

Bank of China (Europe) S.A.

Pillar III Disclosure Report of 2022

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List of Acronyms

ALCO	Assets & Liabilities Committee
AM	Authorized Management and or General Management
AML	Anti Money Laundering
ASF	Available Stable Funding
BAC	Board Audit Committee
BCBS	Basel Committee on Banking Supervision
BCL	Banque Centrale de Luxembourg
BCM	Business Continuity Management
BCP	Business Continuity Plan
BIA	Basic Indicator Approach
BOC CEE	Bank of China (Central and Eastern Europe) Limited
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
CCSS	Centre commun de la sécurité sociale
CET 1	Common Equity Tier 1
COREP	Common Solvency Ratio Reporting
CPRS	Climate Policy Relevant Sectors
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

List of Acronyms

EP	European Parliament
ESG	Environment, Social and Governance
EU	European union
EUR	EURO
EVA	Economic Value Added
EVE	Economic Value of Equity
FBEs	Forborne Exposures
FD	Financial Department
FINREP	Financial Reporting
FMD	Financial Market Department
GDPR	The General Data Protection Regulation
H.O.	Head Office
HQLA	High Quality Liquid Asset
HR	Human Resources
IAD	Internal Audit Department
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
IPU	Intermediate Parent Undertaking
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
LGD	Loss Given Default
Lux GAAP	Luxembourg Generally Accepted Accounting Principles
L/G	Letter of Guarantee
L/C	Letter of Credit

List of Acronyms

LTV	Loan to Value
MiFID II	Markets in Financial Instruments Directive 2014/65
MRT	Material Risk Takers
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
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
RAS	Risk Appetite Statement
RWA	Risk Weighted Asset
RWEA	Risk Weighted Exposure Amount
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
USD	US Dollar
UTP	Unlikely to Pay

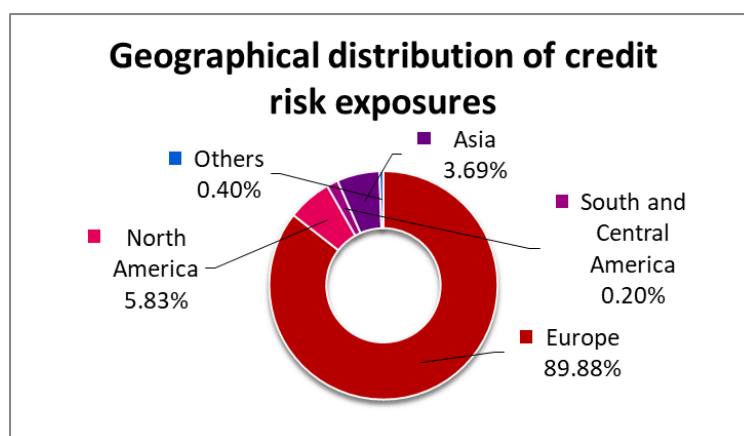
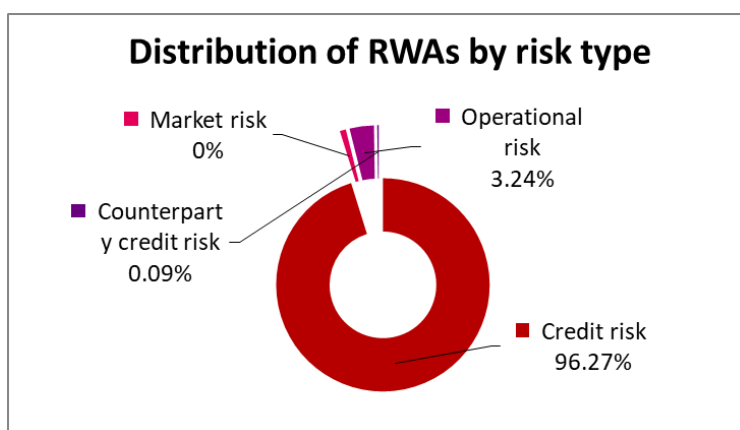
EBA tables and templates

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 LI1	Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories	Article 436 (c)	N/A
EU LI3	Outline of the differences in the scopes of consolidation (entity by entity)	Article 436 (b)	N/A
EU LI2	Main sources of differences between regulatory exposure amounts and carrying values in financial statements	Article 436 (d)	N/A
EU LIA	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 LIB	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 5.2.4
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)	N/A
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 5.2.2
EU CQ4	Quality of non-performing exposures by geography	Article 442 (c) (e)	Table 5.2.5
EU CQ5	Credit quality of loans and advances by industry	Article 442 (c) (e)	Table 5.2.6
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)	N/A
EU CQ2	Quality of forbearance	Article 442 (c)	Table 5.2.3
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 requirements 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)	N/A
EU CCR3	Standardised approach – CCR exposures by regulatory exposure class and risk weights	Article 439 (l) Article 444 (e)	Table 5.6.2
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 31st December 2022

Solvency ratio	31.12.2022
CET1 Capital ratio	9.58%
Tier 1 ratio	14.97%
Total Capital ratio	16.88%
Leverage ratio	7.73%
Liquidity coverage ratio	172.31%



EU KM1 - Key metrics template¹

		In EUR Million	a
			2022/12/31
		Available own funds (amounts)	
1	Common Equity Tier 1 (CET1) capital		536.13
2	Tier 1 capital		837.19
3	Total capital		943.97
		Risk-weighted exposure amounts	
4	Total risk-weighted exposure amount		5,593.65
		Capital ratios (as a percentage of risk-weighted exposure amount)	
5	Common Equity Tier 1 ratio (%)		9.58%
6	Tier 1 ratio (%)		14.97%
7	Total capital ratio (%)		16.88%
		Additional own funds requirements based on SREP (as a percentage of risk-weighted)	
EU 7a	Additional own funds requirements to address risks other than the risk of excessive leverage (%)		0.00%
EU 7b	of which: to be made up of CET1 capital (percentage points)		0.00%
EU 7c	of which: to be made up of Tier 1 capital (percentage points)		0.00%
EU 7d	Total SREP own funds requirements (%)		8.00%
		Combined buffer requirement (as a percentage of risk-weighted exposure amount)	
8	Capital conservation buffer (%)		2.50%
EU 8a	Conservation buffer due to macro-prudential or systemic risk identified at the level of a Member State (%)		0.00%
9	Institution specific countercyclical capital buffer (%)		0.30%
EU 9a	Systemic risk buffer (%)		0.00%
10	Global Systemically Important Institution buffer (%)		0.00%
EU 10a	Other Systemically Important Institution buffer		0.00%
11	Combined buffer requirement (%)		2.80%
EU 11a	Overall capital requirements (%)		10.80%
12	CET1 available after meeting the total SREP own funds requirements (%)		5.08%
		Leverage ratio	
13	Leverage ratio total exposure measure		10,835.48
14	Leverage ratio		7.73%
		Additional own funds requirements to address risks of excessive leverage (as a percentage)	
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 (%)		3.00%
		Leverage ratio buffer and overall leverage ratio requirement (as a percentage total exposure)	
EU 14d	Leverage ratio buffer requirement (%)		0.00%
EU 14e	Overall leverage ratio requirements (%)		3.00%
		Liquidity Coverage Ratio	
15	Total high-quality liquid assets (HQLA) (Weighted value -average)		1,390.86
EU 16a	Cash outflows - Total weighted value		3,228.66
EU 16b	Cash inflows - Total weighted value		3,222.08
16	Total net cash outflows (adjusted value)		807.16
17	Liquidity coverage ratio (%)		172.31%
		Net Stable Funding Ratio	
18	Total available stable funding		4,921.14
19	Total required stable funding		4,151.22
20	NSFR ratio (%)		118.55%

¹ 2022 is the first year for IPU, the comparison data of previous year(s) is not available.

1. Introduction

1.1. Regulatory framework

This Pillar III report complements the capital adequacy assessment and the supervisory review process of Bank of China (Europe) S.A. (hereinafter “the Bank”²). 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 III 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 consolidated level as per RCSSF 15-02 Article 3.

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 the Supervisory Review and Evaluation Process (SREP). This requires banks to undertake an Internal Capital Adequacy Assessment Process (ICAAP) to identify and assess risks, encompassing those not included in Pillar I, and maintain sufficient capital to face these risks. It also requires 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 disclosures have been enhanced with the implementation of Basel III through Regulation EU No. 575/2013 on prudential requirements 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 has been in place 1st January 2014.

On 16th April 2019, the European Parliament (EP) approved the final agreement on a package of reforms proposed by the European Commission (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 27th June 2019, the Banking Reform Package came into force, subject to various transitional and staged timetables.

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). These EBA templates, in order to comply with CRR II, are applicable since June 2021. On October 2022, the EBA provided amending disclosure guidelines that clarify the applicability of several EBA disclosures. The amending guidelines are applicable since December 2022.

This Pillar III report, as of 31st December 2022, has been prepared in accordance with the highest standards.

² 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, Dublin Branch, BOC CEE and BOC Srbija, 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, Bank of China S.A. (Europe) Dublin Branch, Bank of China (Central and Eastern Europe) Limited and Bank of Srbija a.d. Beograd.

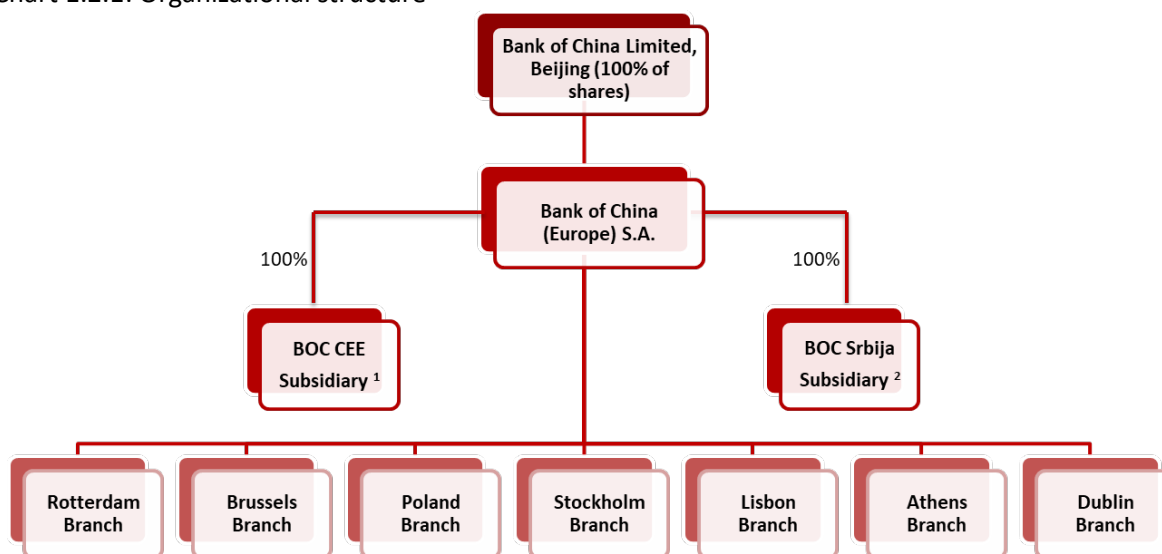
1.2. Bank of China (Europe) S.A.

Bank of China (Europe) S.A. is a fully-owned subsidiary of Bank of China Limited, Beijing, P.R. of China, which owns 100% voting shares of the Bank since March 24th 2022, after having purchased 0.01% of shares which were indirectly held by Bank of China Group Investment Limited, Hong Kong. The Bank maintains seven cross-border branches in continental Europe and two subsidiaries.

The Bank structure is as below, with two subsidiaries and seven cross-border branches. Since the Bank is already an IPU, all the regulatory reporting (COREP, FINREP, IRRBB) are done both on a solo level (the Bank and its seven cross border branches) and on a consolidated level (the Bank, its seven cross-border branches and its 2 subsidiaries). Within the document, the “IPU” will be used when referring to the Bank, its seven cross-border branches and its two subsidiaries (BOC CEE and BOC Srbija).

The capital of the Bank is fully paid.

Chart 1.2.1: Organizational structure



Note:

¹ BOC CEE: Bank of China (Central and Eastern Europe) Limited

² BOC Srbija: Bank of China Srbija, akcionarsko društvo, Beograd

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, provides regulatory reporting to the CSSF on a consolidated basis as a credit institution established under Luxembourg Law and complies with all requirements of Regulation (EU) No. 575/2013 and Directive 2013/36/EU.

The report includes the Bank and its seven branches and two subsidiaries. 2022 will be the first financial year for the IPU, there is no comparison data for this year’s report.

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 an annual basis. The Bank will assess the need to disclose information more often in accordance with the EBA Guidelines 2014/14.

1.5. Key Events in 2022

Intermediate Parent Undertaking Developments

In 2022 the Bank successfully established an intermediate parent undertaking (“IPU”) for Bank of China in Luxembourg. Over the years, the Bank has been developing businesses and operations across Europe. It has set up cross-border branches in the Netherlands, Belgium, Poland, Sweden, Portugal, Greece and Ireland, and now covers the Central and Eastern Europe region through IPU integration.

Following the establishment of the IPU, adaptations were made in governance organisation and setting-up of communication channels to ensure good integration and management of the IPU.

- **Firstly, the amendment of the Bank’s Name:**

The corporate name “Bank of China (Luxembourg) S.A.” was changed to “Bank of China (Europe) S.A” on 10th January 2022.

- **Secondly, change the shareholders of BOC (Europe) S.A.:**

Currently, Bank of China Ltd. (Head Office), is the sole shareholder of the Bank, holding a 100% share after the acquisition of 0.01% of the shares held by Bank of China Group Investment Ltd. (Hong Kong) (hereinafter “BOCGI”) on 24th March 2022.

- **Thirdly, BOC (Europe) S.A. acquires BOC CEE:**

On 24th May 2022, Bank of China (Europe) S.A. successfully completed the 100% share purchase of BOC CEE from the Head Office, and BOC Europe has become the sole shareholder of BOC CEE. Henceforth, the IPU of BOC Group in Luxembourg is officially established.

- **Fourthly, BOC (Europe) S.A. acquires BOC Serbia:**

Following the acquisition of BOC CEE from the Head Office, the Bank further completed the 100% share purchase of the BOC Serbia from BOC CEE on 8th June 2022, and has become the sole shareholder of BOC Serbia.

1.6. Key focus in 2022

IFRS conversion

The Bank has decided to change its accounting framework from Luxembourg Generally Accepted Accounting Principles (Lux GAAP) to the International Financial Reporting Standards as adopted by European Union (IFRS) and is preparing financial statements under these accounting principles for the first time as of 31st December 2022.

The change of the accounting principles is a complex and sensitive operation, requiring that the Bank take decisions and to make certain assumptions regarding its accounting policies.

This change also implies the restatement of the opening balances of the Bank as of 1st January 2021 from Lux GAAP to IFRS giving rise to some reclassifications and re-measurement.

Regulatory update

During 2022, the regulatory environment for the financial industry has been shaped by a new geopolitical framework caused by the war between Russia and Ukraine, which has led to a range of economic sanctions imposed on Russia.

- **EBA publishes its closure report of Covid-19 measures and repeals its Guidelines on Covid-19 reporting and disclosure.**

In response to the need to address the 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 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 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.

Given the decreasing relevance public support measures in the Covid-19-related context and in line with the EBA proportionate approach to reporting and disclosure, such guidelines are repealed from 1 January 2023 (the EBA Closure Report of Covid-19 measures of the 16th December 2022 – EBA/REP/2022/32).

As the sanitary crisis was still a threat for the world during 2022, these measures still applied until end of 2022.

- **EBA published its final Guidelines on the benchmarking exercises on remuneration practices, the gender pay gap and approved higher ratios under Directive**

In terms of transparency, in 2022, the EBA published final guidelines that include additional specifications regarding the presentation, in the Pillar 3 Report, of the standardised remuneration disclosure templates (2013/36/EU (EBA/GL/2022/06)).

- **EBA published final standards and guidelines on interest rates risk arising from non-trading book activities**

- On 20th October 2022, the EBA published a final set of guidelines and two final draft Regulatory Technical Standards (RTS) specifying technical aspects of the revised framework capturing interest rate risks for banking book (IRRBB) positions. These regulatory products complete the on-boarding into EU law of the Basel standards on IRRBB and are of crucial importance given the current interest rate environment.

The Bank is currently finalising the update of its new IRRBB model, which will be submitted to the AM for review.

- **Prudential developments**

A proposal by the European Commission, the “2021 Banking Package”, seeks to make EU banks more resilient to potential future economic crises, is under negotiations on the implementation into EU law of Basel III. The entry into force of these changes will be gradual and is expected to come into effect from 2025.

The package comprises three proposals:

- (I) The proposed Capital Requirements Directive;
- (II) The proposed Capital Requirements Regulation; and,
- (III) A separate legislative proposal around bank resolution.

Climate and Environmental related risks / ESG

Environmental, Social and Governance (ESG) matters are playing an increasing role in the banking world. In September 2022, the CSSF selected 15 banks to assess the degree of implementation/compliance with these requirements. BoC participated in the survey and got CSSF feedback in February 2023.

In order to structure the organisation to address climate and environmental related risks and ESG

challenges, and to support the Bank's long-term stability and growth, the Bank has established an action plan to address the partial / non-compliance of these requirements:

- (I) Risk identification & materiality assessment;
- (II) Business strategy and risk appetite;
- (III) Risk management framework and;
- (IV) Internal governance.

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 economic and social consequences of the war in Ukraine and the economic downturn, the Bank strengthened emergency management, established a 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 responding 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 22/807, 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 must 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 possible errors and omissions that can occur 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 the effective management and control of all its operations, as well as for financial and regulatory reporting to the H.O. and regulators. The Finance Department bears the responsibility to formulate and monitor processes of liquidity risk management, and to allocate and manage the regulatory capital and large exposure risk of the Bank.

The IT Department (ITD) 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.

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 that the Bank is exposed to. The 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.

Third line of defence

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

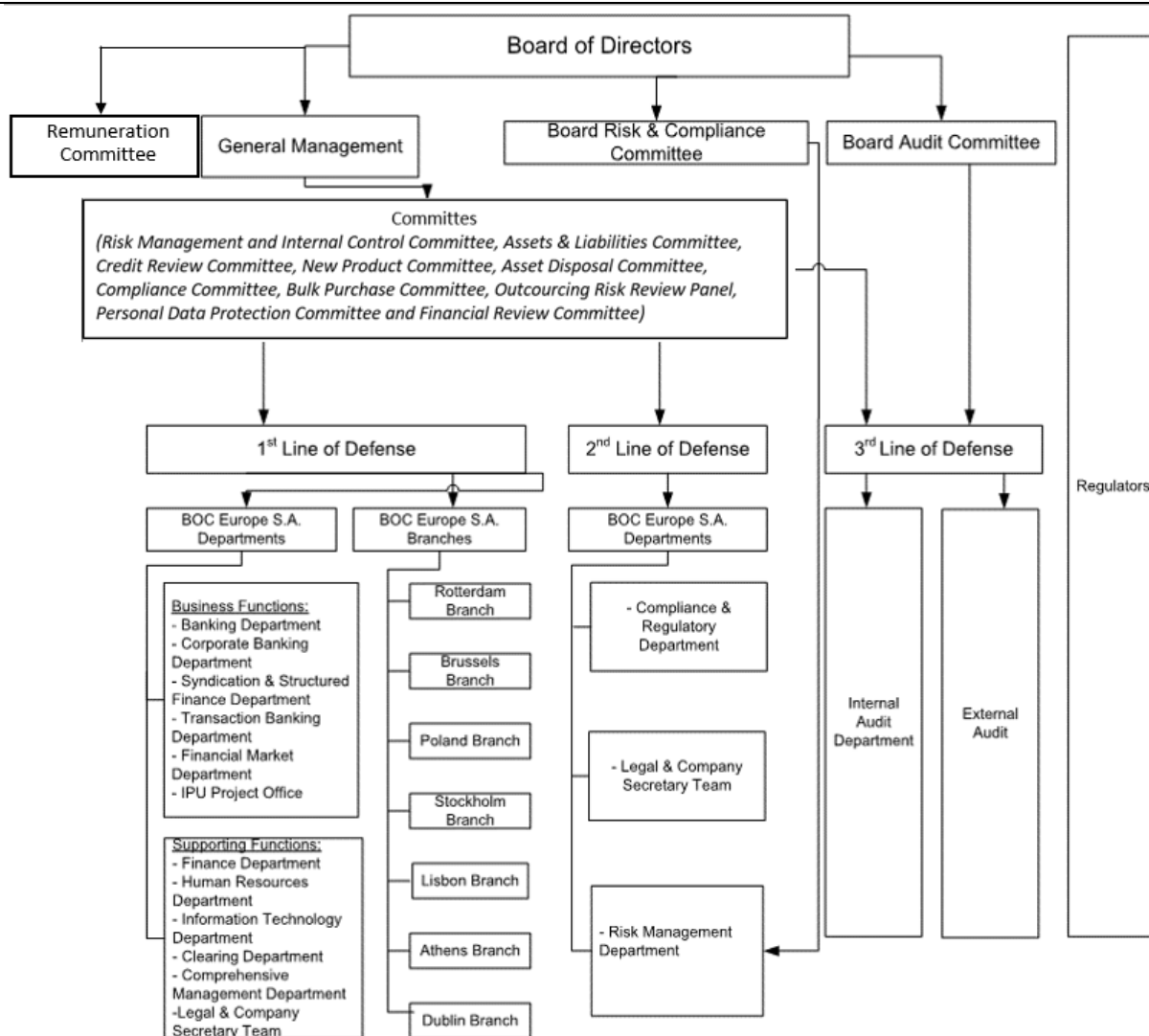
The internal audit function reviews and assesses whether central administration and internal governance arrangements are adequate and operate effectively, as set out in the Internal Audit Charter approved by the BOD, including internal controls' efficiency and effectiveness, safeguarding of the securities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

On an annual basis, the Bank carries out its annual 'Internal Control Self-Assessment' that is independently reviewed by the Internal Auditor and supervised by the H.O. since 2007. The last Internal Control Self Assessment was performed in 2022.

The Chief 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 15th November 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 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 Bank is managed by an effective BOD, which meets at least quarterly, leading and controlling the Bank. The BOD is supported by three specialised committees for assisting its oversight: the Board Audit Committee, the Board Risk and Compliance Committee and the Board Remuneration Committee (since December 2021).

- 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.

During 2022, 4 Board of Directors' ordinary meetings were held, 3 extraordinary meeting (1 brainstorming on strategy included), 3 decisions in writing, 4 Board Audit Committee meetings, 4 Board Risk and Compliance Committee and 1 Board Remuneration Committee, deliberating and taking decisions on various topics.

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

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

Furthermore, the BOD receives on a quarterly basis, the overall risk assessment of the Bank based on the previous quarter's activities. These quarterly risk reports (produced by RMD in collaboration with FID) include a systematic dashboard where all the Key Performance Indicators and limits are put in evidence, as well as stress-testing results on credit, market, liquidity and operational risk. All the risks are taken as a whole considering their interaction (market risk analysis for interest rate risk and foreign exchange risk, liquidity risk based on the inflow and outflows activity of the Bank).

All the material matters, which would affect the Bank's overall risk profile, and any breaches on the internal limits are promptly reported to the BOD. There were no significant deficiencies or breaches reported in 2022.

The **Board Audit Committee (BAC)** is a specialized committee of the Board of Directors of Bank of China (Europe) S.A. established in accordance with the CSSF Circular 12/552 as amended. The purpose of the Board Audit Committee is to assist the Board of Directors in the areas of financial information, internal control, including internal audit, as well as the audit by the statutory auditor. During the year 2022, four BAC meetings were held.

The BAC covered their responsibilities outlined in the revised Board Audit Committee charter during the year such as deliberations on:

- Compliance with the accounting rules and the financial reporting processes;
- The state of internal controls and compliance;
- The quality of the work carried out by the internal audit function including in the Bank's subsidiaries and the compliance with the rules set in this respect;
- The quality of the work carried out by the réviseur d'entreprises agréé, his/her independence and objectivity, his/her compliance with the applicable rules of professional ethics as well as the scope and frequency of the audits. In this respect, the Board audit committee shall analyse and assess the reports on the annual accounts, the management letters, the long form reports and, where relevant, the appropriateness of the services other than those related to the audit of accounts that have been provided by the réviseur d'entreprises agréé;
- The appropriate and timely follow-up by the authorized management of the recommendations of the internal audit function and the réviseur d'entreprises agréé and the actions taken to address the identified problems, shortcomings and irregularities.

The **Board Risk and Compliance Committee (BRCC)** carried on its mission to supervise risk associated to the Bank's activities and its duty to report to the Board. In 2022, the BRCC remained with its composition of two non-executive and independent directors and one independent external adviser. The objective of BRCC is to assess and control risks linked to the capital and the liquidity adequacy as well as manage the internal and regulatory funds and liquidity reserves. All the risks of the Bank were

considered and covered during the year 2022. Specifically, the BRCC focused on IRRBB, reputational, credit, compliance and liquidity risks. Business strategy and risk were also covered during the year 2022.

Four BRCC meetings were organized during 2022. The Risk Management Report for each quarter was reviewed and approved. In addition to this, the following were also approved: the Risk Appetite Statement 2022, ICAAP/ILAAP, the 2021 Recovery Plan, the 2021 Pillar III Disclosure, the Annual Risk Management Report and the 2022 stress-testing program. The Liquidity Contingency Funding Plan, IRRBB policy, as well as the liquidity risk management policy were updated during 2022. A special workshop was also organized to re-design the RAS of the Bank. This RAS document stressed, among other things, on environmental and social guidance in order to mitigate climate risks, and has gained Board and BRCC approval.

The compliance quarterly reports were reviewed and approved. The committee also reviewed and approved the compliance plan, measures for CDD and compliance management sanctions, as well as compliance policy, compliance disclosure policy and conflict interest policy.

The **Remuneration Committee (RC)** is a specialised committee of the Board of Directors, established according to and governed by the CSSF circular 12/552 as amended, on central administration, internal governance and risk management. It expressly refers to the EBA guidelines³ on sound remuneration policies under Directive 2013/36/EU⁴ (the Guidelines) and the Law on the Financial Sector (LFS) dated 5th April 1993 as amended (esp. art 38-9 (2)). The Remuneration Committee supports the Board of Directors in its duties as set here above. In addition, the Remuneration Committee meeting is carried out at least once per year to review all revisions, assessments and reports mentioned in the Remuneration Policy and, as far as appropriate, shall recommend their conclusions and initiatives to the Board of Directors.

2.3.2. General management

It is composed of a general manager and deputy general managers. The Authorised Management (AM) oversees the effective, sound and prudent day-to-day management of the Bank's activities (and inherent risks). AM operates in compliance, within the strategies and guiding principles approved by the Board of Directors and applicable regulations, by monitoring and safeguarding the Bank's long-term financial interests, solvency and liquidity situation. Authorised Management critically assesses all the proposals, explanations and information submitted for its decision, 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 laid down by the BOD through internal written policies and procedures;
- To implement promptly and effectively any corrective measures required to address weaknesses identified by the second/third line of defence as well as regulators;
- To oversee and manage the Bank's risks, including compliance with requirements for internal and regulatory own funds and 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 2022, the Bank had the following committees:

³ EBA/GL/2021/04 (repealing EBA/GL/2015/22)

⁴ Especially art. 52 et seq.

Committee	Responsibilities
Assets & Liabilities Committee	Responsible for the review of the Bank's current assets and liabilities situation, the reporting to the General Management on issues raised regarding assets/liabilities mismatch, shortfall of funding, etc. It aims at harmonizing asset/liability match on currency, term and interest rate. It bears also the responsibility of the liquidity risk management, including liquidity stress test and contingency funding plan.
Risk Management and Internal Control Committee	Responsible for deliberating and evaluating the various operational risk-controlling objectives and managing means of the Bank, including but not limited to the credit risk, market risk, interest rate risk on banking book, liquidity risk, and operational risk exposures. RMICC also bears the responsibility for the subsequent appraisal of risks control and implementation.
Credit Review Committee	Responsible for appraising the credit risk on the Bank's loan project.
New Product Committee	Takes the responsibilities to ensure that new product development adhere to the local regulatory requirements, including approval by the General Management, prior risk assessment and analysis carried out by relevant departments, pricing and risk control etc. The new product management policy is reviewed in 2019 so as to enhance the preliminary risk assessment and post appraisal of the product launched.
Compliance Committee	Is responsible to strengthen the overall compliance risk management, a Compliance Committee was formed in 2014 which replaced the Anti-Money Laundering Group (AML Group), and the scope of the Compliance Committee encompasses that of the AML Group and includes all Compliance matters. The objective of the Committee is to ensure that there is an effective Compliance framework within the Bank and compliance risks are adequately managed.
Bulk Purchase Committee	Is responsible for appraising and approving on the Bank's bulk acquisition of products or services above € 30,000 (excluding VAT) through purchase, lease and / or other methods of assignment.
Outsourcing Risk Review Panel (ORRP)	Is responsible for conducting risk review and putting forward review opinions on outsourcing applications and outsourcing catalogues
Personal Data Protection Committee	PDPC had been formed in the scope of implementation of GDPR, the roles of PDPC are to support Data Protection Officer in carrying his tasks and providing oversight and guidance on data protection matters of the Bank. PDPC is chaired by the Data Protection Officer and its members are from representatives of Compliance, Legal, Banking, IT, Risk management & HR functions. PDPC meets at least quarterly and keeps an oversight on the adherence to requirements of GDPR.
Asset Disposal Committee	ADC is 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.
Financial Review Committee	is responsible of reviewing financial expenditures within the scope of its responsibilities and supervising the implementation of its resolutions and requirements.

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 environment, 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 standards 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 by the BOD, General Management and RMICC.

In line with risk appetite, the Bank has developed a five-step risk management process:

- **Risk anticipation.** The Bank should anticipate the potential risks 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 an assessment scope and method for each identified risk category and make finally assessment result on each risk category as well as overall risk.
- **Risk monitoring and reporting.** The Bank sets and continuously improves its monitoring indicators (regulatory and internal) and analyses results by using relevant monitoring tools 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 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 management and other relevant persons. Any significant events or material risks are escalated to the Board of Directors.

Reporting to management includes, but is not limited to:

- Risk management report;
- Compliance report;
- Internal audit report;
- Common reporting (COREP) and Large Exposures reports;
- ICAAP and ILAAP.

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 expectations 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 operations and management. It constitutes one of the main components of the overall risk management framework.

The Bank actively supports the Chinese national strategy, undertakes the social responsibility and is committed to the sustainable economy.

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 optimize management procedures; as well as complete institutional integration and make 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 and the subsidiaries 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 firms” (Capital Requirements Regulation or CRR as amended CRR II), 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 31st December 2022, the breakdown of prudential regulatory capital requirement was the following:

Regulatory minimum of capital requirement	31/12/2022 (IPU)
Minimum requirement for CET1 capital	4.50%
Tier 1 capital	6.00%
Additional CET1 SREP requirements	-
Total SREP capital requirement	8.00%
Minimum requirement for capital conservation buffer	2.50%
countercyclical buffer	0.30%
Overall Capital Requirement (OCR)	10.80%

As of 1st 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.

3.1. Total SREP Capital Requirement

The TSCR, which must be met at all times, is set at 8% of the Bank’s Total Risk Exposure Amount as defined in article 92(3) of CRR, representing own funds requirements as specified in Article 92(1) of CRR.

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), additional Tier 1 capital instrument and Tier 2 Capital).

The Bank's own regulatory funds as at 31st December 2022 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 28th November 2016.
 - Additional Tier I capital consists of EUR 150 million of perpetual loan issued on 24th June 2020 in compliance with CRR art 52-54. Bank of China Limited, Luxembourg Branch, subscribed that loan.
 - Additional Tier 1 capital, which consists of an additional perpetual loan of €150 million granted to BOC CEE and issued by Bank of China Limited, Hungarian Branch on 15th January 2020.

The Bank has a Tier 1 capital of EUR 837.19 million as at 31st December 2022. The increase in 2022 is mainly due to the 2021's profit brought.
- 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 106.79 million as of 31st December 2022.

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
Common Equity Tier 1 (CET1) capital: instruments and reserves		
1	Capital instruments and the related share premium accounts	400.00
	of which: Instrument type 1	0.00
	of which: Instrument type 2	0.00
	of which: Instrument type 3	0.00
2	Retained earnings	115.87
3	Accumulated other comprehensive income (and other reserves)	20.96
EU-3a	Funds for general banking risk	0.00
4	Amount of qualifying items referred to in Article 484 (3) CRR and the related share premium accounts subject to phase out from CET1	0.00
5	Minority interests (amount allowed in consolidated CET1)	0.00
EU-5a	Independently reviewed interim profits net of any foreseeable charge or dividend	0.00
6	Common Equity Tier 1 (CET1) capital before regulatory adjustments	536.83
Common Equity Tier 1 (CET1) capital: regulatory adjustments		
7	Additional value adjustments (negative amount)	-0.10
8	Intangible assets (net of related tax liability) (negative amount)	-0.60
9	Emptyset 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)	0
11	Fair value reserves related to gains or losses on cash flow hedges of financial instruments that are not valued at fair value	0
12	Negative amounts resulting from the calculation of expected loss amounts	0
13	Any increase in equity that results from securitised assets (negative amount)	0
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	0
15	Defined-benefit pension fund assets (negative amount)	0
16	Direct, indirect and synthetic holdings by an institution of own CET1 instruments (negative amount)	0
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)	0
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)	0

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)	0
20	Empty set in the EU	0
EU-20a	Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative	0
EU-20b	of which: qualifying holdings outside the financial sector (negative amount)	0
EU-20c	of which: securitisation positions (negative amount)	0
EU-20d	of which: free deliveries (negative amount)	0
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)	0
22	Amount exceeding the 17,65% threshold (negative amount)	0
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	0
24	Empty set in the EU	
25	of which: deferred tax assets arising from temporary differences	0
EU-25a	Losses for the current financial year (negative amount)	0
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)	0
26	Empty set in the EU	
27	Qualifying AT1 deductions that exceed the AT1 items of the institution (negative amount)	0
27a	Other regulatory adjustments to CET1 capital	0
28	Total regulatory adjustments to Common Equity Tier 1 (CET1)	-0.70
29	Common Equity Tier 1 (CET1) capital	536.13
Additional Tier 1 (AT1) capital: instruments		
30	Capital instruments and the related share premium accounts	301.06
31	of which: classified as equity under applicable accounting standards	0
32	of which: classified as liabilities under applicable accounting standards	0
33	Amount of qualifying items referred to in Article 484 (4) CRR and the related share premium accounts subject to phase out from AT1 as described in Article 486(3) CRR	0
EU-33a	Amount of qualifying items referred to in Article 494a(1) CRR subject to phase out from AT1	0
EU-33b	Amount of qualifying items referred to in Article 494b(1) CRR subject to phase out from AT1	0
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	0
35	of which: instruments issued by subsidiaries subject to phase out	0
36	Additional Tier 1 (AT1) capital before regulatory adjustments	301.06

Additional Tier 1 (AT1) capital: regulatory adjustments		
37	Direct, indirect and synthetic holdings by an institution of own AT1 instruments (negative amount)	0
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)	0
39	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	0
40	Direct, indirect and synthetic holdings 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)	0
41	Empty set in the EU	
42	Qualifying T2 deductions that exceed the T2 items of the institution (negative amount)	0
42a	Other regulatory adjustments to AT1 capital	0
43	Total regulatory adjustments to Additional Tier 1 (AT1) capital	0
44	Additional Tier 1 (AT1) capital	301.06
45	Tier 1 capital (T1 = CET1 + AT1)	837.19
Tier 2 (T2) capital: instruments		
46	Capital instruments and the related share premium accounts	106.79
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	0
EU-47a	Amount of qualifying items referred to in Article 494a (2) CRR subject to phase out from T2	0
EU-47b	Amount of qualifying items referred to in Article 494b (2) CRR subject to phase out from T2	0
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	0
49	of which: instruments issued by subsidiaries subject to phase out	0
50	Credit risk adjustments	0
51	Tier 2 (T2) capital before regulatory adjustments	106.79
Tier 2 (T2) capital: regulatory adjustments		
52	Direct, indirect and synthetic holdings by an institution of own T2 instruments and subordinated loans (negative amount)	0
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)	0
54	Direct, indirect and synthetic holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	0

54a	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)	0
56	Empty set in the EU	
EU-56a	Qualifying eligible liabilities deductions that exceed the eligible liabilities items of the institution (negative amount)	0
EU-56b	Other regulatory adjustments to T2 capital	0
57	Total regulatory adjustments to Tier 2 (T2) capital	0
58	Tier 2 (T2) capital	106.79
59	Total capital (TC = T1 + T2)	943.97
60	Total Risk exposure amount	5,593.65
Capital ratios and requirements including buffers		
61	Common Equity Tier 1 (as a percentage of total risk exposure amount)	9.58%
62	Tier 1 (as a percentage of total risk exposure amount)	14.97%
63	Total capital (as a percentage of total risk exposure amount)	16.88%
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)	7.30%
65	of which: capital conservation buffer requirement	2.50%
66	of which: countercyclical buffer requirement	0.30%
67	of which: systemic risk buffer requirement	0
EU-67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	0
EU-67b	of which: additional own funds requirements to address the risks other than the risk of excessive leverage	0.00%
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	2.28%
69	[non relevant in EU regulation]	
70	[non relevant in EU regulation]	
71	[non relevant in EU regulation]	
Amounts below the thresholds for deduction (before risk weighting)		
72	Direct and indirect holdings of 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)	0
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)	0
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)	0

Applicable caps on the inclusion of provisions in Tier 2		
76	Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)	0
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	66.70
78	Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap)	0
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	0
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2014 and 1 Jan 2022)		
80	Current cap on CET1 instruments subject to phase out arrangements	
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

As explained in section 1.6, the Bank has decided to change its accounting framework from Luxembourg Generally Accepted Accounting Principles (Lux GAAP) to the International Financial Reporting Standards as adopted by European Union (IFRS) and is preparing financial statements under these accounting principles for the first time as of 31st December 2022.

Therefore, there is no difference 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.

3.5. Regulatory capital

In order to meet the requirements for disclosure specific items on own funds 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 20th 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													
1	Issuer	Bank of China (Europe) S.A.	Bank of China (Europe) S.A.	Bank of China (Europe) S.A.	Bank of China (Europe) S.A.	Bank of China (Europe) S.A.	Bank of China (Europe) S.A.	Bank of China (CEE) Ltd.	Bank of China (Europe) S.A.	Bank of China Serbia (CEE)	Bank of China (CEE) Ltd.	Bank of China (CEE) Ltd.	Bank of China (CEE) Ltd.
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	N/A	RSBOCSE88722	HU 0000071683	HU 0000075771	HU 0000119060
3	Governing law(s) of the instrument	Luxembourg Law	Luxembourg Law	Luxembourg Law	Luxembourg Law	Luxembourg Law	Luxembourg Law	Hungarian Law	Luxembourg Law	Serbia Law	Hungary Law	Hungary Law	Hungary Law
Regulatory treatment													
4	Transitional CRR rules	CET1	CET1	CET1	CET1	CET1	AT1	AT1	Tier 2	CET1	CET1	CET1	CET1
5	Post-transitional CRR rules	CET1	CET1	CET1	CET1	CET1	AT1	AT1	Tier 2	CET1	CET1	CET1	CET1
6	Eligible at solo/(sub-)consolidation/ solo & (sub-)consolidated	Solo & consolidated	Solo & consolidated	Solo & consolidated	Solo & consolidated	Solo & consolidated	Solo & consolidated	Solo & consolidated	Solo & consolidated	Individual	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	Perpetual loan	Subordinated debt	Registered shares (ordinary)	Registered shares	Registered shares	Registered shares
8	Amount recognised in regulatory capital (currency in EUR, as of most recent reporting date)	500,000,000 LUF (corresponding to 12,394,676.24 EUR)	EUR 5,323.76	EUR 67.6 million	EUR 120 million	EUR 200 million	EUR 150 million	EUR 150 million	EUR 106.40 million	EUR 15.6 million	HUF 2,700 million	HUF 100,000	HUF 4,000 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 150 million	EUR 106 million	RSD 18,438,870	HUF 2,700 million	HUF 100,000	HUF 4,000 million
9a	Issue price	N/A	N/A	N/A	N/A	N/A	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	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	Subordinated Liability	Shareholder's equity	Shareholder's equity	Shareholder's equity	Shareholder's equity
11	Original date of issuance	07/05/1991	21/05/2002	02/07/2008	14/08/2012	28/11/2016	29/06/2020	15/01/2020	16/07/2018	28/12/2016	08/01/2003	20/10/2004	15/06/2012
12	Perpetual or dated	Perpetual	Perpetual	Perpetual	Perpetual	Perpetual	Perpetual	Perpetual	Dated	Perpetual	Perpetual	Perpetual	Perpetual
13	Original maturity date	N/A	N/A	N/A	N/A	N/A	N/A	N/A	17/07/2028	N/A	N/A	N/A	N/A
14	Issuer call subject to prior supervisory approval	N/A	N/A	N/A	N/A	N/A	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	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	N/A	N/A	N/A	N/A	N/A

Coupons / dividends													
17	Fixed or floating dividend/coupon	N/A	N/A	N/A	N/A	N/A	Floating	Floating	Floating	Floating	N/A	N/A	N/A
18	Coupon rate and any related index	N/A	N/A	N/A	N/A	N/A	euribor 6m+166bps	euribor 6m+100bps	euribor 6m+115bps	N/A	N/A	N/A	N/A
19	Existence of a dividend stopper	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
20a	Fully discretionary, partially discretionary or mandatory (in	N/A	N/A	N/A	N/A	N/A	Fully discretionary	Fully discretionary	Mandatory	Partially discretionary	N/A	N/A	N/A
20b	Fully discretionary, partially discretionary or mandatory (in	N/A	N/A	N/A	N/A	N/A	Fully discretionary	Fully discretionary	Mandatory	Partially discretionary	N/A	N/A	N/A
21	Existence of step up or other	N/A	N/A	N/A	N/A	N/A	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	Non-cumulative	Non-cumulative	N/A	N/A	N/A
23	Convertible or non-convertible	N/A	N/A	N/A	N/A	N/A	Non-convertible	Non-convertible	Non-convertible	Non-convertible	N/A	N/A	N/A
24	If convertible, conversion	N/A	N/A	N/A	N/A	N/A	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	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	N/A	N/A	N/A	N/A	N/A
27	If convertible, mandatory or	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
28	If convertible, specify instrument	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
29	If convertible, specify issuer of	N/A	N/A	N/A	N/A	N/A	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	Yes	N/A	N/A	N/A	N/A	N/A
31	If write-down, write-down trigger(s)	N/A	N/A	N/A	N/A	N/A	Write down trigger is 7% of CET 1 Ratio of the issuer.	Write down trigger is 6% of CET 1 Ratio of the issuer.	N/A	N/A	N/A	N/A	N/A
32	If write-down, full or partial	N/A	N/A	N/A	N/A	N/A	Permanent and irrevocable.	Full or partial	N/A	N/A	N/A	N/A	N/A
33	If write-down, permanent or temporary	N/A	N/A	N/A	N/A	N/A	N/A	Permanent and irrevocable	N/A	N/A	N/A	N/A	N/A
34	If temporary write-down,	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
35	Position in subordination, hierarchy in liquidation (specify	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
36	Non-compliant transitioned	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
37	If yes, specify non-compliant	N/A	N/A	N/A	N/A	N/A	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 as of year-end 2022. 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	Total own funds requirements
	31/12/2022	31/12/2022
Credit risk (excluding CCR)	5,323.93	425.91
Of which the standardised approach	5,323.93	425.91
Of which the foundation IRB (FIRB) approach	-	
Of which slotting approach	-	
Of which equities under the simple riskweighted approach	-	
Of which the advanced IRB (AIRB) approach	-	
Counterparty credit risk - CCR	12.44	0.99
Of which the standardised approach	-	
Of which internal model method (IMM)	-	
Of which exposures to a CCP	-	
Of which credit valuation adjustment - CVA	-	
Of which other CCR	12.44	0.99
Settlement risk	-	
Securitisation exposures in the non-trading book (after the cap)	-	
Of which SEC-IRBA approach		
Of which SEC-ERBA (including IAA)		
Of which SEC-SA approach		
Of which 1250%		
Position, foreign exchange and commodities risks (Market risk)	51.40	4.11
Of which the standardised approach	51.40	4.11
Of which IMA	-	
Large exposures	-	
Operational risk	205.88	16.47
Of which basic indicator approach	205.88	16.47
Of which standardised approach	-	
Of which advanced measurement approach	-	
Amounts below the thresholds for deduction (subject to 250% risk weight) (For information)	-	
Total	5,593.65	447.49

For 2022, the total RWA for the Bank amounts to EUR 5.59 billion.

The RWA for market risk amounts to EUR 51.40 million (mainly foreign currency risk), with an allocated capital of 8% of the overall net currency position⁵.

⁵ Net short and long positions in each currency other than the capital currency shall be translated at spot rates into the capital currency. The higher of these two totals, regardless of its sign, shall constitute the credit institution's overall net currency position.

The RWA for Operational Risk amounts to EUR 205.88 million.

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%, with the following combined capital buffers fully effective in 2022. The capital conservation buffer requirement in accordance with Art 129 of the CRD IV is 2.5% CET 1 capital of RWA. The institution-specific countercyclical buffer that applies to the Bank is the weighted average of the countercyclical capital buffers that apply in the jurisdictions where the relevant credit exposures are located. As of 31st December 2022, the countercyclical capital buffer rate stood at 0.30 %.

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 of 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 31st December 2022.

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

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

2022 In EUR Million	General credit exposures	Total exposure value	Own fund requirements		Risk-weighted exposure amounts	Own fund requirements weights (%)	Countercyclical buffer rate (%)
	Exposure value under the standardised approach		Relevant credit risk exposures - Credit risk	Total			
Breakdown by country:							
Austria	68.86	68.86	5.51	5.51	68.86	1.63%	0.00%
Australia	6.12	6.12	0.49	0.49	6.12	0.15%	0.00%
Belgium	341.25	341.25	27.30	27.30	341.25	8.09%	0.00%
Switzerland	15.07	15.07	1.21	1.21	15.07	0.36%	0.00%
China	0.75	0.75	0.02	0.02	0.26	0.01%	0.00%
Colombia	6.60	6.60	0.53	0.53	6.60	0.16%	0.00%
Curacao	7.55	7.55	0.60	0.60	7.55	0.18%	0.00%
Czech	42.96	42.96	3.28	3.28	40.97	0.97%	1.50%
Germany	128.82	128.82	8.98	8.98	112.28	2.66%	0.00%
Denmark	107.06	107.06	8.57	8.57	107.06	2.54%	2.00%
Spain	134.65	134.65	7.98	7.98	99.77	2.37%	0.00%
Finland	65.56	65.56	5.24	5.24	65.56	1.55%	0.00%
France	118.37	118.37	9.45	9.45	118.15	2.80%	0.00%
Germany	191.85	191.85	17.90	17.90	223.76	5.31%	1.00%
Ghana	29.90	29.90	2.39	2.39	29.90	0.71%	0.00%
Greece	0.93	0.93	0.07	0.07	0.93	0.02%	0.00%
Hong Kong	24.72	24.72	1.98	1.98	24.72	0.59%	1.00%
Hungary	44.60	44.60	2.73	2.73	34.07	0.81%	0.00%
Ireland	83.54	83.54	6.26	6.26	78.20	1.85%	0.50%
Italy	72.96	72.96	5.84	5.84	72.96	1.73%	0.00%
Cayman Islands	28.14	28.14	2.25	2.25	28.14	0.67%	0.00%
Luxembourg	427.54	427.54	33.70	33.70	421.24	9.99%	0.50%
Malta	12.57	12.57	1.01	1.01	12.57	0.30%	0.00%
Mexico	65.01	65.01	5.20	5.20	65.01	1.54%	0.00%
Netherlands	616.26	616.26	51.13	51.13	639.15	15.16%	0.00%
Norway	119.34	119.34	9.55	9.55	119.34	2.83%	2.00%
Poland	885.08	885.08	53.41	53.41	667.57	15.83%	0.00%
Portugal	399.30	399.30	30.05	30.05	375.58	8.91%	0.00%
Romania	2.33	2.33	0.19	0.19	2.33	0.06%	0.50%
Serbia	0.24	0.24	0.02	0.02	0.24	0.01%	0.00%
Sweden	266.57	266.57	21.33	21.33	266.57	6.32%	1.00%
Singapore	20.14	20.14	1.61	1.61	20.14	0.48%	0.00%
Slovakia	9.83	9.83	0.39	0.39	4.92	0.12%	1.00%
United States	215.07	215.07	11.17	11.17	139.62	3.31%	0.00%
Total	4,559.53	4,559.53	337.32	337.32	4,216.45	100%	

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

Total risk exposure amount in EUR Million	5,593.65
Institution specific countercyclical capital buffer rate	0.30%
Institution specific countercyclical capital buffer requirement	16.78

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%. 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 leverage ratio is subject to the regulatory requirement of 3%. The Bank has set its internal leverage limit of 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 Authorised Management 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 such as capital injection, incorporation of previous year-end profit, etc.

Under the 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 10th October 2014 published in the Official Journal of the European Union on January 17 2015. As of 31st December 2022, the Leverage Ratio amounts to 7.73%, using the fully phased-in definition of Tier 1. This exceeds regulatory minimum requirement of 3%.

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

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

In EUR Million	Applicable amount
Total assets as per accounting balance sheet value*	9,673.43
Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	-0.00
(Adjustment for securitised exposures that meet the operational requirements for the recognition of risk transference)	-
(Adjustment for temporary exemption of exposures to central bank (if applicable))	-
(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)	-
Adjustment for regular-way purchases and sales of financial assets subject to trade date accounting	-
Adjustment for eligible cash pooling transactions	-
Adjustments for derivative financial instruments	43.21
Adjustment for securities financing transactions (SFTs)	-
Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	1,119.44
(Adjustment for prudent valuation adjustments and specific and general provisions which have reduced Tier 1 capital)	-
(Adjustment for exposures excluded from the leverage ratio total exposure measure in accordance with point (c) of Article 429a(1) CRR)	-
(Adjustment for exposures excluded from the leverage ratio total exposure measure in accordance with point (j) of Article 429a(1) CRR)	-
Other adjustments	(0.60)
Leverage ratio total exposure measure	10,835.48

* IPU implement article 1711-7 of Luxembourg Law on commercial companies (“LSC”, latest version, in force as at Jan 1st 2020) to be exempted from the obligation to draw up consolidated accounts and a consolidated management report (“the exemption”) starting from 31st December 2022 accounts onwards.

Table 3.8.2 EU LR2 - LRCOM: Leverage ratio common disclosure

In EUR Million		a
		2022/12/31
Available own funds (amounts)		
1	Common Equity Tier 1 (CET1) capital	536.13
2	Tier 1 capital	837.19
3	Total capital	943.97
Risk-weighted exposure amounts		
4	Total risk-weighted exposure amount	5,593.65
Capital ratios (as a percentage of risk-weighted exposure amount)		
5	Common Equity Tier 1 ratio (%)	9.58%
6	Tier 1 ratio (%)	14.97%
7	Total capital ratio (%)	16.88%
Additional own funds requirements based on SREP (as a percentage of risk-weighted exposure amount)		
EU 7a	Additional own funds requirements to address risks other than the risk of excessive leverage (%)	0.00%
EU 7b	of which: to be made up of CET1 capital (percentage points)	0.00%
EU 7c	of which: to be made up of Tier 1 capital (percentage points)	0.00%
EU 7d	Total SREP own funds requirements (%)	8.00%
Combined buffer requirement (as a percentage of risk-weighted exposure amount)		
8	Capital conservation buffer (%)	2.50%
EU 8a	Conservation buffer due to macro-prudential or systemic risk identified at the level of a Member State (%)	0.00%
9	Institution specific countercyclical capital buffer (%)	0.30%
EU 9a	Systemic risk buffer (%)	0.00%
10	Global Systemically Important Institution buffer (%)	0.00%
EU 10a	Other Systemically Important Institution buffer	0.00%
11	Combined buffer requirement (%)	2.80%
EU 11a	Overall capital requirements (%)	10.80%
12	CET1 available after meeting the total SREP own funds requirements (%)	2.28%
Leverage ratio		
13	Leverage ratio total exposure measure	10,835.48
14	Leverage ratio	7.73%
Additional own funds requirements to address risks of excessive leverage (as a percentage of risk-weighted exposure amount)		
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 (%)	3.00%
Leverage ratio buffer and overall leverage ratio requirement (as a percentage total exposure)		
EU 14d	Leverage ratio buffer requirement (%)	0.00%
EU 14e	Overall leverage ratio requirements (%)	3.00%
Liquidity Coverage Ratio		
15	Total high-quality liquid assets (HQLA) (Weighted value -average)	1,390.86
EU 16a	Cash outflows - Total weighted value	3,228.66
EU 16b	Cash inflows - Total weighted value	3,222.08
16	Total net cash outflows (adjusted value)	807.16
17	Liquidity coverage ratio (%)	172.31%
Net Stable Funding Ratio		
18	Total available stable funding	4,921.14
19	Total required stable funding	4,151.22
20	NSFR ratio (%)	118.55%

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) derivatives; (c) off-balance sheet items.

As of 31st December 2022, the Bank's leverage ratio was 7.73%. 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 were no other specific factors identified which had any material impact on the calculation of leverage ratio in 2022.

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 exposures
EU-1	Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	9,671.69
EU-2	Trading book exposures	-
EU-3	Banking book exposures, of which:	9,671.69
EU-4	Covered bonds	-
EU-5	Exposures treated as sovereigns	1,647.76
EU-6	Exposures to regional governments, MDB, international organisations and PSE not treated as sovereigns	-
EU-7	Institutions	4,188.07
EU-8	Secured by mortgages of immovable properties	814.58
EU-9	Retail exposures	0.57
EU-10	Corporate	2,977.86
EU-11	Exposures in default	-
EU-12	Other exposures (eg equity, securitisations, and other non-credit obligation assets)	42.86

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 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 (ICAAP), as amended by Circulars CSSF 08/338, 11/506, 13/568 and 20/753, 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 risks are assessed and internal capital is 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 of 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 follows:

- 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.
- Allows the CSSF to collect the relevant information to perform the SREP assessment.
- To be used by the Authorised Management of the Bank in defining/adjusting the Bank strategy

The ICAAP report is prepared by senior risk managers and reviewed by the CRO. After the CRO's review, it is also reviewed by Internal Audit. The AM and the BOD also review the ICAAP and ultimately approves and validates 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 31st December 2022, the capital adequacy ratio under Pillar I and Pillar II of the Bank was standing at 14.29%. This remains above the early warning level of 14%, set for the Pillar I capital requirement and is monitored on a daily basis.

The Bank's ICAAP and ILAAP were reviewed by the Board Risk Committee on 24th March 2023 and approved by the BOD on 29th March 2023.

4.2. Capital Planning

The basis for the capital planning model is the Bank's 14th Five-Year Plan and, more importantly, IPU Implementation considerations. The objective of internal capital planning is to ensure that the future capital adequacy ratio remains 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 a green and sustainable economy through favourable credit access conditions for specific environmentally friendly projects and infrastructure construction sectors.
- Reduce RWA by investing in high quality rating clients.
- Seeking new business opportunities in light of the Fintech revolution.
- Manage the existing loan portfolio with multiple options such as securitization, asset disposal and transfer if necessary.

The forecast of the capital adequacy ratio done for the period 2023-2025 plan will meet total SREP capital requirements.

As the IPU is now a reality for the Bank, the capital planning is done at both the Solo and the consolidated level. Solo includes the Bank and its seven cross-border branches, and the consolidated version adds the two acquired subsidiaries (Hungary and Serbia).

4.2.1. Capital planning back testing

The Bank has performed back testing of its previous year's capital planning. The forecast on the IPU appears to be more conservative and pessimistic than the one of the SA. This is explained by the fact that the IPU became a reality during 2022. It is expected to have a better forecast from this year on due to better knowledge on the strategy defined on the IPU level.

4.3. Stress Testing and Scenarios

In accordance with the Circular CSSF 11/506, as amended by Circular CSSF 20/753, 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 on corrective measures if needed, including the main characteristics and assumptions used for the stress tests. Heads of relevant departments also contribute to assess the stress test assumptions, ensuring flexibility and adequacy with the Bank business and objectives. The Bank is always looking to improve resources and infrastructure to have an adequate capital and liquidity stress-testing program.

In 2022, a new version of the stress-testing program of the Bank was elaborated to further incorporate the changes brought by the new EBA/CSSF/BCL circulars, taking into account the proportionality principle.

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. The IPU capital ratio adding the pillar II capital requirement is also expected to remain above 15% from 2023 to 2025.

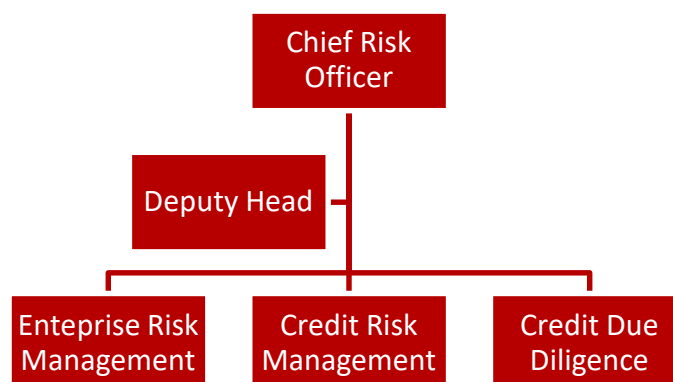
5. Credit Risk

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 systems 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. Credit risk management framework



The Bank measures, monitors and reports credit risk by using the following mechanism and tools:

Credit Approval Stage:

- An independent RMD due diligence team performs credit analysis;
- Credit limits are in place, respectively for corporate loans and retail loans, and taking into consideration client's rating. The limits are also put in place in order to remain compliant with the large exposure regulation;
- A tailored credit approval process is assigned to each project with low or quasi low risk in order to improve business efficiency;
- Large exposure limit and internal portfolio diversification limit are systematically checked;
- Assets valuations are assessed with the support of internal and external expert.

Credit risk monitoring/reporting:

- Any extension, material change of a credit contract is subject to an approval process similar to that of a new credit;
- A credit quality assessment is performed regularly (at least quarterly and upon any significant event occurring to a debtor);
- Forborne and non-performing loan recognition, management and disposal mechanisms are established following relevant EBA guidelines in line with the HO procedures;
- A credit risk reporting mechanism is established to define the trigger threshold, events and reporting line;

In 2022, RMD continued to explore the risk data, enhance the management and automate the reporting processes.

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 and

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. Events refers to any material negative impact on credit asset safety and asset quality of the Bank.

The management of material credit risk events puts prevention first. It strengthens the monitoring and analysis of external macroeconomics, financial markets, industry credit status, enterprise operation and its changes, and judges the risk status to guarantee early detection, reporting, handling and mitigation of risks. The material credit risk events are responded to and handled in a quick and efficient manner. The branches at different levels present timely reports to Risk Management department.

5.1.4. Risk control measure

Credit risk measurement is primarily done through an 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 limits may also be imposed by the Risk Management department in light of changes in the latest macro or micro economic situation. Risk Management monitors credit exposures, and issues risk notices where necessary.

Credit asset risk classification

The Bank establishes the 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 assets. The risk classification of credit assets is managed in a centralized manner, and the experts of the Risk Management department are responsible for reviewing and determining the risk classification of credit assets. RMD conducts credit asset risk classifications under the respective authorities. Among various factors that affect credit assets classification, the Bank identifies the key factors to assess and classify credit assets, based on their 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 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 changes in the client credit situation.

The Bank established an adequate internal governance around credit rating management, to regulate client internal rating, regularly review procedures 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. The Bank sets three basic scenarios, i.e., benchmark, optimistic and pessimistic, based on its own business status and macro-political and economic situation, and sets extreme scenarios to help consider the impact of expected credit losses under stress scenarios. On this basis, the Bank has established a multi-scenario weight model to measure the weight of each scenario.

In order to ensure that forward-looking information fully reflects the impact on expected credit losses based on the model parameters, the Bank shall review the applicability of forward-looking information indicators at least annually and update forward-looking information (forward-looking parameters) and multi-scenario information at least semi-annually. Meanwhile, the relevant information shall be updated in a timely manner when major events occur, or relevant policies change substantially.

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 their 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 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 more than 90 days overdue 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 overdue 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 overdue owed by a non-retail obligor to our Bank, including the parent undertaking and all cross-border branches (hereinafter the ‘credit obligation overdue’)

b. Relative component

The relative component shall be expressed as a percentage reflecting the amount of the credit obligation overdue 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 “overdue” 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 overdue.

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 standards

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 measures to improve the calibration of the internal rating model and to increase the accuracy of credit provisions.

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 is 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.

The LGD model back-testing project has already started, and workshops were organized with various stakeholders such as H.O. and external consultants. From the preliminary feedback of external consultants, the Bank’s historical data is not sufficient to run a reliable back testing. It is fine for the Bank to rely on the H.O. historical data to derive the LGD.

ECL recognition

As of 31st December 2022, the total on & off-balance amount of ECL (IPU) was €48.18 million. The ECL model which has been adjusted during 2022 in a conservative way in order to take into account the forward-looking effect of the Covid-19 and the geopolitical tension between Russia and Ukraine. The model is quickly adjusted in time of crisis and negative forward-looking but is adjusted slowly during recovery time or when the economy forward-looking is positive. The conservative approach is used to avoid having surprise in term of credit risk and provisions.

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

The Bank’s credit risk exposure is analysed at this section, including the information that reflects 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/GL/2018/10 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	3,028.63	3,028.63	-	-	-	-	(0.17)	(0.17)	-	-	-	-	-	-	-
Loans and advances	6,365.09	6,234.58	130.51	-	-	-	(42.97)	(31.10)	(11.87)	-	-	-	-	1,125.08	-
<i>Central banks</i>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<i>General governments</i>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<i>Credit institutions</i>	2,222.85	2,222.85	-	-	-	-	(0.12)	(0.12)	-	-	-	-	-	-	-
<i>Other financial corporations</i>	869.51	869.51	-	-	-	-	(5.50)	(5.50)	-	-	-	-	-	198.90	-
<i>Non-financial corporations</i>	3,267.84	3,137.33	130.51	-	-	-	(37.32)	(25.45)	(11.87)	-	-	-	-	921.89	-
<i>Of which SMEs</i>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<i>Households</i>	4.88	4.88	-	-	-	-	(0.03)	(0.03)	-	-	-	-	-	4.28	-
Debt securities	278.26	278.26	-	-	-	-	-	-	-	-	-	-	-	-	-
<i>Central banks</i>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<i>General governments</i>	278.26	278.26	-	-	-	-	-	-	-	-	-	-	-	-	-
<i>Credit institutions</i>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<i>Other financial corporations</i>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<i>Non-financial corporations</i>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Off-balance-sheet exposures	1,853.83	1,853.83	-	-	-	-	(5.04)	(5.04)	-	-	-	-	-	-	-
<i>Central banks</i>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<i>General governments</i>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<i>Credit institutions</i>	298.50	298.50	-	-	-	-	(0.81)	(0.81)	-	-	-	-	-	-	-
<i>Other financial corporations</i>	194.73	194.73	-	-	-	-	(1.00)	(1.00)	-	-	-	-	-	-	-
<i>Non-financial corporations</i>	1,360.59	1,360.59	-	-	-	-	(3.23)	(3.23)	-	-	-	-	-	-	-
<i>Households</i>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	11,525.81	11,395.30	130.51	-	-	-	(48.18)	(36.31)	(11.87)	-	-	-	-	1,125.08	-

5.2.2. Non-performing exposures

According to the EBA definition, non-performing exposures correspond to loans in default, or overdue period > 90 days. As at end of 2022, the Bank had no non-performing exposures.

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.

As at end of 2022, the Bank's forborne exposures amounted to €54.60 million.

Table 5.2.2 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	54.60	-	-	-	(5.63)	-	48.96	-
<i>Central banks</i>	-	-	-	-	-	-	-	-
<i>General governments</i>	-	-	-	-	-	-	-	-
<i>Credit institutions</i>	-	-	-	-	-	-	-	-
<i>Other financial corporations</i>	-	-	-	-	-	-	-	-
<i>Non-financial corporations</i>	54.60	-	-	-	(5.63)	-	48.96	-
<i>Households</i>	-	-	-	-	-	-	-	-
Debt Securities	-	-	-	-	-	-	-	-
Loan commitments given	-	-	-	-	-	-	-	-
Total	54.60	-	-	-	(5.63)	-	48.96	-

Table 5.2.3 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 overdue days. At the end of 2022, the Bank maintained stable good quality of credit exposure, all loans are performing, and none are overdue.

Table 5.2.4 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	3,028.63	3,028.63	-	-	-	-	-	-	-	-	-	-
Loans and advances	6,365.09	6,365.09	-	-	-	-	-	-	-	-	-	-
<i>Central banks</i>	-	-	-	-	-	-	-	-	-	-	-	-
<i>General governments</i>	-	-	-	-	-	-	-	-	-	-	-	-
<i>Credit institutions</i>	2,222.85	2,222.85	-	-	-	-	-	-	-	-	-	-
<i>Other financial corporations</i>	869.51	869.51	-	-	-	-	-	-	-	-	-	-
<i>Non-financial corporations</i>	3,267.84	3,267.84	-	-	-	-	-	-	-	-	-	-
<i>Of which SMEs</i>	-	-	-	-	-	-	-	-	-	-	-	-
<i>Households</i>	4.88	4.88	-	-	-	-	-	-	-	-	-	-
Debt securities	278.26	278.26	-	-	-	-	-	-	-	-	-	-
<i>Central banks</i>	-	-	-	-	-	-	-	-	-	-	-	-
<i>General governments</i>	278.26	278.26	-	-	-	-	-	-	-	-	-	-
<i>Credit institutions</i>	-	-	-	-	-	-	-	-	-	-	-	-
<i>Other financial corporations</i>	-	-	-	-	-	-	-	-	-	-	-	-
<i>Non-financial corporations</i>	-	-	-	-	-	-	-	-	-	-	-	-
Off-balance-sheet exposures	1,853.83	-	-	-	-	-	-	-	-	-	-	-
<i>Central banks</i>	-	-	-	-	-	-	-	-	-	-	-	-
<i>General governments</i>	-	-	-	-	-	-	-	-	-	-	-	-
<i>Credit institutions</i>	298.50	-	-	-	-	-	-	-	-	-	-	-
<i>Other financial corporations</i>	194.73	-	-	-	-	-	-	-	-	-	-	-
<i>Non-financial corporations</i>	1,360.59	-	-	-	-	-	-	-	-	-	-	-
<i>Households</i>	-	-	-	-	-	-	-	-	-	-	-	-
Total	11,525.81	9,671.98	-	-	-	-	-	-	-	-	-	-

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 geographical areas at year-end 2022. The geographical distribution is based on the legal residence of the counterparty or issuer.

Table 5.2.5 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	Accumulated negative changes in fair value due to credit risk on non-performing exposures	
		Of which non-performing					
		Of which defaulted	Of which subject to impairment				
On-balance-sheet exposures	6,643.35	-	-	6,643.35	(42.97)		
Luxembourg	1,787.21			1,787.21	(1.15)		
Poland	758.19			758.19	(10.89)		
Netherlands	560.81			560.81	(7.81)		
United Kingdom	454.28			454.28	(2.60)		
Other countries	3,082.86			3,082.86	(20.52)		
Off-balance-sheet exposures	1,853.83				(5.04)		
Netherlands	330.33				(1.07)		
Poland	272.30				(0.54)		
China	220.34				(0.64)		
Belgium	192.69				(0.23)		
Luxembourg	188.21				(0.72)		
Other countries	649.95				(1.84)		
Total	8,497.18	-	-	6,643.35	(42.97)	(5.04)	-

As at 31st December 2022, majority of the on-balance risk exposure was concentrated in Europe (85.54% of total) with exposure for Luxembourg of 26.90%, Poland of 11.41% and Netherlands of 8.44% 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, Hungarian government and the Ministry of Finance People's Republic of China. While off-balance risk exposures came mainly from Netherlands and Poland and China for 17.82%, 14.69%, and 11.89% 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 2022. 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 5.2.6 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 loans and advances subject to impairment		
			Of which defaulted		
Agriculture, forestry and fishing	36.57		36.57	(0.03)	-
Mining and quarrying	42.08		42.08	(0.15)	
Manufacturing	509.92		509.92	(2.27)	
Electricity, gas, steam and air conditioning supply	328.99		328.99	(3.12)	
Water supply	-		-	-	
Construction	180.96		180.96	(1.27)	
Wholesale and retail trade	253.11		253.11	(2.61)	
Transport and storage	113.61		113.61	(1.24)	
Accommodation and food service activities	19.06		19.06	(0.62)	
Information and communication	354.95		354.95	(1.65)	
Financial and insurance activities	133.02		133.02	(2.87)	
Real estate activities	747.25		747.25	(14.67)	
Professional, scientific and technical activities	405.48		405.48	(5.73)	
Administrative and support service activities	28.05		28.05	(0.07)	
Public administration and defense, compulsory social security	-		-	-	
Education	-	-	-	-	-
Human health services and social work activities	76.46		76.46	(0.67)	
Arts, entertainment and recreation	38.31		38.31	(0.33)	
Other services	-		-	-	
Total	3,267.84	-	3,267.84	(37.32)	

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

Following the EBA communication of 16 December 2022 concerning the repeal of the COVID-19 guidelines, which were originally meant to be in place for a limited period of time, they were repealed from 1st January 2023.

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 mitigation. 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 collateral. The Bank divides collateral into Tier I and Tier II, managed separately by different classes. Tier I collateral refers to cash, cash equivalent and others that can be evaluated through external professional institutions with easy realization or liquidation such as cash, bonds, time deposits etc. Tier II collateral refers to collaterals which are difficult to evaluate, liquidate or register, including inventory, trade receivables 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.

The collateral forms that the Bank uses most frequently are:

- Third party guarantee (granted by parent company of borrowers, BOC domestic branch or other financial institutions etc.)
- Assets pledge
- Residential and commercial mortgage.

The Bank has issued the internal policies based on the CRR/CRR II and CBIRC's requirements. The goal is to standardize the treatment (recognition) and utilization of different types of risk mitigation tools in risk pricing models and in internal rating models. Internal policies are subject to regular review to ensure that they are supported by solid evidence and continue to fulfil the intended purpose.

Main type of guarantor and their creditworthiness

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

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

Collateral valuation

Valuation of collateral 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 method.

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 a 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 table below 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	8,225.50	1,125.08	859.16	265.92	-
Debt securities	278.26	-	-	-	-
Total	8,503.76	1,125.08	859.16	265.92	-
<i>Of which non-performing exposures</i>	-	-	-	-	-
<i>Of which defaulted</i>	-	-	-	-	-

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

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 / Fitch	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	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	1,643.32	-	1,647.76	82.18	53.76	3.11%
Regional government or local authorities	-	-	-	-	-	-
Public sector entities	-	-	-	-	-	-
Multilateral development banks	-	-	-	-	-	-
International organisations	-	-	-	-	-	-
Institutions	3,886.13	297.69	4,188.07	317.30	1,058.03	23.48%
Corporates	3,283.83	1,530.10	2,977.86	709.46	3,758.63	101.93%
Retail	0.97	-	0.57	-	0.43	75.00%
Secured by mortgages on immovable property	814.58	20.99	814.58	10.49	411.96	49.93%
Exposures in default	-	-	-	-	-	-
Exposures associated with particularly high risk	-	-	-	-	-	-
Covered bonds	-	-	-	-	-	-
Institutions and corporates with a short-term credit assessment	-	-	-	-	-	-
Collective investment undertakings	-	-	-	-	-	-
Equity	-	-	-	-	-	-
Other items	42.25	-	42.25	-	41.14	97.36%
TOTAL	9,671.09	1,848.78	9,671.09	1,119.44	5,323.93	49.34%

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	Risk weight							Total	Of which unrated
	0%	20%	35%	50%	75%	100%	150%		
	a	e	f	g	i	j	k		
Central governments or central banks	1,606.73	86.31	-	0.80	-	36.10	-	1,729.94	-
Regional government or local authorities	-	-	-	-	-	-	-	-	-
Public sector entities	-	-	-	-	-	-	-	-	-
Multilateral development banks	-	-	-	-	-	-	-	-	-
International organisations	-	-	-	-	-	-	-	-	-
Institutions	38.59	3,917.88	-	548.90	-	-	-	4,505.37	-
Corporates	-	-	-	33.07	-	3,478.57	175.68	3,687.32	3,184.06
Retail exposures	-	-	-	-	0.57	-	-	0.57	0.57
Exposures secured by mortgages on immovable property	-	-	3.89	821.19	-	-	-	825.08	825.08
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	1.12	-	-	-	-	41.14	-	42.25	42.25
TOTAL	1,646.44	4,004.19	3.89	1,403.96	0.57	3,555.81	175.68	10,790.53	4,051.96

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 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.

As at 31st December 2022, there are two counterparties with which the Bank has concluded OTC derivatives which are within the scope of the CCR framework.

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.

Under the Bank’s counterparty credit risk management framework, counterparties are classified into two categories according to a series of criteria (internal rating, strategy client or not, capacity of the client to support the loss resulted from derivatives etc). Each counterparty is subject to the “collateral adequacy ratio⁶” monitoring.

For category I clients, there is a warning of an additional margin call to be issued by the Bank when the collateral adequacy ratio is below 30%; and the derivative position is liquidated if the collateral adequacy ratio is below 10%.

For category II clients, there is a warning of an additional margin call to be issued by the Bank when the collateral adequacy ratio is below 50%; and the derivative position is liquidated if the collateral adequacy ratio is below 20%.

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

⁶ Collateral adequacy ratio = (CCR limit for OTC derivatives + Counterparty OTC limit of Secured Credit Line – total absolute value of estimated losses of counterparty) ÷ (CCR limit for OTC derivatives + Counterparty OTC limit of Secured Credit Line)

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 performed 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. The market value of the derivatives and the margin level are controlled daily and reported via EMIR.

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)	6.09	26.02		1.4	44.94	44.94	44.94	12.44
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 sets</i>			-		-	-	-	-
2b	<i>Of which derivatives and long settlement transactions netting sets</i>			-		-	-	-	-
2c	<i>Of which from contractual cross-product netting sets</i>			-		-	-	-	-
3	Financial collateral simple method (for SFTs)					-	-	-	-
4	Financial collateral comprehensive method (for SFTs)					-	-	-	-
5	VaR for SFTs					-	-	-	-
6	Total					44.94	44.94	44.94	12.44

5.6.4. Transactions subject to own funds requirements for CVA risk

In the application of Article 439(h) in CRR, the Bank uses the Standardised method to measure the exposure value of instruments subject to own funds requirements for CCR, which is null as of 31st December 2022.

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 5.6.2 EU CCR3 – Standardised approach – CCR exposures by regulatory exposure class and risk weights

Exposure classes	Risk weight		Total exposure value
	e	i	
	20%	100%	
Central governments or central banks	-	-	-
Regional government or local authorities	-	-	-
Public sector entities	-	-	-
Multilateral development banks	-	-	-
International organisations	-	-	-
Institutions	40.63	-	40.63
Corporates	-	4.31	4.31
Retail	-	-	-
Institutions and corporates with a short-term credit assessment	-	-	-
Other items	-	-	-
Total exposure value	40.63	4.31	44.94

6. Market Risk

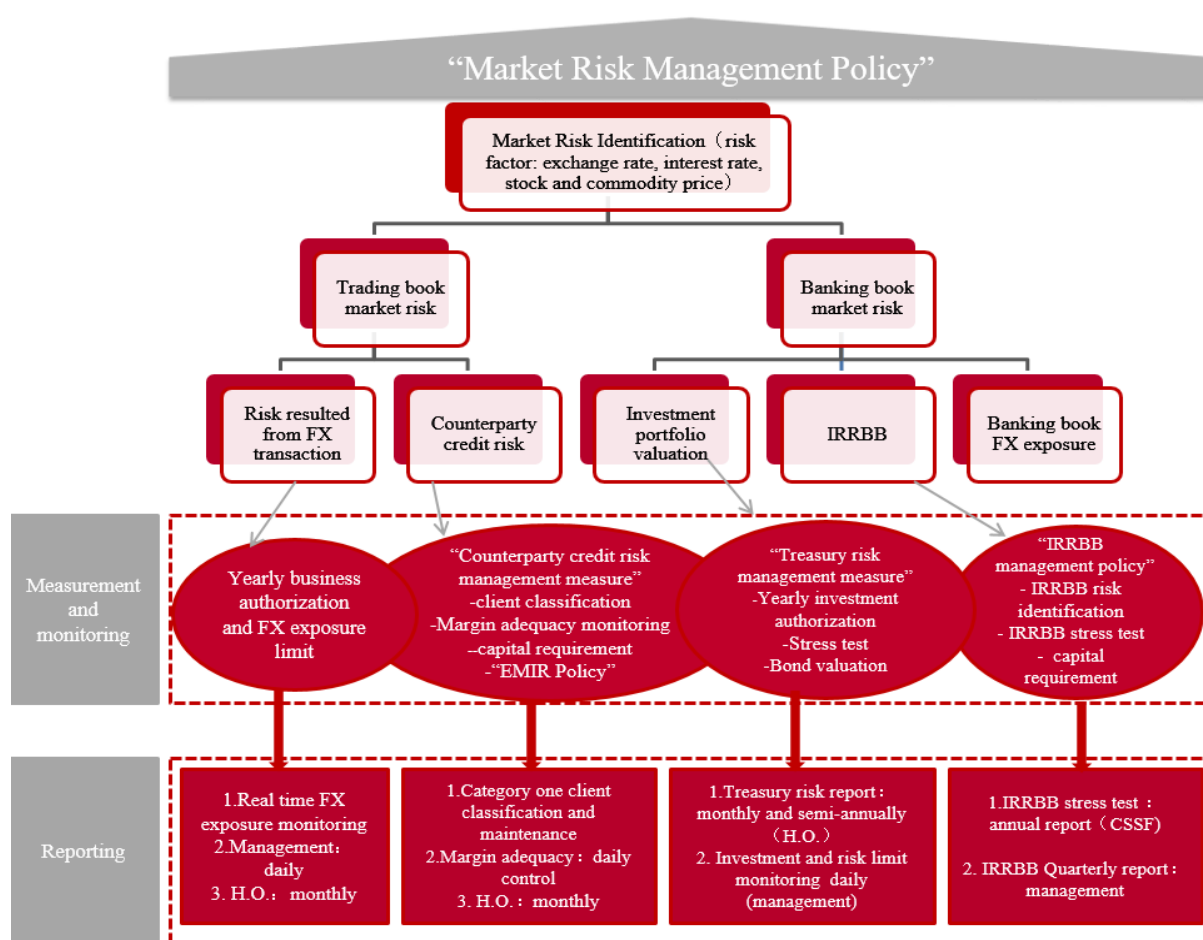
Market risk is the risk of an adverse change in market prices (interest rate, exchange rate, stock price and commodity price), which cause loss to a bank's on- and off-balance-sheet businesses. Market risk is directly linked to a bank's regulatory capital for market risk. Market risk under the second 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.

Market Risk Management Policies Governance



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 has started to develop more OTC derivatives activities on behalf of clients. To follow this business trend and the risk profile change in the trading book, the Bank has introduced widely the counterparty credit risk management as well as EMIR management.

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 terms of collateral requirement, and counterparty credit risk exposure limit, etc.;
- Monitor effectively the collateral adequacy ratio;
- Define the segregation of duties among the 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” designs 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).

The “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 31st December 2022, various indicators indicated that the current operating situation is in an excellent state and are well controlled, within limits and benchmarks.

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 levels under the overall business strategy and risk appetite, and promoting a sustainable growth of the Bank’s earnings.

The Bank’s main activity consists exclusively of the banking book, meaning client lending/deposit and market funding. Therefore, IRRBB is a material risk for the Bank. Defined in IRRBB Policy, the sources of Interest Rate Risk include the repricing gap risk, basis risk and option risk.

The latest IRRBB policy from 2022 set up 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. It also incorporated the requirements of CSSF circular 20/762.

The Bank’s RMD is responsible for the oversight of IRRBB management under the risk appetite and tolerance defined and approved by management body and BOD.

IRRBB policy

The latest IRRBB policy of 2022 sets up 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. It also incorporated the requirements of CSSF circular 20/762.

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 are 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).

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 has 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, the Risk Management Department applies an 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 deposit 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 EVE from IRRBB calculation results. Where the decline in EVE is greater than 15% of the Bank's Tier I capital under any of the six scenarios, or the decline in EVE of a sudden +/-200 bps shift in yield curve is greater than 20% of the Bank's own funds, the Bank should inform the BOD, AM and CSSF immediately, together with detailed explanations on the scale, nature and cause of the breach. Early warning levels are setup at 12% for the six additional scenarios and at 15% for the standard shock. The NII fluctuation ratio threshold is set up as 20% of the interest income forecast.

The worst result for the IPU is an EVE decline of €47.46 million under the parallel down scenario, which represents a decline of 5.67% of Tier I capital, and an EVE decline of €50.35 million under the standard parallel down scenario of 200bps, which represent a decline of 5.33% of the own funds.

Table 6.3.1 IRRBB stress test

Scenarios	Significant Currencies in thousand of EUR			Impact on EVE (in thousands of EUR)	% of Tier I capital
	EUR	USD	PLN		
Parallel up	40,531.19	16,644.10	(25,361.36)	3,226.29	0.39%
Parallel down	(44,161.74)	(17,210.03)	27,824.65	(47,459.45)	-5.67%
Short rate positive	25,928.80	16,738.81	(15,076.13)	6,257.67	0.75%
Short rate negative	(26,480.25)	(17,249.41)	15,821.36	(35,818.98)	-4.28%
Flatten	14,390.98	10,969.85	(6,681.82)	5,998.60	0.72%
Steepen	(7,692.93)	(7,315.09)	1,695.72	(14,160.16)	-1.69%

Scenarios	Significant Currencies in thousand of EUR			Impact on EVE (in thousands of EUR)	% of Own Fund
	EUR	USD	PLN		
Parallel up + 200 bps	40,531.19	16,644.10	(20,474.15)	8,113.50	0.86%
Parallel down -200bps	(44,161.74)	(17,210.03)	22,050.09	(50,346.72)	-5.33%

As of 31st December 2022, the decline of NII for the IPU is €29.36 million which represent 3.11% of the own fund.

Scenarios	Significant Currencies (in thousand of EUR)				Impact on NII (in thousand of EUR)	% of Own Fund
	EUR	USD	PLN	Others		
Parallel up +200 bps	27,049.69	1,525.34	-2,866.06	3,506.94	29,215.90	3.09%
Parallel down -200 bps	-28,100.85	-2,569.23	4,932.30	-3,626.07	-29,363.84	-3.11%

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 31st December 2022

Currency	Currency Code	Net Position (In EUR'000)
Czech Koruna	CZK	12,127.30
Swedish Krona	SEK	10,867.93
Zloty	PLN	8,470.92
US Dollar	USD	5,450.36
Serbian Dinar	RSD	5,060.73
Rumanian Leu	RON	4,305.70
Pound Sterling	GBP	3,874.16
Forint	HUF	2,705.95
Danish Krone	DKK	112.26
Australian Dollar	CNY	49.00
Other		79.02
Total		53,103.33

As of 31st December 2022, total net currency exposure amounted to EUR 53.10 million, of which CZK represented the highest exposure of 22.84%, followed by SEK representing 20.47%. “Other” refers to CAD, CHF that represent 0.15% 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 31st December 2022, the Bank’s RWEAs under foreign exchange risk amount to EUR 51.40.

Table 6.5.1 EU MR1 - Market risk under the standardised approach

In EUR million	RWEAs
Outright products	
Interest rate risk (general and specific)	-
Equity risk (general and specific)	-
Foreign exchange risk	51.40
Commodity risk	-
Options	-
Simplified approach	-
Delta-plus approach	-
Scenario approach	-
Securitisation (specific risk)	-
Total	51.40

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.

In 2023, the Bank issued the Fraud Risk Management Policy, which is committed to rigorously implement the fraud management plan in order to effectively prevent and detect fraud, to reduce potential losses, and thoroughly investigate fraud to avoid the recurrence.

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.

The Risk Management department makes reports on operational risk to the Risk and Internal Control Committee, the Board Risk Committee of the Bank on quarterly basis. All staff from the First Line of defence departments report 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 the operational risk management framework and system, identifying the deficiencies and weaknesses of the 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 characteristics, 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 consist 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) not be acceptable, remediation/action plans are initiated to reduce the identified risk to the required (the “acceptable”) level. High residual risks must 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 the 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 counter measures are setup.

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)	109.25	108.35	111.81	16.47	205.88
2	Banking activities subject to standardised (TSA) / alternative standardised (ASA) approaches	-	-	-	-	-
3	<i>Subject to TSA:</i>	-	-	-		
4	<i>Subject to ASA:</i>	-	-	-		
5	Banking activities subject to advanced measurement approaches AMA	-	-	-	-	-

8. Liquidity Risk

Liquidity risk is a bank's capacity to fund increases in assets and meet both expected and unexpected cash and collateral obligations at a reasonable cost and without incurring unacceptable 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 to 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, 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, FMD and RMD.

FD acts as a first line of defence for liquidity management. It liaises with FMD, 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 a 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 2022, on the funding side, the Bank has mainly borrowed and lent activities within BOC group, including cross-border branches and Branch. In principle, the Bank does not directly get funding sources 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 breaches, 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

FID acts as a first line of defence for liquidity management. It liaises with FMD, 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. This area is at 130% and above and is considered by the Bank to be the LCR green area, where no further actions regarding liquidity are needed. Based on the monthly calculations applied by the Bank, the LCR was a bit lower than the internal threshold in June (126.20%) and end of August (121.51%) and all other time throughout the year remained well above 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 MM YY)	31/12/2022	31/09/2022	31/06/2022	31/03/2022	31/12/2022	31/09/2022	31/06/2022	31/03/2022
EU 1b	Number of data points used in the calculation of averages	8	5	2		8	5	2	
HIGH-QUALITY LIQUID ASSETS									
1	Total high-quality liquid assets (HQLA)					902.49	829.75	707.60	
CASH - OUTFLOWS									
2	Retail deposits and deposits from small business customers, of which:	69.68	55.93	68.55		8.18	8.17	7.86	
3	Stable deposits	-	-	-		-	-	-	
4	Less stable deposits	63.24	69.87	68.55		7.51	8.17	8.09	
5	Unsecured wholesale funding	2994.21	2667.04	2694.59		1797.65	1534.46	1588.58	
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	-	-	-		-	-	-	
7	Non-operational deposits (all counterparties)	2894.10	2667.04	2694.59		1697.54	1534.46	1588.58	
8	Unsecured debt	800.91	-	-		800.91	-	-	
9	Secured wholesale funding					-	-	-	
10	Additional requirements	1,519.61	1,525.34	1,510.68		349.58	353.22	335.41	
11	Outflows related to derivative exposures and other collateral requirements	19.70	17.90	17.90		19.70	17.90	17.90	
12	Outflows related to loss of funding on debt products	-	-	-		-	-	-	
13	Credit and liquidity facilities	1,499.91	1,507.44	1,492.78		329.88	335.32	317.51	
14	Other contractual funding obligations	22.19	12.91	15.30		19.07	9.56	10.98	
15	Other contingent funding obligations	364.18	332.67	318.78		-	-	-	
16	TOTAL CASH OUTFLOWS					2,174.48	1,905.40	1,943.06	
CASH - INFLOWS									
17	Secured lending (e.g. reverse repos)	-	-	-		-	-	-	
18	Inflows from fully performing exposures	2,770.59	2,483.03	2,204.02		2,738.05	2,453.55	2,157.17	
19	Other cash inflows	5.74	5.74	5.74		5.74	5.74	5.74	
EU-19a	(Difference between total weighted inflows and total					-	-	-	
EU-19b	(Excess inflows from a related specialised credit institution)					-	-	-	
20	TOTAL CASH INFLOWS	2,776.33	2,488.77	2,209.76		2,743.79	2,459.29	2,162.91	
EU-20a	Fully exempt inflows	-	-	-		-	-	-	
EU-20b	Inflows subject to 90% cap	-	-	-		-	-	-	
EU-20c	Inflows subject to 75% cap	2,776.33	2,488.77	2,209.76		2,743.79	2,459.29	2,162.91	
TOTAL ADJUSTED VALUE									
EU-21	LIQUIDITY BUFFER					972.80	942.24	988.81	
22	TOTAL NET CASH OUTFLOW					543.62	476.35	485.77	
23	LIQUIDITY COVERAGE RATIO					181.62%	198.54%	205.80%	

The external funding structure of the Bank is considered as stable and well diversified. The above figures also provide detailed information in accordance with the circular CSSF 18/676 on LCR disclosure.

In addition to regulatory monthly calculation and monitoring of the LCR, the Bank also monitors its LCR performance on a daily basis. The Bank was compliant with the regulatory requirements of LCR throughout 2022 with a daily minimum LCR of 140% in 80% of the time during 2022.

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

The observations that might fall below the internal early warning buffer are monitored and investigated by FID 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 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 2022.
- The Bank is meeting the regulatory requirements during 2022 and aims in keeping similar performances during 2023.

The ratio is calculated and monitored daily, NSFR daily calculation is communicated to AM and relevant departments and includes 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	
Available stable funding (ASF) Items						
1	Capital items and instruments	837.29	-	-	106.79	944.07
2	Own funds	837.29	-	-	106.79	944.07
3	Other capital instruments		-	-	-	-
4	Retail deposits		86.95	10.88	10.56	101.32
5	Stable deposits		49.63	4.47	0.75	52.14
6	Less stable deposits		37.33	6.41	9.81	49.17
7	Wholesale funding:		5,536.63	936.64	2,039.74	3,875.75
8	Operational deposits		-	-	-	-
9	Other wholesale funding		5,536.63	936.64	2,039.74	3,875.75
10	Interdependent liabilities		-	-	-	-
11	Other liabilities:	6.16	81.42	-	-	-
12	NSFR derivative liabilities	6.16				
13	All other liabilities and capital instruments not included in the above categories		81.42	-	-	-
14	Total available stable funding (ASF)					4,921.14
Required stable funding (RSF) Items						
15	Total high-quality liquid assets (HQLA)					-
EU-15a	Assets encumbered for more than 12m in cover pool		-	-	-	-
16	Deposits held at other financial institutions for operational purposes		-	-	-	-
17	Performing loans and securities:		3,905.13	387.86	3,692.53	3,969.37
18	Performing securities financing transactions with financial customers collateralised by Level 1 HQLA subject to 0% haircut		-	-	-	-
19	Performing securities financing transactions with financial customer collateralised by other assets and loans and advances to financial institutions		3,650.05	133.25	966.84	1,398.47
20	Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, and PSEs, of which:		255.08	254.60	2,721.80	2,568.37
21	With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk		-	-	-	-
22	Performing residential mortgages, of which:		-	-	3.89	2.53
23	With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk		-	-	3.89	2.53
24	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	Interdependent assets		-	-	-	-
26	Other assets:		210.74	-	172.62	108.91
27	Physical traded commodities				86.31	-
28	Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs		-	-	-	-
29	NSFR derivative assets		1.73			1.73
30	NSFR derivative liabilities before deduction of variation margin posted		-			-
31	All other assets not included in the above categories		209.01	-	86.31	107.18
32	Off-balance sheet items		0.11	-	1,458.57	72.93
33	Total RSF					4,151.22
34	Net Stable Funding Ratio (%)					118.55%

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 as an available liquidity buffer and that can be used for unexpected future liquidity needs, such as liquidity outflows from committed credit lines, margin calls on derivative positions, significant deposits outflows etc.
- Strong connection between liquidity and market valuation and/or haircuts: whenever the cash value of encumbered assets decreases for any reason, the Bank has to provide additional collateral (additional encumbrance occurs) to offset the above decrease of the value.
- Increased structural subordination of unsecured depositors/“crowding out” of unsecured funding: the shift towards secured funding and the resulting asset encumbrance may imply lower recovery rates for unsecured creditors and hence increased costs of unsecured wholesale funding, potentially leading to “crowding out” of unsecured wholesale funding. Bank funding excessively skewed towards secured funding and increasing encumbrance of high-quality assets can negatively 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 had very limited encumbered assets in December 2022; encumbrance stems primarily from non-withdrawable central bank reserves constituted which are part of the Bank’s liquidity capacity and cannot be withdrawn in time of stress. Additionally, there is a limited amount (€1.53 million as at 31st December 2022) stemming from variation margin purposes.

Table 8.6.1 EU AE1 - Encumbered and unencumbered assets

(In EUR Million)	Carrying amount of encumbered assets		Fair value of encumbered assets		Carrying amount of unencumbered assets		Fair value of unencumbered assets	
	010	of which notionally eligible EHQLA and HQLA 030	040	of which notionally eligible EHQLA and HQLA 050	060	of which EHQLA and HQLA 080	090	of which EHQLA and HQLA 100
Assets of the reporting institution	168.80	167.27	-	-	9,504.63	9,418.11	-	-
Equity instruments	-	-	-	-	-	-	-	-
Debt securities	-	-	-	-	278.26	191.95	278.26	191.95
of which: covered bonds	-	-	-	-	-	-	-	-
of which: securitisations	-	-	-	-	-	-	-	-
of which: issued by general governments	-	-	-	-	278.26	191.95	278.26	191.95
of which: issued by financial corporations	-	-	-	-	-	-	-	-
of which: issued by non-financial corporations	-	-	-	-	-	-	-	-
Other assets	168.80	167.27	-	-	9,226.36	9,226.16	-	-

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	
			Fair value of collateral received or own debt securities issued available for encumbrance	
	010	of which notionally eligible EHQLA and HQLA 030	040	of which EHQLA and HQLA 060
Collateral received by the disclosing institution	168.80	-	-	-
Loans on demand	168.80	-	-	-
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	-	-	-	-
Own debt securities issued other than own covered bonds or securitisations	-	-	-	-
Own covered bonds and securitisation issued and not yet pledged			-	-
TOTAL COLLATERAL RECEIVED AND OWN DEBT SECURITIES ISSUED	168.80	-		

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
Carrying amount of selected financial liabilities	0.02	1.53

The assets encumbrance ratio⁷ 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 2022, the asset encumbrance ratio continues the upward trend initiated in 2020 and reached 29.1% in December 2021 while the Bank had a ratio of 1.74% at the end of 2022, which is a very low level of assets encumbrance, compared to other institutions.

 Table 8.6.4 ratio of encumbrance asset as at 31st December 2022

⁷ Asset encumbrance ratio = (Encumbered assets + Collateral received re-used) / (Total assets + Total collateral received).

(in EUR million)	2022/12/31
Ratio of assets encumbrance	
Encumbered assets	168.80
Collateral received	-
Total encumbered assets	168.80
Total non-encumbered assets	9,504.63
Total assets	9,673.43
Ratio	1.74%

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 measures 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. During 2022, the Bank had issued a new "Corporate Credit Portfolio Management Scheme (2022 Edition)", in which some adjustments regarding industry classification and appetite were approved concerning 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 to low.

- *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) is considered. 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 is 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 for assets side. In terms of the investment portfolio, there are only sovereign bonds qualified as HQLA. The Bank's main currencies are USD and EUR, which is relatively stable.

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 main 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. 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 and readjusted each year. 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 staff 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.

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 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 Bank 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 significant 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 losses 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.

9.6. Climate and Environmental risk / ESG

- *Climate and Environmental risk*

Identification

Climate change and environmental degradation (and risks) are sources of structural change that affect economic activity and, in turn, the financial system. Climate-related and environmental risks are commonly understood to comprise two main risk drivers:

Physical risk refers to the financial impact of a changing climate, including more frequent extreme weather events and gradual changes in climate, as well as of environmental degradation, such as air, water and land pollution, water stress, biodiversity loss and deforestation. Physical risk is categorized as "acute" when it arises from extreme events, such as droughts, floods and storms, or "chronic" when it arises from progressive shifts, such as increasing temperatures, sea-level rises, water stress, biodiversity loss and resource scarcity. It may directly result in, for example, damage to property or reduced productivity, or indirectly lead to subsequent events, such as the disruption of supply chains.

Transition risk refers to an Institution's financial loss that may result, directly or indirectly, from the process of adjustment towards a lower-carbon and more environmentally sustainable economy. It could be triggered, for example, by a relatively abrupt adoption of stricter climate and environmental

policies, technological progress or changes in market sentiment and preferences.

Climate-related and environmental risks may translate into physical and transition risks that could materially impair the financial situation and the operational capacity of the Bank. The process to assess and manage climate risk and its associated tolerance describe the expectation of our Bank to consider and integrate into its operations climate-related and environmental risks. These expectations are most relevant when the Bank formulates and implements its business strategy, governance and risk management frameworks. They are part of the wider regulatory developments regarding sustainability considerations.

Monitoring

The Bank is fully aware of the physical risks that can affect its operations in the long term. The Bank pays particular attention to the credit risk (exposure of our Clients to physical risks) and the global effect on macro-economic indicators. Although there is no doubt that climate changes will affect the global economy, the Bank can only contribute, due to its business model, to the financing of green project (as set by the brown exposure indicator).

The Bank is aware of the market fluctuations due to the global climate changes and possesses sufficient mechanisms to anticipate and manage such risks in several aspects (liquidity, credit strategy ...). The Bank possesses sufficient agility to adapt its strategy to the global market fluctuations.

Internal limits for Climate and Environmental Risk were set as follows:

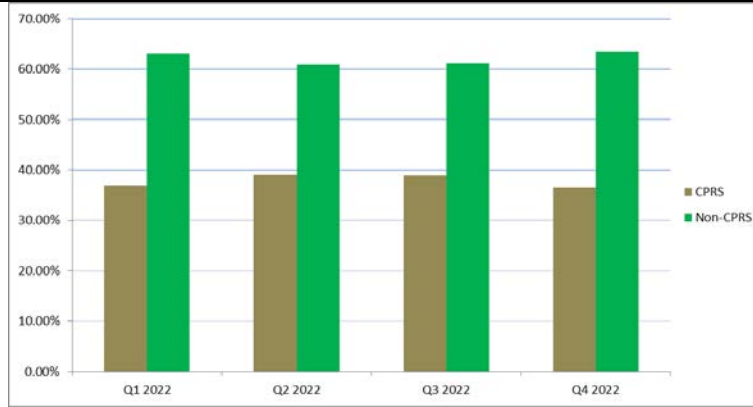
Credit exposure to Brown Sectors stays within 50% of total credit exposures.

- : < 45 %
- : ≥ 45 % and < 50 %
- : ≥ 50 %

As of 31 December 2022, asset in CPRS⁸ (Climate-policy-relevant Sectors) was 36.52% out of the total credit outstanding, remaining 63.48 % outstanding allocated in non-CPRS sectors.

	Q1 2022	Q2 2022	Q3 2022	Q4 2022
CPRS	36.89%	39.04%	38.86%	36.52%
Non-CPRS	63.11%	60.96%	61.14%	63.48%
Limit	50%	50%	50%	50%

⁸ Battiston et al.2017 ;



- **ESG**

The Bank aims at promoting Companies with high ESG standards.

Following the ESG action plan, the Bank has started to collect the ESG rating available for our credit facilities (our Clients). Based on the portfolio external ESG rating, the Bank is expecting to have a quantitative approach reflected in the business strategy and risk appetite.

10. Remuneration Policy and Practices

10.1. Internal Governance

The BOD is the ultimate responsible for the Bank's Remuneration Policy. This policy is reviewed annually by the HR department and validated by the BOD, or whenever there is material strategic update.

The Policy applies to all the entities (branches and subsidiaries) of IPU and to all staff. Cross-border entities are responsible for adapting this policy to comply with local laws and regulations and formulating 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.

To support the BOD in its remuneration-related duties, the Bank has established a Remuneration Committee. The Remuneration Committee reviews all revisions, assessments and reports mentioned in the Remuneration Policy and as far as appropriate shall recommend their conclusions and initiatives to the Board of Directors. The Remuneration Committee is also authorized to provide recommendation on the Bank's remuneration.

Upon request, the Bank shall disclose and make available relevant information regarding the remuneration of Material Risk Takers (MRTs).

The Bank's Authorized Management is responsible for implementing the provision of Remuneration Policy and ensuring the remuneration practices in the Bank comply with the relevant regulation, the Bank's internal principles on this matter, and other related guidelines AM reports regularly (at least annually) to the Remuneration Committee about the implementation of these functions.

The Bank's control functions (Risk, Compliance and Internal Audit function) are involved in the design and ongoing oversight of the Bank's remuneration policy. The remuneration scheme of the Bank is deemed to be in line with the Bank's risk profile, and is ex-post adjusted if needed. It is also compliant with legislation, regulations and internal policies. Finally, the IAD assess the effective implementation of remuneration policy and reviews the MRT (Material Risk Takers) identification.

The Bank's Remuneration Policy stipulates the following principles:

- Non-discrimination : The Bank applies a non-discrimination principle and does not discriminate based on gender, sexual orientation, gender identity, skin colour, social origin, ethnicity, language, ways and beliefs including those of religious and/or political nature, wealth, marital or family status, health, disability, age, respectively racial and/or ethnic, national, race, minority or religious belonging (supposed or actual);
- Comprehensiveness: The Policy aims at governing the Remuneration of all Staff Members of the Bank, including the ones whose activity has a material impact on the risk profile of the Bank and its activities.
- Self assessment to identify the MRT: MAR 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 MRTs are assessed on a regular basis (e.g. at the time of recruitment, in case of change of functions, etc.) and at least once a year.

Irrespective of the potential application of the proportionality principle, the BOD has the responsibility to identify MRTs while the staff identification exercise is carried out through the involvement of the Human Resources function and the control functions (risk and compliance).

The BOD is ultimately responsible for the Bank's Remuneration Policy.

10.2. Performance management

HR department, on a yearly basis, organizes the Bank's staff individual performance evaluation. The result of individual's assessment is based on peers and colleagues' feedback (so called "360"), on the accomplishment of individual KPI(s) (self-assessment, Department Heads' and AM's assessment).

The bonus award, promotions are linked to the evaluation results.

Based on the 6-level ranking groups which differ from D to A+, the applicable coefficient of Individual's performance, Department and the Bank's performance vary from 0 up to 1.2 as per table below:

Evaluation Rating	Coefficient
A+	1.20
A	1.10
B+	1.05
B	1.00
C	0.60-0.90
D	0

10.3. Remuneration Structure

The remuneration structure is designed in comply with relevant laws and regulations as well as the strategic objectives of the Bank. The remuneration package includes, in particular:

- A balanced mix of fixed and variable remuneration: fixed and variable components of total remuneration are appropriately balanced, and the fixed component represents a sufficiently high proportion of the total remuneration to allow the operation of a fully flexible policy on variable remuneration components, including the possibility to pay non variable remuneration component⁹;
- Performance measurement the measurement of performance which impacts the Variable Remuneration.

⁹ LFS art. 38-6 (1) (f)

- Structure of the Variable Remuneration for MRT falling within the scope to ensure the Bank takes the appropriate action to align the Policy with its long-term interests, including:
 - the deferral over four¹⁰ 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;
 - the potential ex-post risk adjustment of the Variable Remuneration (through Malus and Claw back).

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 employee's Base Salary is based on with the role, responsibility, competency, job complexity, and local market conditions. The Base Salary refers to a 12-month salary plus any extra base amount as currently applicable by local law or collective bargaining agreement.

Overtime compensation

Subject to applicable laws and regulation and Bank's related procedure (esp. regarding approval), overtime, is only payable to Staff Members part of 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 detailed in the below sub-sections.

Pension Plan

All Employees who have their permanent work place in Luxembourg, who have an unlimited contract or fixed term contract in Luxembourg and who are not affiliated under another pension scheme within the Group are affiliated to a pension plan

Other Fixed Benefits (all staff members)

The Bank offers Staff Members a variety of fringe and other benefits.

This includes:

- Lunch vouchers;
- Birthday allowance;
- Marriage allowance;
- Birth allowance;
- Festivals allowance.

Other fixed ¹¹ Benefits for Transferred Chinese Staff Members (based on Head Office Circular

¹⁰ Directive 2013/36/EU art 94 1. (m), LFS art 38-6 (1) m

¹¹ EBA/GL/2021/04 art. 134 – elements part of fixed remuneration

ZhongYinFa [2011]658) Staff Members who have been expatriated to Luxembourg may receive the following benefits in Luxembourg, in connection with the social constraints and challenges associated to their expatriation:

- Family allowances (spouse allowance and children education allowance);
- A local health insurance for the Staff Member and his/her family (accompanying) including one health check-up per year;
- Round-trip travel (family visit) expenses to China;
- Settling-in and leaving allowance.

10.3.2. Variable Remuneration components

Bank's Staff Members may be eligible for an annual Variable Remuneration upon satisfaction of applicable performance criteria and completion of a performance assessment process. The performance assessment takes into account not only the Bank's overall performance, but also on the Staff Member's department performance, and the Staff Member's individual performance¹². Staff Members engaged in control functions are remunerated in accordance with the achievements of the objectives linked to their functions, independently from the performance of the business areas they control. The Remuneration of the senior levels in the risk management and compliance functions is available for the oversight of the Board of Directors the respective Chairperson of the Board Audit Committee and the Board Risk and Compliance Committee shall participate to the annual appraisal of the Chief Risk Officer, Chief Compliance Officer and Chief Internal Audit.

Maximum Variable Remuneration for the A+ ranked staff are set by our Bank. The MRT's maximum bonus are capped (Variable Remuneration set at 100% of the total Fixed Remuneration¹³, with a maximum of 200%¹⁴ upon shareholder consent and compliance with the procedure laid down in CSSF Circular 15/622).

Indicative Settings of Maximum Variable Remuneration

The following indicative settings may apply to the maximum Variable Remuneration in general.

Position	Maximum Variable Remuneration
Executive members	In compliance with art. 38-5 (Remuneration policies) and 38-6 (Variable elements of remuneration) LFS, esp. 38-6 (1)(g) (i) the variable component shall not exceed 100% of the fixed component of the total remuneration for each individual; except to comply with art. 38-6 (1) (g) (ii) ¹⁵
Control functions and Material Risk Takers	

Pay out process of Variable Remuneration for MRTs

The non-deferred part of Variable Remuneration related to a given performance year (i.e. maximum

¹² Directive 2013/36 as amended art 34 1. (a)

¹³ Directive 2013/36 as amended art. 94 (1) (g) (i); LFS 38-6 (1) (g) (i)

¹⁴ Directive 2013/36 as amended art. 94 (1) (g) (i); LFS 38-6 (1) (g) (ii)

¹⁵ 200% capping; subject to inter alia authorization of the shareholder and notification to the CSSF

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 4 years.

At least 50% of the Variable Remuneration is under the form of financial instruments which subject to a retention period of 12 months.

A Phantom Share plan (share-linked instrument), defines the applicable terms and conditions to deferred entitlements consisting of financial instruments. The deferred portion of Variable Remuneration is only paid out if it falls under the rules defining the good leavers.

The provisions of the Directive 2013/36 art 94 (1) (l)/(m) and the LFS art. 38-6 (1) (l)/(m) concerning deferral of variable remuneration does not apply to staff members whose annual variable remuneration does not exceed EUR 50,000 and does not represent more than one third of the staff members' total annual remuneration (Directive 2013/36 art. 94 (3) (b) and LFS art. 38-6 (2) b)).

Specific situations:

Severance Pay

In principle, the Bank does not offer guaranteed exit packages. In cases of early termination of a contract, the Bank will only provide severance payments in accordance with the provisions of the applicable employment law. Furthermore, any severance payment should be based on the performance achieved over time and should not serve as a reward for failure or misconduct.

Any severance pay shall comply with the following criteria¹⁶:

- Severance payments should not provide for a disproportionate reward, but for an appropriate compensation of the staff member concerned;
- Severance pay shall not be awarded where there is an obvious failure which allows for the immediate cancellation of the contract of dismissal;
- Severance pay shall not be awarded where a staff member resigns voluntarily;
- When determining the amount of severance pay, the Bank shall take into account the performance achieved over time and assess where relevant the severity of any failure including the Bank's own failures and those of the staff concerned.

Severance pay shall be considered as variable remuneration especially for MRTs and henceforth taken into account for the ratio, deferral and pay out in instruments except otherwise justified by the Bank¹⁷.

Personal Hedging

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

10.4. Disclosure

The Human Resource Department is responsible for the internal and external disclosure of Remuneration strategy and procedure ensuring that:

- The remuneration policy shall be internally disclosed to all staff and accessible for all staff at all times;
- The member of staff concerned should know in advance the criteria that will be used to determine their remuneration;

¹⁶ EBA/GL/2021/04 art 162 et seq. esp on the impact of mutual failures on the Bank and/or staff on severance pay (art. 169 – 171)

¹⁷ See EBA/GL/2021/04 art 172 - 174 for details on applicable regime

- The information regarding the policy which is disclosed internally reveals at least the details the details which are disclosed externally;
- Confidential quantitative aspects of the remuneration of staff members shall not be subject to internal disclosure;

Disclosure of the Remuneration strategy and procedure is included in the Bank's financial statements. The following information is disclosed for the Bank:

- 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 the 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 remuneration;
- information on the performance criteria on which the entitlement to variable 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. The amounts of outstanding deferred remuneration split into vested and unvested portions;
 - (iii) The amounts of deferred remuneration awarded during the financial year, paid out and reduced through performance adjustments.
 - (iv) New sign-on and severance payments made during the financial year, if any and the number of beneficiaries;
 - (v) The amounts of severance payments awarded during the financial year, number of beneficiaries and highest such award to a single person;
 - (vi) Upon demand from the CSSF, the total Remuneration for each member of the management body or senior management.

10.5. Diversity and recruitment policy

The Bank's diversity and recruitment policy aims to attract, motivate and retain the high-calibre staff necessary to obtain business results. The measures undertaken by the Bank include:

- Define clear position descriptions, recruitment qualifications and standards according to the business development strategy and business needs of the Bank.

- Ensure the diversity of the Bank's employees, including members of the Board, to represent a variety of views and experience. The diversification characters include factors, amongst others, age, gender, educational and professional background. It has also the objective to achieve an appropriate balance between locally hired employees and expatriates from the BOC H.O.

Regarding the recruitment policy for the selection and appointment of the Management Body member to fill vacancies, the assessment will consider factors such as a candidate of 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 Bank shall also ensure the members of the Management Body and Key function holders have sufficient knowledge, skills and experience to fulfil their individual roles 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 a Management Body member is assessed in accordance with the guidelines provided by EBA.

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 amount of remuneration is further split into fixed and variable remuneration and the number of beneficiaries. Detailed information is indicated 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 (given in EUR mio)
The data includes BOC (Europe) SA and its entities except BOC (CEE) Ltd, BOC (CEE) Prague Branch, BOC

(BCC) Ltd, Vienna Branch and BOC (CEE) Ltd, Budapesta Succursala Bucuresti.

(In EUR)		MB Supervisory function	MB Management function	Other senior management	Other identified staff
Fixed remuneration	Number of identified staff	3	14	4	
	Total fixed remuneration	0.32	2.66	0.76	
	Of which: cash-based	0.32	2.66	0.76	
	(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	14	4	
	Total variable remuneration	0	1.78	0.44	
	Of which: cash-based		0.89	0.22	
	Of which: deferred		0.36	0.09	
	Of which: shares or equivalent ownership interests				
	Of which: deferred				
	Of which: share-linked instruments or equivalent non-cash instruments		0.89	0.22	
	Of which: deferred		0.36	0.09	
	Of which: other instruments				
	Of which: deferred				
Total remuneration (2 + 10)	0.32	4.44	1.20		

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

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	1.09	0.27	0.82			0.01	0.28	0.20
Cash-based	0.49	0.15	0.34				0.15	-
Share-linked instruments or equivalent non-cash instruments	0.60	0.12	0.47			0.01	0.13	0.20
Other senior management	0.05	0.01	0.04				0.01	0.01
Cash-based	0.03	0.01	0.02				0.01	-
Share-linked instruments or equivalent non-cash instruments	0.03	-	0.03				-	0.01
Total amount	2.28	0.56	1.72			0.01	0.57	0.41

Deferred remunerations were applicable for both MB Management function and other senior management. The amounts of total outstanding deferred remuneration for MB Management functions was EUR 1.09 million and EUR 0.28 million was actually paid out during 2022. The amounts of total outstanding deferred remuneration for other senior management function were EUR 0.05 million and EUR 0.006 million was actually paid out during 2022.

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



(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										21
Of which: members of the MB	3	14	17							
Of which: other senior management				0	0	1	0	2	1	
Of which: other identified staff										
Total remuneration of identified staff	0.32	4.44	4.76			0.30		0.60	0.30	
Of which: variable remuneration		1.78	1.78			0.14		0.23	0.07	
Of which: fixed remuneration	0.32	2.66	2.98			0.16		0.37	0.23	