA approach			
18	Of which SEC-ERBA (including IAA)			
19	Of which SEC-SA approach			
EU 19a	Of which 1250%/ deduction			
20	Position, foreign exchange and commodities risks (Market risk)			
21	Of which the standardised approach			
22	Of which IMA			
EU 22a	Large exposures			
23	Operational risk	162.01	163.98	12.96
EU 23a	Of which basic indicator approach	162.01	163.98	12.96
EU 23b	Of which standardised approach			
EU 23c	Of which advanced measurement approach			
24	Amounts below the thresholds for deduction (subject to 250% risk weight) (For information)			
29	<b>Total</b>	<b>4,749.03</b>	<b>4,128.68</b>	<b>379.92</b>

The total RWA for the Bank was EUR 4.75 billion and increased by 15% compared to previous year end, the increase of RWA mainly comes from the credit risk with more favourable market conditions after a drop in 2020 due to the pandemic crisis.

Market Risk was not subject to own fund requirement at year-end while RWA for Operational Risk slightly decreased by EUR 1.97 million compared to 2020.

### 3.7. 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 subject to an additional capital requirement buffer (SREP add-on) of 1%. In addition to this minimum capital requirement, the following combined capital buffers were fully effective in 2021. The capital conservation buffer requirement in accordance with the Art 129 of the CRD IV is 2.5% CET 1 capital of RWA.

### 3.7.1. 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.

### 3.7.2. 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.

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 of December 31, 2021. As of 31 December 2021, the countercyclical capital buffer rate stood at 0.09 %.

**TABLE 3.7.1 EU CCyB1 - Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer**

2021 In EUR '000000	General credit exposures		Own fund requirements		Risk-weighted exposure amounts	Own fund requirements weights (%)	Countercyclical buffer rate (%)
	Exposure value under the standardised approach	Total exposure value	Relevant credit risk exposures - Credit risk	Total			
<b>Breakdown by country:</b>							
Austria	6.06	6.06	0.48	0.48	6.06	0.16%	0.00%
Australia	5.40	5.40	0.43	0.43	5.40	0.15%	0.00%
Belgium	195.80	195.80	15.66	15.66	195.80	5.27%	0.00%
Bermuda	35.06	35.06	2.80	2.80	35.06	0.94%	0.00%
Canada	0.33	0.33	0.03	0.03	0.33	0.01%	0.00%
China	1.10	1.10	0.09	0.09	1.10	0.03%	0.00%
Colombia	7.28	7.28	0.58	0.58	7.28	0.20%	0.00%
Curacao	7.89	7.89	0.63	0.63	7.89	0.21%	0.00%
Czech	6.38	6.38	0.35	0.35	4.39	0.12%	0.50%
Germany	64.20	64.20	5.14	5.14	64.20	1.73%	0.00%
Denmark	124.85	124.85	10.45	10.45	130.62	3.52%	0.00%
Spain	151.73	151.73	8.96	8.96	112.05	3.02%	0.00%
Finland	89.48	89.48	7.16	7.16	89.48	2.41%	0.00%
France	71.90	71.90	5.75	5.75	71.90	1.94%	0.00%
United Kingdom	169.89	169.89	16.11	16.11	201.43	5.42%	0.00%
Ghana	31.58	31.58	2.53	2.53	31.58	0.85%	0.00%
Greece	1.08	1.08	0.09	0.09	1.08	0.03%	0.00%
Hong Kong	11.87	11.87	0.95	0.95	11.87	0.32%	1.00%
Hungary	13.63	13.63	0.75	0.75	9.31	0.25%	0.00%
Ireland	29.80	29.80	1.96	1.96	24.48	0.66%	0.00%
Italy	100.06	100.06	8.00	8.00	100.06	2.69%	0.00%
Cayman Islands	26.36	26.36	2.11	2.11	26.36	0.71%	0.00%
Luxembourg	502.98	502.98	41.10	41.10	513.70	13.83%	0.50%
Malta	9.56	9.56	0.77	0.77	9.56	0.26%	0.00%
Mexico	61.53	61.53	4.92	4.92	61.53	1.66%	0.00%
Netherlands	563.10	563.10	43.53	43.53	544.16	14.65%	0.00%
Norway	75.79	75.79	6.06	6.06	75.79	2.04%	1.00%
Poland	843.55	843.55	49.59	49.59	619.84	16.69%	0.00%
Portugal	390.85	390.85	29.89	29.89	373.63	10.06%	0.00%
Sweden	308.85	308.85	24.71	24.71	308.85	8.32%	0.00%
Slovakia	9.83	9.83	0.39	0.39	4.92	0.13%	1.00%
United States	63.72	63.72	5.10	5.10	63.72	1.72%	0.00%
<b>Total</b>	<b>3,981</b>	<b>3,981</b>	<b>297.07</b>	<b>297.07</b>	<b>3,713</b>	<b>100.0%</b>	

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

**TABLE 3.7.2 EU CCyB2 - Amount of institution-specific countercyclical capital buffer**

<b>Total risk exposure amount in EUR Million</b>		<b>4,749.03</b>
Institution specific countercyclical capital buffer rate		0.09%
Institution specific countercyclical capital buffer requirement		4.27

### 3.7.3. Supervisory Review and Evaluation Process (SREP) buffer requirement

As per CSSF regulation 17-04, the Bank is not considered to be a systemically important credit institution in Luxembourg. As consequence, the systemically important buffer for the Bank is set to 0%. With the project of becoming the Intermediate Parent Undertaking (IPU) in Europe, the Bank is prepared, should this classification change in the future.

### 3.8. Leverage Ratio

The Bank manages leverage ratio on a consolidated basis. RMD is responsible for monitoring the leverage ratio via the Bank's Key Risk Indicators reporting on a quarterly basis. Internal limits were set as follows:

- 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 limit breach, a meeting is convened by the Risk Management Department, together with the Finance Department and other relevant Departments. The reasons of the breach and the remediation actions are then analysed and reported promptly to the Management Body and to the Board of Directors.

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

- Adjusting the Balance sheet and Off-Balance sheet structure
- Increasing the Tier 1 capital with several means as capital injection, incorporation of previous year-end 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 of December 31, 2021, the Leverage Ratio amounts to 8.41%, using the fully phased-in definition of Tier 1. This exceeds regulatory minimum requirement of 3%.

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

Table 3.8.1 EU LR1 - LRSum: Summary reconciliation of accounting assets and leverage ratio exposures

In EUR Million		Applicable an
1	Total assets as per published financial statements	6,909.85
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of prudential consolidation	-
3	(Adjustment for securitised exposures that meet the operational requirements for the recognition of risk transference)	
4	(Adjustment for temporary exemption of exposures to central bank (if applicable))	
5	(Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio total exposure measure in accordance with point (i) of point (i) of Article 429a(1) CRR)	
6	Adjustment for regular-way purchases and sales of financial assets subject to trade date accounting	
7	Adjustment for eligible cash pooling transactions	
8	Adjustments for derivative financial instruments	240.98
9	Adjustment for securities financing transactions (SFTs)	
10	Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	1,182.95
11	(Adjustment for prudent valuation adjustments and specific and general provisions which have reduced Tier 1 capital)	
EU-11a	(Adjustment for exposures excluded from the leverage ratio total exposure measure in accordance with point (c) of Article 429a(1) CRR)	
EU-11b	(Adjustment for exposures excluded from the leverage ratio total exposure measure in accordance with point (j) of Article 429a(1) CRR)	
12	Other adjustments	(477.56)
13	<b>Leverage ratio total exposure measure</b>	<b>7,856.23</b>

Table 3.8.2 EU LR2 - LRCOM: Leverage ratio common disclosure

In EUR Million		CRR leverage ratio exposures	
		2021	2020
<b>On-balance sheet exposures (excluding derivatives and SFTs)</b>			
1	On-balance sheet items (excluding derivatives, SFTs, but including collateral)	6,909.67	6,523.44
2	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework		
3	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)		
4	(Adjustment for securities received under securities financing transactions that are recognised as an asset)		
5	(General credit risk adjustments to on-balance sheet items)		
6	(Asset amounts deducted in determining Tier 1 capital)	(0.30)	(0.20)
7	<b>Total on-balance sheet exposures (excluding derivatives and SFTs)</b>	<b>6,909.37</b>	<b>6,523.24</b>
<b>Derivative exposures</b>			
8	Replacement cost associated with SA-CCR derivatives transactions (ie net of eligible cash variation margin)		
EU-8a	Derogation for derivatives: replacement costs contribution under the simplified standardised approach		
9	Add-on amounts for potential future exposure associated with SA-CCR derivatives transactions		
EU-9a	Derogation for derivatives: Potential future exposure contribution under the simplified standardised approach		
EU-9b	Exposure determined under Original Exposure Method	3.55	7.97
10	(Exempted CCP leg of client-cleared trade exposures) (SA-CCR)		
EU-10a	(Exempted CCP leg of client-cleared trade exposures) (simplified standardised approach)		
EU-10b	(Exempted CCP leg of client-cleared trade exposures) (Original exposure method)		
11	Adjusted effective notional amount of written credit derivatives		
12	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)		
13	<b>Total derivatives exposures</b>	<b>3.55</b>	<b>7.97</b>
<b>Other off-balance sheet exposures</b>			
19	Off-balance sheet exposures at gross notional amount	1,858.56	675.01
20	(Adjustments for conversion to credit equivalent amounts)	(915.26)	
21	(General provisions deducted in determining Tier 1 capital and specific provisions associated with off-balance sheet exposures)		
22	<b>Off-balance sheet exposures</b>	<b>943.31</b>	<b>675.01</b>
<b>Capital and total exposure measure</b>			
23	<b>Tier 1 capital</b>	<b>660.84</b>	<b>655.00</b>
24	<b>Leverage ratio total exposure measure</b>	<b>7,856.23</b>	<b>7,206.21</b>
<b>Leverage ratio</b>			
25	Leverage ratio	8.41%	9.09%
EU-25	Leverage ratio (excluding the impact of the exemption of public sector investments and promotional loans) (%)	8.41%	9.09%
25a	Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves)	8.41%	9.09%
26	Regulatory minimum leverage ratio requirement (%)	3.00%	3.00%
EU-26a	Additional own funds requirements to address the risk of excessive leverage (%)	0.00%	0.00%
EU-26b	of which: to be made up of CET1 capital (percentage points)	0.00%	0.00%
27	Leverage ratio buffer requirement (%)	0.00%	0.00%
EU-27a	Overall leverage ratio requirement (%)	3.00%	3.00%

The capital measure for the leverage ratio is the Tier 1 capital taking into fully phased-in definition in accordance with Article 499(1)(a) of Regulation (EU) No 575/2013, the exposure measure corresponds to the sum of the following exposures: (a) on-balance sheet exposures; (b) derivative; (c) off-balance sheet items.

As of December 31 2021, the Bank's leverage ratio slightly decreased to 8.41% compared to the previous year when it stood at 9.09%, due to increase of the assets size. The main factors impacting the leverage ratio are the on-balance-sheet exposure of loans and the off-balance-sheet exposure of loan commitments, there was no other specific factors identified which had any material impact on the calculation of leverage ratio in 2021.

Table 3.8.3 EU LR3 - LRSpl: Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)

In EUR Million		CRR leverage ratio exposure
EU-1	<b>Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:</b>	6909.67
EU-2	Trading book exposures	
EU-3	Banking book exposures, of which:	6909.67
EU-4	Covered bonds	
EU-5	Exposures treated as sovereigns	738.99
EU-6	Exposures to regional governments, MDB, international organisations and PSE <b>not</b> treated as sovereigns	
EU-7	Institutions	2855.08
EU-8	Secured by mortgages of immovable properties	726.11
EU-9	Retail exposures	
EU-10	Corporates	2564.35
EU-11	Exposures in default	
EU-12	Other exposures (eg equity, securitisations, and other non-credit obligation assets)	25.14

## 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. The objective remains that of to maintain a strong capital base to support the business development and to meet regulatory capital requirements at all times.

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, is 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% following the basic indicator approach.

### 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 within ILAAP report.

### 4.1. Internal Capital Adequacy Assessment Process (“ICAAP”)

Regarding the internal capital adequacy assessment process, the Bank follows a “Pillar II” approach to estimate 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 as amended by CRR II, 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 tests are used to quantify the additional 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 ICAAP report is prepared by risk senior managers and reviewed by the CRO (Chief Risk Officer). After the CRO's review, it is also reviewed by Internal Audit. The AM and the BoD are also reviewing the ICAAP and ultimately approved it.

Following the Bank's internal governance framework, the ICAAP is a process ensuring 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:

As at December 31, 2021, the capital adequacy ratio under Pillar I and Pillar II of the Bank was standing at 14.21%, which remains above the early warning level of 14%, set only for the Pillar I capital requirement and, monitor on a daily basis.

The 2021 Bank's ICAAP and ILAAP were approved by the Board Risk Committee on March 24, 2022 and by the Board of Directors on March 30, 2022.

## 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 adjustments have been made in order to:

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

The forecast of the capital adequacy ratio done for the period 2022-2024 plan will meet total SREP capital requirement.

The capital planning incorporates the RWA of BOC CEE and BOC Serbia S.A. into its forecast; this is done in order to anticipate the fact that the Bank's is becoming an IPU and will acquire these sister companies. Assuming a direct capital injection from H.O. of EUR 436 million in 2022 due to the IPU and the acquisition of BOC CEE and BOC Serbia, the Bank's CAR in the following period would be 15.62% for 2024 and 18.58% for 2022 following the Pillar I capital requirement. For the Pillar I and Pillar II capital requirement, the CAR is forecasted between 13.49% for 2024 and 16.24% for 2022. The CAR following Pillar I and Pillar II is calculated taking the Pillar I capital requirement and adding the Pillar II capital requirement coming from the stress tests. The details of the calculation and the forecast assumptions are explained within the ICAAP submitted to CSSF in March 2022.

### 4.2.1. Capital planning back testing

The Bank has performed back testing of its previous year's capital planning. The Bank forecasted a CAR of 17.14% for the Pillar I capital requirement in 2020 for 2021 and the CAR realized at the end of

2021 was 16.15%. The difference is mainly due to the consequences of the COVID-19 pandemic (the counterparty credit risk became worse than before) and to the increase of the balance sheet.

### 4.3. Stress Testing and Scenarios

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

The AM is regularly informed on stress test results and decides when required on corrective measures. Heads of relevant departments contribute to efficiency, ensure flexibility to easily and quickly react to changed situations, competent and sufficient personnel and adequate infrastructure, e.g. by mentioning tools and IT systems used.

In 2021, the Bank continued to develop its stress test program performed on:

- Liquidity Risk
- Interest rate Risk on Banking Book
- Net Interest Income
- Concentration Risk
- Counterparty Credit Risk
- Operational Risk

### Results and capital requirement

Based on the stress test of Pillar II risks, we deducted the additional capital requirement related to the Pillar II risk. Pillar I and Pillar II capital requirement forecast is summarized as below:

Internal Assessment of Capital Requirements	2021	2022 F	2023 F	2024 F
Credit Risk total	366,962,299	511,735,887	583,425,974	665,159,265
<i>of which Luxembourg S.A.</i>		<i>407,735,887</i>	<i>464,856,409</i>	<i>529,979,057</i>
<i>of which BOC EE</i>		<i>88,000,000</i>	<i>100,328,093</i>	<i>114,383,253</i>
<i>of which BOC Serbia</i>		<i>16,000,000</i>	<i>18,241,471</i>	<i>20,796,955</i>
Market Risk	29,325,931	32,584,368	37,149,177	42,353,478
Operational Risk	14,858,227	32,417,949	40,522,436	50,653,045
Concentration Risk	11,058,985	12,287,761	14,009,177	15,971,750
Counterparty Credit Risk	2,160,000	2,400,000	2,736,221	3,119,543
Other risk	7,671,603	12,251,603	12,731,603	13,331,603
<b>Pillar I capital requirement</b>	<b>379,922,711</b>	<b>527,608,895</b>	<b>600,886,282</b>	<b>682,619,573</b>
<b>Pillar II Capital requirement</b>	<b>432,037,045</b>	<b>603,677,568</b>	<b>690,574,587</b>	<b>790,588,684</b>
CET I	510,829,414	968,829,414	1,016,829,414	1,076,829,414
Tier I Capital	660,843,364	1,118,843,364	1,166,843,364	1,226,843,364
Own funds	767,160,342	1,225,160,342	1,273,160,342	1,333,160,342
<b>CET I Ratio</b>	<b>10.76%</b>	<b>14.69%</b>	<b>13.54%</b>	<b>12.62%</b>
<b>Tier I Capital Ratio</b>	<b>13.92%</b>	<b>16.96%</b>	<b>15.53%</b>	<b>14.38%</b>
<b>Total Capital Ratio Pillar I</b>	<b>16.15%</b>	<b>18.58%</b>	<b>16.95%</b>	<b>15.62%</b>
<b>Total Capital Ratio Pillar II</b>	<b>14.21%</b>	<b>16.24%</b>	<b>14.75%</b>	<b>13.89%</b>

## 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 through 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 draws 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 Measures for reporting material credit risk events in order to enhance and regulate active risk management and improve the Bank's speed of response 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 done through internal rating system before the Bank allocates 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 operates on a single credit limit system for customers, which means credit risk limit is set for each counterparty and with a maximum acceptable level for each one. Country limits, industry limits, and products 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 issues risk notices where necessary.

### **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 conducts credit asset risk classification under the respective authorities. Among various factors that affect 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-dimensional internal rating system for non-retail credit risk exposure, it 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 represents an 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 basis, which helps to identify any adverse change of client credit situation.

The Bank established an adequate internal governance around credit rating management, to regulate client internal rating regular review procedure and to incorporate the result of internal rating into credit approval, client's risk profile assessment and risk monitoring, limit management, post-lending management, risk reporting, economic capital allocation, provision, risk pricing and internal performance assessment.

### 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 recognized, and the new standard outlines a “three-stage” model to calculate the ECL. The Bank establishes criteria for identifying and recognizing 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-lending 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 by its 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 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.

#### 5.1.6. Definition of default

The bank includes all products and positions that are potentially at risk. Default is defined in the Basel III 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:

- a) 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);
- b) 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 assesses the materiality of a credit obligation past due against the following threshold, which comprises two components:

- a. Absolute component  
The absolute component shall be expressed as a maximum amount of 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’).
- 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 is 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 non-performing loans (NPL), for which ECL should be recognized as stage 2 or stage 3.

“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.

#### 5.1.7. 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%, 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 three years’ operation under the Bank’s 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

As of 31st December 2021, the total on- & off-balance amount of ECL (SA Consolidated) was EUR 33.74 million, of which EUR 28.00 million (82.98%) for corporate loans on balance sheet, together with EUR 5.61 million (17.00%) for corporate loan commitment and financial guarantees off balance sheet.

The ECL provision has decreased significantly (-52.83%) compared to 2020 where it amounted to EUR 71.55 million. This is due to the recovery of the World economy after the pandemic. Indeed, the internal ratings of the loans were downgraded due to the increase of risk due to the pandemic in 2020. The credit risk exposure in the aviation, tourism, and retail consumption sectors which were heavily impacted by the sanitary crisis. These sectors performed much better during 2021 compared to their levels in 2020.

## 5.2. Exposures to Credit Risk, Dilution Risk and Credit Quality

The Bank's credit risk exposure will be analysed at this section, includes information that reflect the quality of credit risk exposures in terms of classification and composition: performing/non-performing exposures, default/non-defaulted exposures and related impairments/credit risk adjustment. It is fully integrated with supervisory reporting and fully based on existing disclosure templates already implemented in the EU through the following guideline:

- a) EBA/GL/2016/11 on disclosure requirements under Part Eight of Regulation (EU) no.575/2013
- b) EBA/GL2018/10 on disclosure of non-performing and forborne exposures.

### 5.2.1. 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.

Table 5.2.1 EU CR1: Performing and non-performing exposures and related provisions

in EUR million	Gross carrying amount/nominal amount						Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions						Accumulated partial write-off	Collateral and financial guarantees received	
	Performing exposures			Non-performing exposures			Performing exposures – accumulated impairment and provisions			Non-performing exposures – accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions				On performing exposures	On non-performing exposures
		Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3		Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3			
Cash balances at central banks and other demand deposits	1,325.54	1,325.54	-	-	-	-	(0.00)	(0.00)	-	-	-	-	-	-	-
Loans and advances	5,412.76	5,171.89	240.88	-	-	-	(28.00)	(12.44)	(15.57)	-	-	-	-	1,166.62	761.42
<i>Central banks</i>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<i>General governments</i>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<i>Credit institutions</i>	1,656.79	1,656.79	-	-	-	-	-	-	-	-	-	-	-	-	-
<i>Other financial corporations</i>	349.64	349.64	-	-	-	-	(1.09)	(1.09)	-	-	-	-	-	64.90	761.42
<i>Non-financial corporations</i>	3,402.53	3,161.65	240.88	-	-	-	(26.91)	(11.35)	(15.57)	-	-	-	-	1,097.92	-
<i>Of which SMEs</i>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<i>Households</i>	3.81	3.81	-	-	-	-	(0.00)	(0.00)	-	-	-	-	-	3.81	-
Debt securities	174.24	174.24	-	-	-	-	-	-	-	-	-	-	-	-	-
<i>Central banks</i>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<i>General governments</i>	174.24	174.24	-	-	-	-	-	-	-	-	-	-	-	-	-
<i>Credit institutions</i>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<i>Other financial corporations</i>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<i>Non-financial corporations</i>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Off-balance-sheet exposures	1,682.67	1,656.47	26.20	-	-	-	5.74	3.15	2.58	-	-	-	-	-	-
<i>Central banks</i>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<i>General governments</i>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<i>Credit institutions</i>	178.38	178.38	-	-	-	-	0.04	0.04	-	-	-	-	-	-	-
<i>Other financial corporations</i>	160.84	160.84	-	-	-	-	0.19	0.19	-	-	-	-	-	-	-
<i>Non-financial corporations</i>	1,343.44	1,317.24	26.20	-	-	-	5.50	2.92	2.58	-	-	-	-	-	-
<i>Households</i>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total</b>	<b>8,595.20</b>	<b>8,328.13</b>	<b>267.08</b>	-	-	-	<b>(22.27)</b>	<b>(9.29)</b>	<b>(12.98)</b>	-	-	-	-	<b>1,166.62</b>	<b>761.42</b>

### 5.2.2. Non-performing exposures

According to EBA definition, non-performing exposures correspond to loans in default, or overdue period > 90 days. As at end of 2021, As at end of 2021, the Bank had no total non-performing exposure, with a total write-off of EUR 31 million as the previous year of 2020.

Table 5.2.2 EU CR2: Changes in the stock of non-performing loans and advances

in EUR million	Gross carrying amount
<b>Initial stock of non-performing loans and advances</b>	0
Inflows to non-performing portfolios	0
Outflows from non-performing portfolios	0
Outflows due to write-offs	0
Outflow due to other situations	0
<b>Final stock of non-performing loans and advances</b>	0

Table 5.2.3 EU CR2a: Changes in the stock of non-performing loans and advances and related net accumulated recoveries

in EUR million	Gross carrying amount	Related net accumulated recoveries
<b>Initial stock of non-performing loans and advances</b>	-	
Inflows to non-performing portfolios	-	
Outflows from non-performing portfolios	-	
Outflow to performing portfolio	-	
Outflow due to loan repayment, partial or total	-	
Outflow due to collateral liquidations	-	-
Outflow due to taking possession of collateral	-	-
Outflow due to sale of instruments	-	-
Outflow due to risk transfers	-	-
Outflows due to write-offs	-	
Outflow due to other situations	-	
Outflow due to reclassification as held for sale	-	
<b>Final stock of non-performing loans and advances</b>	-	

### 5.2.3. 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.

At year-end 2021, the Bank's forborne exposures amounted to EUR 104.95 million compared to EUR 108.88 million in 2020. All four companies concerned are performing loans that modified terms and condition from the original contract mainly due to COVID-19 impact. Non-performing forborne loans were totally written-off during 2021 amounting to EUR31 million.

Table 5.2.4 EU CQ1: Credit quality of forborne exposures

in EUR million	Gross carrying amount/nominal amount of exposures with forbearance measures				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		Collateral received and financial guarantees received on forborne exposures	
	Performing forborne	Non-performing forborne			On performing forborne exposures	On non-performing forborne exposures		Of which collateral and financial guarantees received on non-performing exposures with forbearance measures
			Of which defaulted	Of which impaired				
Cash balances at central banks and other demand deposits	-	-	-	-	-	-	-	-
Loans and advances	98.77	-	-	-	(9.68)	-	68.87	-
<i>Central banks</i>	-	-	-	-	-	-	-	-
<i>General governments</i>	-	-	-	-	-	-	-	-
<i>Credit institutions</i>	-	-	-	-	-	-	-	-
<i>Other financial corporations</i>	-	-	-	-	-	-	-	-
<i>Non-financial corporations</i>	98.77	-	-	-	(9.68)	-	68.87	-
<i>Households</i>	-	-	-	-	-	-	-	-
Debt Securities	-	-	-	-	-	-	-	-
Loan commitments given	6.20	-	-	-	0.28	-	-	-
<b>Total</b>	<b>104.97</b>	-	-	-	<b>(9.39)</b>	-	<b>68.87</b>	-

Table 5.2.5 EU CQ2: Quality of forbearance

in EUR million	Gross carrying amount of forborne exposures
Loans and advances that have been forborne more than twice	-
Non-performing forborne loans and advances that failed to meet the non-performing exit criteria	-

The following table shows the credit quality of performing and non-performing exposures by past due days. At the end of 2021 the Bank maintains stable good quality of credit exposure, all loans are performing and none are past due.

Table 5.2.6 EU CQ3: Credit quality of performing and non-performing exposures by past due days

in EUR million	Gross carrying amount/nominal amount											
	Performing exposures			Non-performing exposures								
		Not past due or past due ≤ 30 days	Past due > 30 days ≤ 90 days		Unlikely to pay that are not past due or are past due ≤ 90 days	Past due > 90 days ≤ 180 days	Past due > 180 days ≤ 1 year	Past due > 1 year ≤ 2 years	Past due > 2 years ≤ 5 years	Past due > 5 years ≤ 7 years	Past due > 7 years	Of which defaulted
Cash balances at central banks and other demand deposits	1,325.54	1,325.54	-	-	-	-	-	-	-	-	-	-
Loans and advances	5,412.76	5,412.76	-	-	-	-	-	-	-	-	-	-
<i>Central banks</i>	-	-	-	-	-	-	-	-	-	-	-	-
<i>General governments</i>	-	-	-	-	-	-	-	-	-	-	-	-
<i>Credit institutions</i>	1,656.79	1,656.79	-	-	-	-	-	-	-	-	-	-
<i>Other financial corporations</i>	349.64	349.64	-	-	-	-	-	-	-	-	-	-
<i>Non-financial corporations</i>	3,402.53	3,402.53	-	-	-	-	-	-	-	-	-	-
<i>Of which SMEs</i>	-	-	-	-	-	-	-	-	-	-	-	-
<i>Households</i>	3.81	3.81	-	-	-	-	-	-	-	-	-	-
Debt securities	174.24	174.24	-	-	-	-	-	-	-	-	-	-
<i>Central banks</i>	-	-	-	-	-	-	-	-	-	-	-	-
<i>General governments</i>	174.24	174.24	-	-	-	-	-	-	-	-	-	-
<i>Credit institutions</i>	-	-	-	-	-	-	-	-	-	-	-	-
<i>Other financial corporations</i>	-	-	-	-	-	-	-	-	-	-	-	-
<i>Non-financial corporations</i>	-	-	-	-	-	-	-	-	-	-	-	-
Off-balance-sheet exposures	1,682.67	-	-	-	-	-	-	-	-	-	-	-
<i>Central banks</i>	-	-	-	-	-	-	-	-	-	-	-	-
<i>General governments</i>	-	-	-	-	-	-	-	-	-	-	-	-
<i>Credit institutions</i>	178.38	-	-	-	-	-	-	-	-	-	-	-
<i>Other financial corporations</i>	160.84	-	-	-	-	-	-	-	-	-	-	-
<i>Non-financial corporations</i>	1,343.44	-	-	-	-	-	-	-	-	-	-	-
<i>Households</i>	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total</b>	<b>8,595.20</b>	<b>6,912.54</b>	-	-	-	-	-	-	-	-	-	-

#### 5.2.4. 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 2021. The geographical distribution is based on the legal residence of the counterparty or issuer.

Table 5.2.7 EU CQ4: Quality of non-performing exposures by geography

in EUR million	Gross carrying/nominal amount			Accumulated impairment	Provisions on off-balance-sheet commitments and financial guarantees given	Accumulated negative changes in fair value due to credit risk on non-performing exposures	
		Of which non-performing					
			Of which defaulted				
<b>On-balance-sheet exposures</b>	<b>5,587.00</b>	-	-	<b>5,587.00</b>	<b>(28.00)</b>		
Luxembourg	1,889.43			1,889.43	(3.73)		
Netherlands	757.95			757.95	(4.46)		
Poland	594.21			594.21	(7.69)		
Portugal	391.77			391.77	(3.02)		
Other countries	1,953.65			1,953.65	(9.10)		
<b>Off-balance-sheet exposures</b>	<b>1,682.67</b>				<b>(11.48)</b>		
Luxembourg	315.97				(0.50)		
Netherlands	310.58				(2.37)		
Poland	179.60				(0.25)		
Sweden	154.60				(0.23)		
Belgium	150.48				(0.20)		
Other countries	571.44				(7.93)		
<b>Total</b>	<b>7,269.66</b>	-	-	<b>5,587.00</b>	<b>(28.00)</b>	<b>(11.48)</b>	-

As at 31 December 2021, majority of the on-balance risk exposure was mainly concentrated in Europe (85.67% of total) with exposure for Luxembourg of 33.82%, Poland of 13.57% and Netherlands of 10.64% which are higher than 10% of the total (domestic and non-domestic) original exposure as the disclosure threshold. 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 the United States and the Ministry of Finance People's Republic of China. While off-balance risk exposures came mainly from Luxembourg, Netherlands and Poland and Sweden for 18.78%, 18.46%, and 10.67% respectively.

#### 5.2.5. Exposure breakdown by industry

According to Article 442 (c) (e) of the CRR, the table below shows the gross carrying subject to impairment and broken down by exposure class and industry at the end of year 2021. 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).

Table 5.2.8 EU CQ5: Credit quality of loans and advances to non-financial corporations by industry

in EUR million	Gross carrying amount			Accumulated impairment	Accumulated negative changes in fair value due to credit risk on non-performing exposures
		Of which non-performing			
			Of which defaulted		
Agriculture, forestry and fishing	-			-	-
Mining and quarrying	37.43			37.43	(0.13)
Manufacturing	715.42			715.42	(2.08)
Electricity, gas, steam and air conditioning supply	213.88			213.88	(0.88)
Water supply	35.10			35.10	(0.04)
Construction	196.35			196.35	(1.56)
Wholesale and retail trade	382.10			382.10	(6.03)
Transport and storage	288.07			288.07	(1.45)
Accommodation and food service activities	37.73			37.73	(6.35)
Information and communication	366.22			366.22	(1.46)
Financial and insurance activities	-			-	-
Real estate activities	705.58			705.58	(5.18)
Professional, scientific and technical activities	235.07			235.07	(0.78)
Administrative and support service activities	40.87			40.87	(0.23)
Public administration and defense, compulsory social security	20.02			20.02	(0.08)
Education	-	-	-	-	-
Human health services and social work activities	86.62			86.62	(0.34)
Arts, entertainment and recreation	42.06			42.06	(0.32)
Other services	-			-	-
<b>Total</b>	<b>3,402.53</b>	-	-	<b>3,402.53</b>	<b>(26.91)</b>

### 5.3. Exposure subject to measures applied in response to the COVID-19 crisis

In 2020, after Covid-19 outbreak, the EU adopted a regulatory standard update regarding loan payment moratoria. Many businesses and private individuals affected by the crisis were facing liquidity shortages and difficulties in timely payment of their financial and other commitments. The Bank follows EBA/GL/2020/02 payment moratoria guidelines to manage the moratoria requests. Among the countries in which the Bank has a cross-border branch, Portugal has applied legislative moratoria measures.

Legislative and non-legislative moratoria do not automatically trigger forbearance classification. The assessment is to be done on a case-by-case basis. Furthermore, the EBA guidelines supplement the definition of default as regards the treatment of distressed restructuring.

The Bank adopted EBA Guidelines on reporting and disclosure of exposures subject to measures applied in response to the COVID-19 crisis (EBA/GL/2020/07). These reporting's follow the implementation of a broad range of measures, such as legislative moratoria on loan repayments and

public guarantees in Member States, with the aim to support the operational and liquidity challenges faced by borrowers. The additional reporting cover the following:

- Monitoring the use of payment moratoria and the evolution of the credit quality of the exposures subject to such moratoria in accordance with the GL on moratoria;
- Reporting requirements for the new loans subject to specific public guarantees set up to mitigate the effects of the COVID-19 crisis;
- Reporting requirements on other forbearance measures applied in response to COVID-19 crisis.

Reporting is performed on a quarterly basis, with the first reference date of 30<sup>th</sup> June 2020, and for an expected period of 18 months. There were four Lisbon branch clients with payment moratoria, all repayments went back to normal before the end of 2021.

## 5.4. Credit risk mitigation

When granting credit facilities to a customer the Bank's approach is based on the capacity to repay by the borrower rather than placing primary reliance on credit risk mitigates. Depending on a customer's risk portfolio and type of product, unsecured facilities may be provided. 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 obtain 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
- Mortgages - residential
- Mortgages - 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 a currency mismatch between the currency of the loan exposure and the currency of the pledged securities after the 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 loan and advance 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: Disclosure of the use of credit risk mitigation techniques

in EUR million	Unsecured carrying amount	Secured carrying amount			
			Of which secured by collateral	Of which secured by financial guarantees	Of which secured by credit derivatives
	a	b	c	d	e
Loans and advances	5,571.69	1,166.62	765.23	401.39	-
Debt securities	174.24	-	-	-	-
<b>Total</b>	<b>5,745.92</b>	<b>1,166.62</b>	<b>765.23</b>	<b>401.39</b>	<b>-</b>
<i>Of which non-performing exposures</i>	-	-	-	-	-
<i>Of which defaulted</i>	-	-	-	-	-

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

## 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 CRM effects

Exposure classes in EUR million	Exposures before CCF and before CRM		Exposures post CCF and post CRM		RWAs and RWAs density	
	On-balance-sheet exposures	Off-balance-sheet exposures	On-balance-sheet exposures	Off-balance-sheet amount	RWAs	RWAs density (%)
	a	b	c	d	e	f
Central governments or central banks	668.34	-	738.99	82.18	17.30	2.11%
Regional government or local authorities	-	-	-	-	-	-
Public sector entities	-	-	-	-	-	-
Multilateral development banks	-	-	-	-	-	-
International organisations	-	-	-	-	-	-
Institutions	2,488.22	178.34	2,855.08	195.14	855.64	28.05%
Corporates	3,001.46	1,498.59	2,564.35	665.98	3,326.24	102.97%
Retail	0.40	-	-	-	-	-
Secured by mortgages on immovable property	726.11	-	726.11	-	362.54	49.93%
Exposures in default	-	-	-	-	-	-
Exposures associated with particularly high risk	-	-	-	-	-	-
Covered bonds	-	-	-	-	-	-
Institutions and corporates with a short-term credit	-	-	-	-	-	-
Collective investment undertakings	-	-	-	-	-	-
Equity	-	-	-	-	-	-
Other items	24.84	-	24.84	-	24.45	98.46%
<b>TOTAL</b>	<b>6,909.37</b>	<b>1,676.93</b>	<b>6,909.37</b>	<b>943.31</b>	<b>4,586.17</b>	<b>58.40%</b>

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

Exposure classes in EUR million	Risk weight						Total	Of which unrated
	0%	20%	35%	50%	100%	150%		
	a	e	f	g	j	k		
Central governments or central banks	734.70	86.48					821.17	
Regional government or local authorities								
Public sector entities								
Multilateral development banks								
International organisations								
Institutions	37.90	2,168.40		843.92			3,050.23	
Corporates					3,038.51	191.81	3,230.33	
Retail exposures								
Exposures secured by mortgages on immovable property			3.41	722.70			726.11	
Exposures in default								
Exposures associated with particularly high risk								
Covered bonds								
Exposures to institutions and corporates with a short-term credit assessment								
Units or shares in collective investment undertakings								
Equity exposures								
Other items	0.38				24.45		24.84	
<b>TOTAL</b>	<b>772.98</b>	<b>2,254.88</b>	<b>3.41</b>	<b>1,566.62</b>	<b>3,062.97</b>	<b>191.81</b>	<b>7,852.67</b>	

## 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 exposed to a few OTC derivatives transactions which belongs to the first category. As at 31st December 2021, there is one counterparty with which the Bank has concluded OTC derivatives which are within 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 for one year.

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 regular CCR report with the information is prepared and reported to the management body on a monthly basis. And the results showed that the collateral adequacy ratio is high enough to cover the potential loss borne by client.

Regarding the nature of the transactions, a cap/floor is concluded to cap the client's interest rate risk on loan granted by the Bank. 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 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 million		Replacement cost (RC)	Potential future exposure (PFE)	EEPE	Alpha used for computing regulatory exposure value	Exposure value pre-CRM	Exposure value post-CRM	Exposure value	RWEA
EU1	EU - Original Exposure Method (for derivatives)	0.00	2.54		1.4	3.55	3.55	3.55	0.86
EU2	EU - Simplified SA-CCR (for derivatives)				1.4				
1	SA-CCR (for derivatives)				1.4				
2	IMM (for derivatives and SFTs)								
2a	<i>Of which securities financing transactions netting</i>								
2b	<i>Of which derivatives and long settlement transactions netting sets</i>								
2c	<i>Of which from contractual cross-product netting</i>								
3	Financial collateral simple method (for SFTs)								
4	Financial collateral comprehensive method (for SFTs)								
5	VaR for SFTs								
6	<b>Total</b>					<b>3.55</b>	<b>3.55</b>	<b>3.55</b>	<b>0.86</b>

#### 5.6.4. Transactions subject to own funds requirements for CVA risk

In the application of Article 439(h) in CRR, the following table shows the Bank uses the Standardised method to measure the exposure value of instruments subject to own funds requirements for CCR.

Table 5.6.2 EU CCR2 – Transactions subject to own funds requirements for CVA risk

in EUR million		Exposure value	RWEA
1	Total transactions subject to the Advanced method		
2	(i) VaR component (including the 3× multiplier)		
3	(ii) stressed VaR component (including the 3× multiplier)		
4	Transactions subject to the Standardised method	3.55	
EU4	Transactions subject to the Alternative approach (Based on the Original Exposure Method)		
5	<b>Total transactions subject to own funds requirements for CVA risk</b>	3.55	

#### 5.6.5. 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 5.6.3 EU CCR3 – Standardised approach – CCR exposures by regulatory exposure class and risk weights

Exposure classes in EUR Million		Risk weight		
		e	j	l
		20%	150%	Total exposure value
1	Central governments or central banks			
2	Regional government or local authorities			
3	Public sector entities			
4	Multilateral development banks			
5	International organisations			
6	Institutions	3.37		3.37
7	Corporates		0.18	0.18
8	Retail			
9	Institutions and corporates with a short-term credit assessment			
10	Other items			
11	<b>Total exposure value</b>	<b>3.37</b>	<b>0.18</b>	<b>3.55</b>

## 6. Market Risk

Market risk is the risk of an adverse change in market prices (interest rate, exchange rate, stock price and commodity price), which cause loss to a bank's on- and off-balance-sheet businesses. 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 market risk is split between its Banking Booking and its Trading Booking.

##### 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 in order to:

- 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 has 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 that 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 of December 31, 2021, 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 of December 31, 2021

Portfolio	Risk Indicator	Tolerance Level Limit	Monitoring Frequency	31/12/2021
Banking Book	SWAP Authorization (USD/CNH FX Swap_Adjusted Volume in USD)	\$100,000,000	Daily/Monthly	0
	SWAP Authorization (Other Currency FX Swap_Adjusted Volume in USD)	\$450,000,000	Daily/Monthly	\$35,115,683.00
	SWAP Authorization (FX Swap Nominal / Total Assets)	FX Swap Nominal / Total Assets < 20%	Monthly	0.13000%
Investment Book	PVBP	\$300,000	Daily	(\$83,710.52)
	Stress test on bond portfolio	(\$40,000,000)	Daily	(\$16,514,058.13)
Trading Book	Foreign Exchange Position	\$1,500,000	Daily	\$597,581.96
	PVBP	\$3,000	Daily	(\$132.22)
	VaR	\$100,000	Daily	\$5,046.00
	P&L	Loss < - \$60,000	Daily	(\$4,973.37)

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 are in place to effectively measure and mitigate market risk. The IRRBB is measured by the ratio of the variation of the Economic Value of Equity (EVE) versus Own Funds/Tier-1 capital. The exchange rate risk is calibrated by the foreign exposure limit. Market risk measurement tools such as the Value at Risk (VAR) and the Present Value of the Basis Point (PVBP) are implemented and the results are monitored daily against internal limits. In conclusion, the market risk management framework is in place allowing the Bank to prepare and anticipate remedial actions in case of adverse market movements.

### 6.3.1. Interest risk in the Banking Book

IRRBB is the risk that the banking book of the Bank experiences a material impact on its net interest income (hereafter “NII”) and/or a material impact on the Bank’s 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 consists almost exclusively of the banking book, meaning client lending/deposit and market funding. Therefore, IRRBB is a material risk for the Bank.

Since the Bank has largely followed the provisions stated in EBA/GL/2018/02, the new CSSF circular 20/762 should have no material impact on the Bank..

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

### IRRBB policy

The latest IRRBB policy which was revised and approved by the Board Risk Committee in June 2022 setup IRRBB internal governance, defines IRRBB identification model, adopts an adequate measurement approach, designs stress test scenarios with reasonable assumptions and finally establishes an effective reporting line.

Defined in IRRBB Policy, the sources of Interest Rate Risk include the (repricing) gap risk, basis risk and option risk.

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

### Risk monitoring

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

- Majority of the loans are priced at floating rate;
- The retail mortgage loan portfolio is insignificant (less than 1% of portfolio size).
- The Bank does not have financial items with optionality in its banking book.

### IRRBB stress scenario

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

The Bank has implemented the six stress test scenarios documented in the EBA guidelines. 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 and/or liabilities.

The Bank categorizes its interest-sensitive assets, liabilities and off-balance sheet positions into a series of re-pricing time bands (buckets) resulting in a maturity/repricing schedule gap forming the

basis of the calculation. The repricing time bands (repricing tenors or time buckets) that are taken into account are in full compliance with guidelines at EBA/GL/2018/02 as transposed by CSSF circular. The repricing time bands shall be applicable to each material currency separately.

For non-maturity deposits (NMDs), the Bank have analysed customers' behaviour based on relevant historical data. The resulting model is reviewed and back tested at least once per year by RMD. Under this regulatory waiver, Risk Management Department applies average repricing tenor of up to 3 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 deposits profile of the Bank, based on which retail deposits do not represent material risk.

The stress test result is obtained by EVE/NII change between the base case and the stressed ones, all material currencies are aggregated under each scenario. The worst case of the six prescribed stress test and additional scenarios are also taken into consideration for the EVE ratio as well as internal capital allocation.

The Bank has set up an alert threshold to get early warnings for significant negative impacts to EVE from IRRBB calculation results. The threshold of an "early warning signal" has been set at 12% of Tier 1 capital for the six additional scenarios and at 15% of the Own funds for the standard parallel shift of  $\pm 200$  bps. In case of breach of each of the scenario, RMD must report immediately to BOD, authorized management and inform CSSF not only on the breach, but also on the corrective measure taken to come back to the normality.

The NII fluctuation ratio threshold is set up as a maximum of 20% the Bank's NII base case. The early warning level is set up to 15% of the Bank's NII change between the stress case and the base case.

As of December 31, 2021, the worst result is an EVE decline of EUR 29.33 million under the parallel up scenario, which represent -4.44% of Tier I capital, and an EVE decline of EUR 29.19 million under parallel up +200bps scenario, which represent -3.8% of the own funds.

Table 6.3.1 IRRBB stress test

Scenarios	Significant Currencies			Impact on EVE (in thousands of EUR)	% of Tier I capital
	EUR	USD	PLN		
Parallel up	(21,029.20)	(7,596.59)	(700.14)	(29,325.93)	-4.44%
Parallel down	516.36	4,977.00	1,124.43	3,308.89	0.50%
Short rate positive	11,272.27	(3,989.54)	190.28	1,741.73	0.26%
Short rate negative	520.84	3,539.91	(671.57)	1,358.81	0.21%
Flatten	16,971.80	(970.03)	453.20	7,742.47	1.17%
Steepen	(2,098.22)	(916.23)	(2,840.61)	(5,855.05)	-0.89%

Scenarios	Significant Currencies			Impact on EVE (in thousands of EUR)	% of Own Fund
	EUR	USD	PLN		
Parallel up + 200 bps	(21,029.20)	(7,596.59)	(560.12)	(29,185.90)	-3.80%
Parallel down -200bps	516.36	4,977.00	1,213.64	3,353.50	0.44%

As of December 31, 2021, the NII decline is EUR 0.39 million which represent 0.47% of the forecast NII

Scenarios	Significant Currencies			Impact on NII (in thousand of EUR)	% of Interest Income forecast
	EUR	USD	PLN		
Parallel up +200 bps	28,284.75	598.48	615.31	14,749.27	17.57%
Parallel down -200 bps	0.00	(413.80)	38.22	-394.69	-0.47%

## 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 converted 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 of December 31, 2021

Currency	Currency Code	Net Position (in EUR)
Euro	EUR	4,368.23
Canadian Dollar	CAD	(16,210.70)
Dansih Krone	DKK	451.44
Pound Sterling	GBP	(2,874.45)
Zloty	PLN	953.90
Rumanian Leu	RON	472.65
Swedish Krona	SEK	642.40
Swiss Franc	CHF	17,723.18
US Dollar	USD	3,565.14
Norwegian Krone	NOK	(100.22)
Yuan Renminbi	CNY	429,246.50
Other		44,121.27
Total		477,991.10

As of December 31, 2021, total net currency exposure amount to EUR 0.478 million, of which CNY represented the highest exposure of 89.8%, followed by CHF representing 3.7%. "Other" refers to SGD, MOP, JPY, HKD, CNH that represent 9.2% of the net foreign exchange exposure of 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. As of December 31, 2021, the Bank's RWEAs under foreign exchange risk amount to EUR 0.0, the net position being less than 2% of the Bank's own funds is not subject to market risk capital requirement.

Table 6.5.1 EU MR1 - Market risk under the standardised approach

In EUR million	RWEAs
<b>Outright products</b>	
Interest rate risk (general and specific)	
Equity risk (general and specific)	
Foreign exchange risk	0
Commodity risk	
<b>Options</b>	
Simplified approach	
Delta-plus approach	
Scenario approach	
Securitisation (specific risk)	
<b>Total</b>	0

## 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, enhances the operational risk management capacity with an effective management of the operational risk and a reduction of incidents/accidents with the associated losses.

The operational risk management system is part of each business process and operational sector, covering all the departments, branches and positions, and is performed by the entire staff.

#### 7.1.2. Risk reporting and monitoring

The operational risk management matches the Bank's internal and external environments, making timely adjustments and improvements 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 defence departments are reporting to the CRO for any operational risk matter.

In the aspect of operational risk management, the Risk and Internal Control Committee maintains the Bank's operational risk management framework with RMD, 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 their implementation

#### 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, the Bank's operational risk management must regularly assess the adequacy of the operational risk control measures and/or other mitigation measures and determine the acceptability of operational risk after implementation of those measures.

The inherent risk is attributed for each process taking into account the potential impact of the

specified activity and its likelihood of occurrence. The residual risk is calculated after usage of mitigation factors, which consists of the quality of the controls in place (control design and effective implementation, systems supporting the activity, documentation and human resources). Should the residual risk (overall result) being not acceptable, remediation/action plans would 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 adopted and must be formally recorded. The person liable for rectification must be specific, and 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

The Bank classifies operational risk in respect of the cause, event and impact of operational risk root, 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 operational risk alerts generated by an in-house operational risk system called G-map. Key risk models related to the main business lines 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

The LDC tool has been significantly enhanced by implementing a timely and detailed assessment of each operational risk event. The accountability of the person in charge of process improvement and the follow-up of the rectification are put in place. A significant improvement in risk incidents and loss reduction in comparison to 2020 has been observed.

## 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 Bank’s income (net interest income and net non-interest income of the Bank).

Table 7.4.1 EU OR1 - Operational risk own funds requirements and risk-weighted exposure amounts

Banking activities in EUR Million		a	b	c	d	e
		Relevant indicator			Own funds requirements	Risk weighted exposure amount
		Year-3	Year-2	Last year		
1	Banking activities subject to basic indicator approach (BIA)	90.80	87.10	81.31	12.96	162.01
2	Banking activities subject to standardised (TSA) / alternative standardised (ASA)					
3	<u>Subject to TSA:</u>					
4	<u>Subject to ASA:</u>					
5	Banking activities subject to advanced measurement approaches AMA					

## 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 significant losses.

Regarding the nature of liquidity risk, it can be split between inherent liquidity risk depending on the Bank's business model and specific liquidity risk linked to the Bank's operations.

The inherent risk can exist in two situations: Market Risk and Funding Liquidity Risk. The Market Risk refers to the risk that a position cannot easily be unwound or offset at short notice without significantly influencing the market price. The Funding Liquidity Risk refers the current or prospective risk arising from a bank's inability to meet its liabilities as they come due without incurring significant losses.

Taking into consideration the Bank's business model and main activities, the liquidity risk could be a result of credit risk, market risk, concentration risk, operational risk and reputational risk. Therefore, liquidity risk cannot be managed on a stand-alone basis.

### 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 appetite 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 during the year through at least quarterly reporting, to ensure that the Bank manages adequately 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 in line with the defined appetite and properly monitored.

The Board formulates and approves a sound liquidity strategy to adequately cover relevant liquidity risks in the Bank's operations and, support its business plan in line with 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.

Additionally, the 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.

FD acts as a first line of defence 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.

RMD is the second line of defence. It reviews and controls the liquidity risk appetite, tolerance and limits, in line with the existing regulations or H.O.'s requirement. It proposes the amendment of the internal monitoring threshold if needed and oversees the overall liquidity adequacy of the Bank.

IAD is the third line of defence. It assesses independently the compliance of ILAAP report and formulates the observations and recommendations if needed. The internal audit report is shared with the regulator.

#### 8.1.1. Liquidity Risk Strategy

The tolerable liquidity risk of the Bank against normal situation and under stress is that the shortest survival period is not less than 30 days. The Bank shall assess its tolerable liquidity risk at least once a year, and revise if necessary.

Based on the bilateral communications with the cross-border Branches regarding the liquidity management, the Bank sets the yearly Key Performance Indicators at both a consolidated and individual basis to ensure proper control and full compliance of the whole spectrum of liquidity operations.

#### 8.1.2. Funding strategy management

In 2021, on the funding side, the Bank has mainly borrowed and lent within BOC group, including cross-border branches and Branch. In principle, the Bank does not directly get funding source from the market as it has no external rating. Market participants outside of the BOC group have no transaction limit with the Bank. In case the Bank needs to finance a small currency loan (PLN, SEK etc), it obtains the corresponding currency via currency swaps.

## 8.2. Liquidity Contingency Funding Plan

The Liquidity Contingency Funding Plan standardizes the workflow in a liquidity crisis in order to regulate the liquidity crisis response process of the Bank, to improve the liquidity contingency funding plan implementation mechanism, and to ensure the Bank responds to the crisis quickly and takes effective measures to smoothly stand the crisis and restore normal operation.

Based on the source of liquidity crises, it can be divided into two categories: market (external) and idiosyncratic (internal) crisis.

These following crisis events can lead to a series of consequences, which may have liquidity impact for the Bank:

- Client in financial difficulties might draw abnormally their granted credit lines;
- Client might reduce the maturity of their deposits in the Bank;
- Client might try to negotiate the extension of the repayment schedule;
- Client might negotiate a higher deposit rate ;
- Client might withdraw their funds deposit in the Bank, etc

In case one of the early warning indicators breach, the liquidity contingency funding plan is enacted and a process of escalation is followed. Additionally, based on the results of the stress test, the Bank AM can also decide to activate the contingency funding plan. The Bank has in place contingency funding tools to meet the liquidity shortfall.

### 8.3. Risk measurement

FD acts as a first line of defence 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 to generate the liquidity ratios and reporting to the regulators.

### 8.4. 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.

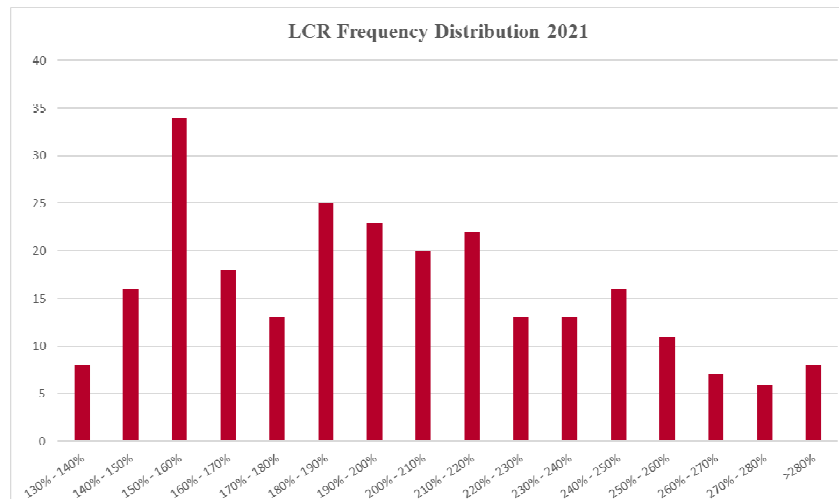
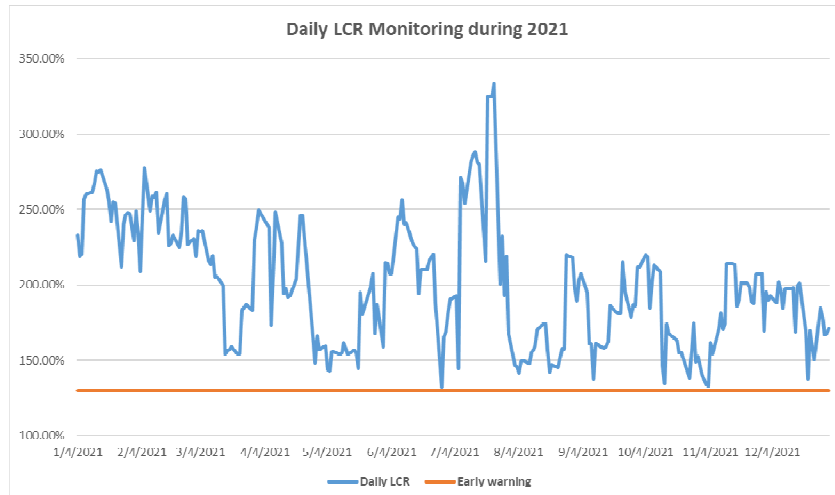
The Bank has set as a liquidity priority to maintain a solid liquidity coverage ratio, enabling smooth management of operational outflows without needing to activate additional liquidity measures. The Bank has set the early warning threshold of LCR to 130%, this means that above this threshold, the LCR is considered by the Bank to be the in green area in terms of traffic light, with no further actions needed. Based on the monthly calculations applied by the Bank, the Bank remained well above the internal green threshold of 130%.

**Table 8.4.1 EU LIQ1 - Quantitative information of LCR**

In EUR Million		Total unweighted value (average)				Total weighted value (average)			
EU 1a	Quarter ending on (DD Month YYYY)	31/12/2021	30/09/2021	30/06/2021	31/03/2021	31/12/2021	30/09/2021	30/06/2021	31/03/2021
EU 1b	Number of data points used in the calculation of averages	3	3	3	3	3	3	3	3
<b>HIGH-QUALITY LIQUID ASSETS</b>									
1	Total high-quality liquid assets (HQLA)					578.06	674.69	604.06	763.56
<b>CASH - OUTFLOWS</b>									
2	Retail deposits and deposits from small business customers, of which:	32.22	53.28	53.25	53.18	3.87	6.68	6.72	6.47
3	<i>Stable deposits</i>								
4	<i>Less stable deposits</i>	32.22	53.28	53.25	53.18	3.87	6.68	4.67	4.14
5	Unsecured wholesale funding	1613.20	1680.46	1991.09	1636.36	1167.03	1183.62	1314.52	1140.94
6	<i>Operational deposits (all counterparties) and deposits in networks of cooperative banks</i>								
7	<i>Non-operational deposits (all counterparties)</i>	1613.20	1680.46	1692.74	1422.64	1167.03	1183.62	1141.34	998.89
8	<i>Unsecured debt</i>								
9	<i>Secured wholesale funding</i>								
10	Additional requirements	1241.32	1073.04	869.27	881.56	226.58	5.27	141.54	162.50
11	<i>Outflows related to derivative exposures and other collateral requirements</i>	5.27	5.27	8.66	1.82	3.51	5.27	6.90	1.82
12	<i>Outflows related to loss of funding on debt products</i>								
13	<i>Credit and liquidity facilities</i>	1236.05	1067.77	864.00	1025.22	223.07	188.18	138.03	160.74
14	Other contractual funding obligations	53.32	25.45	9.77	6.14	49.00	21.13	5.45	1.82
15	Other contingent funding obligations	301.84	324.06	148.67	140.33	0.00	0.00	0.00	0.00
16	TOTAL CASH OUTFLOWS					1446.47	1404.88	1493.91	1311.79
<b>CASH - INFLOWS</b>									
17	Secured lending (e.g. reverse repos)								
18	Inflows from fully performing exposures	1385.90	1772.36	1931.47	2207.00	1357.70	1772.30	1902.10	2169.56
19	Other cash inflows	46.58	0.25	3.64	0.00	46.58	0.25	3.64	0.00
EU-19a	(Difference between total weighted inflows and total								
EU-19b	(Excess inflows from a related specialised credit								
20	TOTAL CASH INFLOWS	1432.49	1772.61	1935.11	1600.20	1410.34	1772.56	1905.74	2169.57
EU-20a	<i>Fully exempt inflows</i>								
EU-20b	<i>Inflows subject to 90% cap</i>								
EU-20c	<i>Inflows subject to 75% cap</i>	1432.49	1772.61	1935.11	2207.01	1404.28	1754.61	1905.74	2169.57
<b>TOTAL ADJUSTED VALUE</b>									
EU-21	LIQUIDITY BUFFER					578.06	674.69	604.06	763.56
22	TOTAL NET CASH OUTFLOWS					361.62	351.22	373.48	327.95
23	LIQUIDITY COVERAGE RATIO					160.29%	192.17%	161.82%	232.43%

The above table shows that the LCR over the year for the regulatory monthly report was above 160% in average over the year. The external funding structure of the Bank is considered as stable and well diversified. The above figure also provides detailed information in accordance with the circular CSSF 18/676 on LCR disclosure.

Apart from the regulatory monthly calculation and monitoring of the LCR, the Bank also monitors its LCR performance on a daily basis. As demonstrated in the following chart, the Bank was compliant with the regulatory requirements of LCR throughout 2021 with a daily minimum LCR of 132%.



The Bank is also doing on a daily basis a forecast of the LCR for the next three business days based on the inflow/outflows information available. This allows having a proactive cash management in order to anticipate the cash outflows and remains above the internal LCR threshold.

The Bank anticipates that it will continue to be fully compliant with the minimum applicable internal level of LCR for the whole year 2022. The LCR monitoring from January to May 2022 is on track with LCR daily measurements typically above 150%.

The observations that might fall below the internal early warning buffer would be monitored and investigated by FD to ensure the source of the issue, the duration and if required the application of additional measures to bring it back above the internal threshold. In the vast majority of the cases, the source of the relatively lower LCR performance is commonly attributed to changes in the outflow part of the LCR equation (e.g. money transfers on behalf of a client), rather than changes in HQLA.

## 8.5. 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 is mainly defined as greater than 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.

Additionally, and in full compliance with the regulatory requirements for stable funding monitoring and periodic stable funding measurements, the Bank performs Net Stable Funding Ratio (NSFR) calculations on a quarterly basis. As demonstrated in the following charts:

- The Bank constantly met the minimum regulatory requirements for NSFR throughout 2021.
- The Bank is steadily meeting the updated requirements imposed by BCL / CSSF for 2020 (75%), and is on track to meeting the upgraded regulatory requirements 2021 (90% since January 2021 and 100% since June 2021) as already all four quarters of 2021 surpassed the enhanced regulatory obligation and aim in further improving its performance for 2021.

The ratio is calculated and monitored daily, NSFR daily calculation is communicated to AM and relevant departments, and include all cross-border branches in the calculation.

The table below shows the detailed information for NSFR:

Table 8.5.1 EU LIQ2: Net Stable Funding Ratio

In EUR Million		Unweighted value by residual maturity				Weighted value
		No maturity	< 6 months	6 months to < 1yr	≥ 1yr	
<b>Available stable funding (ASF) Items</b>						
1.00	Capital items and instruments	660.93	841.30		106.32	767.25
2.00	Own funds	660.93			106.32	106.32
3.00	Other capital instruments					
4.00	Retail deposits		57.62	6.78	4.58	64.18
5.00	Stable deposits		29.76	2.94	0.59	31.64
6.00	Less stable deposits		27.87	3.84	3.99	32.53
7.00	Wholesale funding:		3,386.81	1,798.89	1,774.62	799.95
8.00	Operational deposits					
9.00	Other wholesale funding		3,386.81	834.52	974.67	0.00
10.00	Interdependent liabilities					
11.00	Other liabilities:	0.18	50.82			
12.00	NSFR derivative liabilities	0.18				
13.00	All other liabilities and capital instruments not included in the above categories		50.82			
14.00	<b>Total available stable funding (ASF)</b>					0.00
<b>Required stable funding (RSF) Items</b>						
15.00	Total high-quality liquid assets (HQLA)					
EU-15a	Assets encumbered for more than 12m in cover pool					
16.00	Deposits held at other financial institutions for operational purposes					
17.00	Performing loans and securities:		2,684.17	340.27	3,191.75	3,333.54
18.00	Performing securities financing transactions with financial customers collateralised by Level 1 HQLA subject to 0% haircut					
19.00	Performing securities financing transactions with financial customer collateralised by other assets and loans and advances to financial institutions		2,388.21	19.91	428.66	677.43
20.00	Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, and PSEs, of which:		295.97	320.36	2,759.69	2,651.68
21.00	With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk				0.00	0.00
22.00	Performing residential mortgages, of which:					
23.00	With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk				3.41	2.21
24.00	Other loans and securities that are not in default and do not qualify as HQLA, including exchange-traded equities and trade finance on-balance sheet products					
25.00	Interdependent assets					
26.00	Other assets:		68.32			12.56
27.00	Physical traded commodities					
28	Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs					
29	NSFR derivative assets		0.18			0.18
30	NSFR derivative liabilities before deduction of variation margin posted					
31	All other assets not included in the above categories		68.14			12.38
32	Off-balance sheet items		0.05	66.74	1370.49	71.86
33	<b>Total RSF</b>					3430.94
34	<b>Net Stable Funding Ratio (%)</b>					108.70%

## 8.6. Encumbered assets

An asset is considered as 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 are summarized into four categories:

- Limited reserves to pledge in case of emergency: potentially encumbered balance sheets have fewer assets available due to encumbrance, i.e. Assets that act 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 affect 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.

The Bank has had very limited encumbered assets in December 2021; encumbrance stems primarily from non-withdrawable 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 EUR0.09 million stemming from variation margin purposes. The total encumbered assets amount reached EUR43.38 million at year end, a decrease of EUR8.0 million compared to the previous year.

Table 8.6.1 EU AE1 - Encumbered and unencumbered assets

(In EUR Million)	Carrying amount of encumbered		Fair value of encumbered		Carrying amount of		Fair value of unencumbered	
	of which notionally eligible EHQLA and HQLA		of which notionally eligible EHQLA and HQLA		of which EHQLA and HQLA		of which EHQLA and HQLA	
	010	030	040	050	060	080	090	100
<b>Assets of the reporting institution</b>	43.38				6,866.47			
Equity instruments								
Debt securities					174.24		174.24	
of which: covered bonds								
of which: securitisations								
of which: issued by general governments					174.24		174.24	
of which: issued by financial corporations								
of which: issued by non-financial corporations								
Other assets	43.38				5,410.08			

Table 8.6.2 EU AE2 - Collateral received and own debt securities issued

(In EUR Million)	Fair value of encumbered collateral received or own debt securities issued		Unencumbered	
	010	of which notionally eligible EHQLA and HQLA	040	of which EHQLA and HQLA
		030		060
<b>Collateral received by the reporting institution</b>				
Loans on demand				
Equity instruments				
Debt securities				
of which: covered bonds				
of which: securitisations				
of which: issued by general governments				
of which: issued by financial corporations				
of which: issued by non-financial corporations				
Loans and advances other than loans on demand				
Other collateral received				
<b>Own debt securities issued other than own covered bonds or securitisations</b>				
<b>Own covered bonds and asset-backed securities issued and not yet pledged</b>				
<b>TOTAL ASSETS, COLLATERAL RECEIVED AND OWN DEBT SECURITIES ISSUED</b>	43.38			

Table 8.6.3 EU AE3 - Sources of encumbrance

(In EUR million)	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and securitisations encumbered
	010	030
<b>Carrying amount of selected financial liabilities</b>		43.38

The assets encumbrance ratio<sup>2</sup> 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 June 2020, the asset encumbrance ratio of credit institutions in Europe rose to 27.8% while the Bank had a ratio of 0.63% at the end of 2021, which is a very low level of assets encumbrance, compared to other institutions.

Table 8.6.4 ratio of encumbrance asset as at 31<sup>st</sup> December 2021

(in EUR million)	31/12/2021
<b>Ratio of assets encumbrance</b>	
Encumbered assets	43.38
Collateral received	0
Total encumbered assets	43.38
Total non-encumbered assets	6,866.47
Total assets	6,909.85
<b>Ratio</b>	<b>0.63%</b>

<sup>2</sup> Asset encumbrance ratio = (Encumbered assets + Collateral received re-used) / (Total assets + Total collateral received).

## 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. It is part of specific risks required to be assessed as part of Pillar II framework.

As per Article 81 of CRD IV and Part Four of CRR related to large exposures requirements, the Bank has assessed its concentration risk and implemented concentration risk identification, measurement and control, mitigation and reporting process.

#### Mitigation

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

- *Credit Concentration Risk*

The credit concentration risk is the most material concentration risk that the Bank is exposed to. The Bank has continuously improved its technical standards to identify, on one side, the connected clients as per EBA/GL/2017/15's requirements, and used diversification tools to pilot the composition of the credit portfolio with multi-dimensional limit monitoring. By doing so, the Bank believes to reduce the correlation between the borrowers, as well as the implied credit risk factors.

- *Connected clients and Large Exposure management*

In previous years, the Bank endeavoured to enhance the client's related information and risk data exploration in order to effectively identify connected clients. The Bank closely follows up the requirement changes induced by CRR II regarding large exposure calculations and has taken anticipated measure to ensure the compliance when CRR II rule enters into force.

- *Portfolio diversification management*

The Bank has a corporate credit portfolio management scheme to control concentration risk by monitoring the following limits and report to General Management at least every quarter. In Q2 2020, the Bank has issued a new "Corporate Credit Portfolio Management Scheme", in which some adjustments regarding industry classification and appetite were approved with regards to the Covid-19 impact on economy. The risk exposure contains both on and off-balance sheet positions.

- *Liability Concentration Risk*

The Bank analysed liability concentration risk. The funding sources are mainly intergroup financing and corporate client deposits. Taking into consideration the diversification and number of 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 might 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, etc.) 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) might exist. The Bank established that this type of inter-risk concentration is unlikely to occur as the Bank does not grant credit facilities in addition to investing in the equity of a company. The Bank has defined strict exposure limits on the clients.

Inter-risk concentration between credit risk and market risk is based on the FX rate. 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 more and more oriented in Euro currency and therefore less subject of 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.  
The diversification of the Bank funding source is a mitigation factor for such inter-risk concentration. These scenarios are also considered within the Bank recovery plan. The Bank operates mostly loans with floating interest rates both for assets side. In term of investment portfolio, there are only sovereign bonds qualified as HQLA. The Bank's main currencies are USD, and EUR (currencies that represent at least 5% of assets and/or liabilities).

Another cause of market risk concentration is a change in risk preference of market participants. e.g. 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 even dry up completely because market participants are no longer willing to buy those products. The Bank, although holding a diversified portfolio, could theoretically suffers losses. This risk concentration caused by a change in the risk premium and the accompanying change in correlations ("correlation breakdown") is immaterial to the Bank as the mains activities are limited to low-risk countries.

The rise in the risk premium could also be the source of an inter-risk concentration between market risk and liquidity risk. The Bank could 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 portfolio analysis demonstrates that assets (loans) being sold on secondary market are always profitable for the

Bank and this selling is driven only to balance the overall loan portfolio). No premium is therefore considered here.

- *Collateral Concentration risk*

Concentrations with credit risk mitigation taken might occur if a number of guarantors and credit derivative providers with similar economic characteristics are engaged in comparable activities with changes in economic or industry conditions affecting their ability to meet contractual obligations.

The Bank's derivative transactions' collateral are constituted exclusively of cash. The concentration risk is very limited.

Loan assets with financial collateral and guarantee collateral are assessed regularly. Loan assets with corporate guarantee as collateral make up the most significant portion with 21.47%. Overall, the collaterals are rather diversified combined with BOC group guarantee, mortgage, and other peers' guarantee

#### 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

Bank of China's 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 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 adequacy assessment process. An additional amount is allocated to the capital requirement regarding these risks.

### 9.3. Compliance and Legal Risk

#### Identification

Compliance risk arises from breaches of laws, regulations and market best practice. Compliance risks of the Bank are assessed mainly in the field of money laundering and terrorist financing prevention (“AML”) and the effective implementation of new regulations.

Legal risk arises from the potential that unenforceable contracts, lawsuits, adverse judgments can disrupt, negatively affect the operations or condition of the Bank. Legal risk in particular can arise from counterparty default or unenforceable guarantees or collateral arrangements, which can result in great credit losses. Legal risk can also arise from violations of or non-conformity with laws, regulations, prescribed best practices, industry or ethical standards. Legal risks may potentially lead the Bank and its branches, as well as its general management, to fines and civil or criminal sanctions by competent courts and authorities. Such fines could potentially be important and unexpected. Lawsuits by customers and counterparties, which are often long and costly, are also typical legal & compliance risks.

#### Mitigation

To mitigate legal risk, each legal matter should refer to the Legal function of the Bank. When necessary the service of external law firms is used.

### 9.4. Business Continuity

#### Identification

Physical disasters affecting the Bank’s premises and operations continuity come in many different forms – fire, flood, terrorism, failure of IT systems, etc. Each of these different threats presents a risk to the Bank in terms of total or partial unavailability of staffs and/or ICT and/or premises.

#### Mitigation

The Bank has a well-documented and regularly tested Business Continuity plan (hereinafter “BCP”) and Disaster Recovery plan (hereinafter “DRP”). The core component of this plan is an agreement providing a suitable “hot site” enabling the restoration of the Bank’s operations on selected IT equipment and recovery positions for staffs. In addition, the Bank also has a documented Business Continuity Plan covering all its critical business processes and activities as part of the business impact assessments (BIA). The BCM (Business Continuity Management) framework has been significantly improved during the past years with a clearly defined governance process and an efficient communication plan in case of crisis.

Tests are conducted every year to assess if the IT system, the back-up location and the staff available are sufficient resource to ensure the continuity of the business activities in time of crisis as defined in the BCP/DRP plan.

Under COVID-19 breakout and government decision to impose lockdown to Luxembourg and its cross-border countries, remote work became reality very quickly. The Bank has successfully faced the challenge within these following measures:

- On the human resources side, the Bank has immediately and systematically applied sanitary measures (first from the Chinese Health Services and after from the local authorities) to prevent

staff from being infected. The Bank also took the decision to split the teams into two groups (Team A and B), alternating work from home and office to ensure that in case of suspected infection, a team can ensure the continuity of the operations.

- On the premises resource side, the Bank has enlarged the area of each employee with sufficient barriers to limit the physical contact between colleagues. Masks and hands cleaning solution are available within the Bank.

Since 2019, the Bank has contracted a renowned Professional of the Financial Sector for its DRP and BCP solutions. This provider is a well-established and recognized actor in Luxembourg providing state-of-the-art data centres and recovery solutions. The Bank has a contract for 25 working positions in Luxembourg. The DRP and BCP solutions are tested (successfully) on a yearly basis. This recovery solution was also considered in the peak of the crisis should the Bank would need to leave its premises but, so far, there was no need to start the business continuity plan with the provider.

On the IT and communication side, the H.O. has deployed the use of the VPN (Virtual Private Network) to allow staff working from home to be able to securely access the Bank's systems. The usage of the VPN is strictly controlled from Luxembourg (logs) and from China (Head Office). This solution works well and allows teleworking in good condition without a disruption of the service.

## 9.5. Reputational Risk

### Identification

Reputation risk is the potential that negative advertisement 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.

### 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 adequacy assessment process. An additional amount is allocated to the capital requirement regarding this risk.

## 10. Remuneration Policy and Practices

### 10.1. Internal Governance

The Board of Directors, the executive members, and the control functions are involved in the governance of the present Remuneration Policy.

#### 10.1.1. Board of Directors

The Bank is headed by an effective Board of Directors which meets regularly, directs and controls the Bank. As at 31/12/2021, 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 ultimate "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 is 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 is subject to the authorization of the BOD.

The Bank's BOD handles the following responsibilities:

- Approving this Policy, including if and where relevant, any subsequent material exemptions as well as significant changes to the Policy (and monitoring their effects);
- Ensuring the supervision of/oversee the implementation of this Policy;
- Reviewing this Policy as well as any update as suggested by the Authorized Management in accordance with applicable guidelines and generally ensure that the Policy is up to date;
- Ensuring, on a regular basis, that the Bank has the appropriate Remuneration procedures in place
- Determining and overseeing that the policy practices are aligned with the Bank's overall corporate governance framework, corporate culture, risk appetite and the related governance processes;
- Assessing the mechanisms and systems adopted to ensure that the remuneration system properly takes into account all types of risks, liquidity and capital levels (promotion of sound and effective risk management, alignment with business strategy, objectives, culture, values and long-term interests of the Bank);
- Approving and periodically review the identification process policy, being involved in the design of the self-assessment of material risk takers and ensure that such assessment is properly carried out/oversee the identification process and approve material exemptions and exclusions of staff in accordance with Commission Delegated Regulation No 604/2014;
- Ensuring the adequacy of the information provided to shareholders on remuneration policies and practices,
- Assessing the achievement of performance targets of the bank and the need for ex-post risk adjustment, including the application of malus and clawback arrangements;

- Ensuring that the Policy and practices of the Bank are subject to a central and independent internal review on an annual basis.

#### 10.1.2. Authorized Management

The Authorized Management 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.

#### 10.1.3. 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 Chief Risk Officer is responsible for:

- Assessing whether the Variable Remuneration structure affects the risk profile of the Bank. The Chief Risk Officer also determines the capital allocation associated with the Remuneration Policy, the annual ICAAP report, assists on the definition of appropriate ex-post risk adjustments mechanisms and validates and assesses risk adjustment data.

The Chief Compliance Officer is responsible for:

- Assessing if the Remuneration structure is compliant with legislation, regulations and internal policies and reporting all identified compliance risks and issues of non-compliance to the Authorized Management and the Board of Directors.

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.

#### 10.1.4. Human Resource Function

The Policy is reviewed and updated by Human Resource Department under the supervision of the AM 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 Policy is then reported and adopted by the Board of Directors. A copy of the Policy is transmitted to the Chief Internal Auditor and can be consulted by the CSSF upon request.

#### 10.1.5. 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.

### 10.2. Policy

The Policy aims at regulating the Remuneration of Staff Members of the Bank, including the ones whose activity has a material impact on the risk profile of the Bank and its activities, and at adhering to the principle of effective risk management and sound business practices in line with the business strategy, objectives, values and 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 BOC HO and the Bank.

Maintain a sound and effective risk management framework: The Policy and its associated practices aim at defining the remuneration within Bank of China (Europe) S.A. with a view to protect the interests of Bank of China (Europe) S.A.'s clients, providers, employees, shareholders as well as Bank of China (Europe) 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 (Europe) 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 (Europe) S.A. offers remuneration packages that, while in line with market practices are attractive and competitive, both in terms of amounts and in terms of structure. The remuneration components granted by Bank of China (Europe) S.A. to its staff are regularly benchmarked through market studies performed by internal and/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 (Europe) 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 (Europe) S.A. when significant distortions are observed, with a view to enable Bank of China (Europe) S.A. to attract the valuable talents 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 (Europe) S.A.
- Link between performance and remuneration: Variable remuneration is part of the standard compensation package offered by Bank of China (Europe) 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 (Europe) 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 (Europe) 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 (Europe) S.A. subsidiaries and branches in Luxembourg and in all other countries where Bank of China (Europe) 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 (Europe) S.A. regularly carries out internal audits in entities in Luxembourg and abroad to verify the compliance by such entities with the Policy.

#### 10.2.1. Scope

The Policy outlines the philosophy and governing principles for remuneration at Bank of China (Europe) S.A., and all the existing branches in EU (ie: Rotterdam, Lisbon, Stockholm, Poland, Brussels, Athens and Dublin).

Each branch is responsible to adapt this policy locally and formulate relevant local rules. In the event of any conflict between this Policy and the local laws or regulations, the latter shall prevail to the extent where such a conflict exists. In the event of discrepancy between standards, the most stringent ones shall apply.

The Policy applies to all Staff Members of the Bank, including Transferred Chinese Staff.

#### 10.2.2. Designated Identified Staff ("Material Risk Takers")

Staff Members who can have a material impact on the risk profile of the Group/the Bank are considered as Material Risk Takers and therefore subject, in addition to the rules applicable to all Staff Members, to the rules specifically applicable to Material Risk Takers.

Material Risk Takers are identified by the Bank based on the qualitative and/or quantitative criteria laid down in Commission Delegated Regulation (EU) No 604/2014.

The following Executive Members, Control Function responsible and Heads of Department are considered as Material Risk Takers.

#### Executive Members (6 persons):

- General Manager/CEO (2 persons)
- Deputy General Manager (4 persons)

**Other Executive Members (15 persons):**

- Rotterdam Branch: General Manager (1 person) and Deputy General Manager (1 person)
- Brussels Branch: General Manager (1 person) and Deputy General Manager (2 persons)
- Poland Branch: General Manager (1 person) and Deputy General Manager (1 person)
- Stockholm Branch: General Manager (1 person) and Deputy General Manager (1 person)
- Lisbon Branch: General Manager (1 person) and Deputy General Manager (2 persons)
- Athens Branch: General Manager (1 person)
- Dublin Branch: General Manager (1 person) and Deputy 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)

**Other Heads of Departments (15 persons):**

- Company Secretary, Comprehensive Management Department, Human Resources Department, Finance Department, Corporate Banking Department, Syndication & Structured Finance Department, Transaction Banking Department, Banking Department, Financial Markets Department and Financial Institutions Department, Asset Management Centre-Europe, Clearing Department, Information Technology Department, IPU Office

As at 31 December 2021, there were a total of 42 (39 listed above and 3 independent board members) material risk takers in the Bank. The above roles delegate some functions to their direct subordinates. This delegation respects proper approval procedures.

### 10.2.3. Board of Directors

The Board of Directors of Bank of China (Europe) S.A. is currently composed of six members:

- Three of them are independent non-executive Directors
- Two of them are non-executive Directors and among them, one was elected as a Chairman of the Board
- One is an Executive Director in charge of the day-to-day management of the Bank

Even though these five non-executive Directors are not compensated through a Variable Remuneration for their role, they have been identified as Material Risk Takers in compliance with Commission Delegated Regulation EU 604/2014.

### 10.2.4. Risk Assessment Process

Material Risk Takers are determined based on the qualitative criteria (i.e. job function, level of responsibilities) and/or quantitative criteria (i.e. based on the level of Remuneration), as defined in the aforementioned Commission Delegated Regulation.

Staff Members qualifying as Material Risk Takers are assessed on a regular basis (e.g. at the time of recruitment, in case of change of functions, etc.) and in any case at least once a year. Irrespective of the potential application of the proportionality principle (see section 1.1), the Board of Directors has the responsibility to identify Material Risk Takers while the staff identification exercise is carried out through the involvement of the Human Resources function and the control functions (risk and compliance).

The below provides an overview of the key risks regarding to the Bank's current and future risks are taken into account in the remuneration processes:

**Credit Risk:**

Risk that a customer or counterparty does not meet his/her financial obligation for full value, either when due or any time thereafter, and primarily arises in the Bank's lending activities. It also includes concentration and counterparty risks.

**Market Risk:**

Risk that market risk related factors, (i.e.: foreign exchange, commodity, interest rates, credit spread and equity prices) reduce the Bank's income or the value of its portfolios.

**Operational Risk:**

Risk of operational errors which could give rise to financial / reputational loss or accounting misstatements

**Liquidity Risk:**

Risk that the Bank does not fulfil its liquidity obligations.

**Interest Rate Risk in the Banking Book:**

Risk that the asset value negatively changes due to a change in the absolute level of interest rates, in the spread between two rates, in the shape of the yield curve or any other interest rates relationship.

**Concentration Risk:**

Risk refers to the loss an institution can suffer from a group of exposures or activities whose intrinsic value depends on a common set of risk factors.

**Compliance Risk:**

Risk related to a failure to comply with applicable laws, regulation, codes of conduct and standards of good practice.

**Business Continuity Risk:**

Risk associated with the inability to adequately recover the Bank's activities after a disaster (partial or total unavailability of human, technology, communication, premises and resources etc.).

### 10.3. Remuneration Structure

The remuneration structure is designed in accordance with the objectives set out in the strategy of the Bank. This includes, in particular:

- a proper balance of Variable to Fixed Remuneration;
- the measurement of performance which impacts the Variable Remuneration.
- a structure of the Variable Remuneration for material risk takers who enter into the scope to ensure the Bank takes the appropriate action to align the Policy with its long-term interests, including:

- the deferral over three years of at least 40.1% of the Variable Remuneration;
- the Variable Remuneration composed of at least 50% in financial instruments subject to a retention period of 12 months and validation of the implementation approved by BOC Group.
- the potential ex-post risk adjustment of the Variable Remuneration (through Malus and Claw back);

In that context, the Bank offers Remuneration packages based on the following components:

- Fixed Remuneration components;
- Variable Remuneration components.

### 10.3.1. Fixed Remuneration components

The Fixed Remuneration is composed of the Base Salary and the benefits listed below.

#### Base Salary

The Base Salary set by the Bank is strictly in compliance with applicable regulations and conservative market practices. The Base Salary mentioned in the contract of the Employee is calculated based on the role of the individual employee, his/her responsibility, competency, job complexity, and local market conditions.

#### Overtime compensation

Overtime, where applicable and provided that it has been carried out at the Bank's request, is payable to Staff Members under the collective bargaining agreement for bank employees.

#### Other benefits

Other benefits are provided on the basis of individual employment contracts and local market practice, as listed in the below.

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

#### Pension Plan

All Employees who have their permanent work place in Luxembourg, who have an unlimited contract in Luxembourg and who are not affiliated under another pension scheme within Bank of China (The Group) are affiliated to a pension plan

#### Other Fixed Benefits

The Bank offers Staff Members a variety of fringe and other benefits that are designed to be market competitive, those assist them in carrying out their duties efficiently and are valued by the Staff Members.

### 10.3.2. 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, 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 Remuneration Policy, and revised on a yearly basis. Maximum limits (where applicable) on the percentage of A-rated individual performance are also set by Remuneration Policy 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 Bank ensures, in any case, an appropriate ratio between the Variable and the Fixed Remuneration.

#### Indicative Settings of Maximum Variable Remuneration

The following indicative settings may apply to the maximum Variable Remuneration in general. The Authorized management retains discretion to propose the settings which should be flagged to and decided by the Board of Directors in its supervisory function.

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%

#### 10.3.3. Pay out process of Variable Remuneration for Material Risk Takers

Where the proportionality principle does not apply at bank's level and individual level;

The non-deferred part of Variable Remuneration related to a given performance year (i.e. maximum 59.9%) is paid during the next year. The deferred part of Variable Remuneration (i.e. minimum 40.1%), has to be deferred over a period of at least 3 years.

At least 50% of the Variable Remuneration would be awarded in financial instruments subject to a retention period of 12 months and proper implementation of instruments validated through internal procedure of the Group.

The deferred portion of Variable Remuneration is only paid out provided that the Material Risk Taker is still under contract within BOC group and hasn't provided notice of termination at the time of vesting.

#### 10.3.4. Remuneration Budget

The Remuneration budget includes both Fixed Remuneration and Variable Remuneration parts. The Fixed Remuneration part is based on previous year total Remuneration and takes into account the local living cost, the market salary level, regulation requests and variation of staff number.

The envelope of Variable Remuneration is related to the Bank's performance and key business indicators completion. This budget is made according to the performance targets of the Bank at the beginning of year and the prediction of the increase of staff mainly.

#### 10.3.5. Performance Measurement Indicators

In order to enhance the management of our human resources, to encourage our staff to strive at their best effort, and to build an effective incentive mechanism, the General Management has implemented a performance-based reward and disciplinary system in the Bank on an annual basis. The bonus, promotions, trainings and job assignments are linked to the evaluation results.

The Human Resources Department is responsible for organizing the individual performance assessment process. The result of assessment is based on both quantitative and qualitative criteria which are mainly from key performance indicators (KPI) and partly from assessment from Department Heads and General Managers, Deputy General Managers.

#### The Bank's Key Performance Indicator (KPI)

The financial and business indicators of the Bank are calculated quantitatively according to net income, business volume or limit control. The result of these indicators could be measured through accomplishment, increasing or comparing with previous year. All the indicators are calculated by year-end volume or yearly-average volume.

According to the overall strategy development of BOC and market changes, BOC Group can adjust the key performance indicators on an annual basis.

The fulfilment of the Bank's KPIs, results to a coefficient (coefficient of bank performance) applicable to the Staff Members of the Bank and used as a bonus base.

#### 10.3.6. Specific situations

##### Guaranteed Variable Remuneration (cash-based compensation)

The Bank does not offer guaranteed Variable Remuneration, except for specific cases such as welcome packages and limited to the first year of employment in the framework of hiring new staff members. Such Variable Remuneration components may only be used in exceptional circumstances, and would be subject to strict internal review and governance.

##### 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 in accordance with the provisions of the applicable employment law and contract. In addition, any severance payment should reflect

performance achieved over time and should not reward failure or misconduct.

### Personal Hedging

Staff members are not allowed to use personal hedging strategies to mitigate the risk related to the variation in their remuneration.

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:

## 10.4. Disclosure

### 10.4.1. 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.

### 10.4.2. 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 (Europe) S.A. The following information is disclosed for Bank of China (Europe) 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;
- 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:
  - (i) The amounts of remuneration for the financial year split into fixed and variable remuneration, and the number of beneficiaries;
  - (ii) The amounts and forms of variable remuneration, split into cash, shares, share-linked instruments and other types;
  - (iii) The amounts of outstanding deferred remuneration split into vested and unvested portions;
  - (iv) The amounts of deferred remuneration awarded during the financial year, paid out and reduced through performance adjustments.
  - (v) New sign-on and severance payments made during the financial year, if any and the number of beneficiaries;
  - (vi) The amounts of severance payments awarded during the financial year, number of beneficiaries and highest such award to a single person;
- 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.

## 10.5. Diversity and recruitment policy

The Bank wants 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 have sufficient knowledge, skills and experience to fulfil their individual position in the Bank, and the management body 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.

## 10.6. Quantitative information

Aggregate quantitative information on remuneration, broken down into four categories of people has a material impact on the risk profile of the Bank. The amounts of remuneration further split into fixed and variable remuneration and the number of beneficiaries. Detailed information as showed in the following tables (*these estimates are the best available at the time of publication of this Pillar III disclosure, no significant difference is expected with the final numbers*):

Table 10.6.1 EU REM1 - Remuneration awarded for the financial year of 2021

(In EUR)		MB Supervisory function	MB Management function	Other senior management	Other identified staff
Fixed remuneration	Number of identified staff	3	21	18	
	Total fixed remuneration	252,000.00	4,221,203.35	2,390,203.94	
	Of which: cash-based	252,000.00	4,221,203.35	2,390,203.94	
	(Not applicable in the EU)				
	Of which: shares or equivalent ownership interests				
	Of which: share-linked instruments or equivalent non-cash instruments				
	Of which: other instruments				
	(Not applicable in the EU)				
Variable remuneration	Number of identified staff	3	21	18	
	Total variable remuneration		2,898,396.30	1,005,765.11	
	Of which: cash-based		1,502,107.22	579,247.06	
	Of which: deferred		602,345.00	171,033.74	
	Of which: shares or equivalent ownership interests				
	Of which: deferred				
	Of which: share-linked instruments or equivalent non-cash instruments		1,396,289.08	426,518.06	
	Of which: deferred		559,911.92	171,033.74	
	Of which: other instruments				
	Of which: deferred				
	Of which: other forms				
Of which: deferred					
Total remuneration (2 + 10)		252,000.00	7,119,599.65	3,395,969.05	

Table 10.6.2 EU REM3 - Deferred remuneration (given in EUR)

Deferred and retained remuneration	Total amount of deferred remuneration awarded for previous performance periods	Of which due to vest in the financial year	Of which vesting in subsequent financial years	Amount of performance adjustment made in the financial year to deferred remuneration that was due to vest in the financial year	Amount of performance adjustment made in the financial year to deferred remuneration that was due to vest in future performance years	Total amount of adjustment during the financial year due to ex post implicit adjustments (i.e. changes of value of deferred remuneration due to the changes of prices of instruments)	Total amount of deferred remuneration awarded before the financial year actually paid out in the financial year	Total amount of deferred remuneration awarded for previous performance period that has vested but is subject to retention periods
MB Management function	1,877,887.31	751,832.16	1,126,055.15				645,208.72	246,927.97
Cash-based	1,028,370.12	504,904.19	523,465.93				504,904.19	
Shares or equivalent ownership interests								
Share-linked instruments or equivalent non-cash instruments	849,517.19	246,927.97	602,589.22				140,304.53	246,927.97
Other instruments								
Other forms								
Total amount	1,877,887.31	751,832.16	1,126,055.15				645,208.72	246,927.97

Deferred remuneration was only applicable for MB Management function. Amounts of total outstanding deferred remuneration was EUR 1,877,887.31 and EUR 645,208.72 was actually paid out during 2021.

Table 10.6.3 EU REM5 - Information on remuneration of staffs whose professional activities have a material impact on institutions' risk profile (identified staff)

(In EUR)	Management body remuneration			Business areas						Total
	MB Supervisory function	MB Management function	Total MB	Investment banking	Retail banking	Asset management	Corporate functions	Independent internal control functions	All other	
Total number of identified staff										42
Of which: members of the MB	3	21	24							
Of which: other senior management				0	1	1	5	3	8	
Of which: other identified staff										
Total remuneration of identified staff	252,000.00	7,119,599.65	7,371,599.65	-	186,366.05	259,186.22	804,717.01	700,140.27	1,445,559.50	
Of which: variable remuneration		2,898,396.30	2,898,396.30		71,669.47	91,151.60	267,699.33	161,857.64	413,387.07	
Of which: fixed remuneration	252,000.00	4,221,203.35	4,473,203.35	-	114,696.58	168,034.62	537,017.68	538,282.63	1,032,172.43	

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