INDUSTRIAL AND COMMERCIAL BANK OF CHINA (EUROPE) S.A.

Pillar 3 Disclosure Report

As at 31 December 2020

Pursuant to Part Eight of Regulation (EU) No. 575/2013

ICBC 工银欧洲

INDUSTRIAL AND COMMERCIAL BANK OF CHINA (EUROPE) S.A.

Contents

1 Introduction

Pursuant to Article 431 of the CRR, ICBC (Europe) S.A. has to publicly disclose the information specified in Part Eight, Title II of the CRR, subject to the provisions laid down in Article 432 of the CRR.
In addition of the Part Eight of the CRR, this report meets the consolidated requirements of the circular CSSF 14/583, CSSF regulation 14-01 (national law transposition), CSSF 17/673 on the adoption of the European Bank Authority ('EBA') on disclosure requirements under Part Eight of the CRR and CSSF 18/676 on LCR disclosure to complement article 435 of the CRR.

Unless otherwise stated, all figures are as at December 31, 2020.
All information in this report is disclosed in Euro being the legal entity accounting and reporting currency.

- **Background**

The Capital Requirements Directive IV ('CRD IV' - Directive 2013/36/EU) and the Capital Requirements Regulation ('CRR' - Regulation [EU] No. 575/2013) as published in the Official Journal of the European Union on June 27, 2013 are the transposition of the Basel III framework.
The Basel III framework is structured around three pillars:

- **Pillar 1 – Minimum Capital Requirement -** establishes minimum capital requirements for credit, market and operational risk, defines eligible capital instruments, and defines rules for calculating risk weighted assets.

- **Pillar 2 – Internal Capital and Liquidity Adequacy Assessment Process ('ICLAAP') and Supervisory Review and Evaluation Process ('SREP')** - processes aim to enhance the link between an institution's risk profile, its risk management and risk mitigation systems, and its capital planning. Pillar 2 can be divided into two major components:

- Establish sound, effective and complete strategies and processes to assess their own risk profile and to determine the level of additional capital required over and above the Pillar 1 requirements, to cover risks either not captured, or not fully captured, by the Pillar 1 requirements, as well as robust governance and internal control arrangements.

- Supervisory review and evaluation process (SREP). The key purpose of SREP is to ensure that institutions have adequate arrangements, strategies, processes and mechanisms as well as capital and liquidity to ensure a sound management and coverage of their risks, to which they are or might be exposed, including those revealed by stress testing and risks institution may pose to the financial system.

- **Pillar 3 - Market Discipline -** requires the disclosure of information regarding the risk management policies, capital resources as well as the results of the calculations of minimum capital requirements with the aim of promoting market discipline.

This document fulfils the Pillar 3 disclosure requirements of the CRR/CRD IV regulation, including the various EBA Final draft Implementing Technical Standards on Disclosure for Own Funds, the Guidelines on disclosure of encumbered and unencumbered assets, the Guidelines on materiality, proprietary and confidentiality and on disclosure frequency, the Regulatory technical standards on disclosure of information related to the countercyclical capital buffer and the Implementing Technical Standards on disclosure for leverage ratio.

1.1 Scope of application

- **Name of the institution to which the requirements of this Regulation apply: Article 436 (a)**

Industrial and Commercial Bank of China (Europe) S.A (the "Bank") is a credit institution formed under the law of 5 April 1993 of Luxembourg and is subject to the supervision and regulation by the Commission de Surveillance du Secteur Financier ("CSSF") which requires to comply with Pillar 3 disclosures.

The Bank formerly named the Industrial and Commercial Bank of China (Luxembourg) S.A. was incorporated in Luxembourg on 5 September 2006 with an initial capital of USD18, 500,000. Since then, the share capital of the Bank has been increased after three times capital injection and in 2020 the subscribed capital of the Bank is EUR 437,432,880.

The Bank is a wholly owned subsidiary of the Industrial and Commercial Bank of China Limited ("ICBC Ltd.", "ICBC Head Office", "parent company") which is a credit institution incorporated in the People's Republic of China ("PRC"), governed by the laws of the PRC, and regulated by the China Banking and Insurance Regulatory Commission (''CBIRC'').

As of 31 December 2020, the Bank operates six branches in Paris, Amsterdam (incl. a sub-branch in Rotterdam), Brussels (incl. a sub-branch in Antwerp), Milan (incl. a sub-branch in Rome), Madrid (incl. a sub-branch in Barcelona) and Warsaw. On 25 October 2019, the application of establishment of ICBC (Europe) S.A. Greece Representative Office has been approved by the Greece's regulator Bank of Greece. On 28 July 2020, the ICBC (Europe) S.A. Greece Representative Office has accomplished the tax registration in Athens, Greece.
The Bank stands as an essential platform for development in European Continent for ICBC Ltd., and will be steadily supported by ICBC Ltd. on every potential aspect such as business development, capital and liquidity management.

- **Outline of the differences in the basis of consolidation for accounting and prudential purposes: Article 436 (b)**

Assets	Annual Accounts 2020	Adjustments		FinRep 2020
Cash, balances with central banks and post office banks	**713,479,091**	**0**		**713,479,091**
Treasury bills and other bills eligible for refinancing with central banks	**291,225,608**	**-291,225,608**	{a}	**0**
- Treasury bills	246,028,034	-246,028,034	{a}	0
- Other bills eligible for refinancing with central banks	45,197,574	-45,197,574	{a}	0
Loans and advances to credit institutions	**570,812,725**	**-302,705,344**	{b}	**268,107,381**
a) repayable on demand	119,217,354	0		119,217,354
b) other loans and advances	451,595,371	-302,705,344	{b}	148,890,027
Loans and advances to customers	**2,590,137,483**	**359,582,793**	{c}	**2,949,720,276**
Debt securities and other fixed-income securities	**1,144,388,848**	**298,083,902**	{d}	**1,442,472,751**
Shares and other variable-yield securities	**15,856,616**	**499,685**	{d}	**16,356,301**
Intangible assets	**79,683**	**59**	imm	**79,742**
Tangible assets	**26,612,051**	**36,103,766**	{e}	**62,715,817**
Other assets	**19,162,113**	**-3,121,053**	{f}	**16,041,059**
Prepayments and accrued income	**88,512,718**	**-4,202,242**	{g}	**84,310,476**
Total assets	**5,460,266,936**	**93,015,958**		**5,553,282,895**

Liabilities	Annual Accounts 2020	Adjustments		FinRep 2020
Amounts owed to credit institutions	**1,262,424,558**	0		**1,262,424,558**
a) repayable on demand	352,847,801	0		352,847,801
b) with agreed maturity dates or periods of notice	909,576,757	0		909,576,757
Amounts owed to customers	**3,579,624,695**	0		**3,579,624,695**
a) repayable on demand	979,889,371	0		979,889,371
b) with agreed maturity dates or periods of notice	2,599,735,325	0		2,599,735,325
Other liabilities	**10,405,899**	41,788,040	{e}	**52,193,940**
Accruals and deferred income	**37,524,692**	-12,120,325	{g}	**25,404,367**
Provisions	**14,653,256**	0		**14,653,256**
a) provisions for taxation	3,061,987	0		3,061,987
b) other provisions	11,591,269	0		11,591,269
Subscribed capital	**437,432,880**	0		**437,432,880**
Reserves	**7,884,416**	45,440,553	{h}	**53,324,969**
Profit brought forward	**122,107,399**	17,635,481	{i}	**139,742,880**
Profit for the financial year	**-11,790,859**	272,210	{j}	**-11,518,649**
Total liabilities	**5,460,266,936**	**93,015,958**		**5,553,282,895**

{a}	Reclassification of debt securities due to presentation accounting rules
{b}	Reclassification of loans due to presentation accounting rules
{c}	Adjustments related to Expected Credit Losses IFRS 9 model, and presentation of reserves for Fair Value and Lump-sum.
{d}	Adjustments related to fair value unrealized gains.
{e}	Adjustments for Right of use assets and relevant leasing liabilities under IFRS 16.
{f}	Adjustment of deferred tax and lump-sum due to presentation accounting rules.
{g}	Adjustment for unrealized gains linked to derivatives instruments.
{h}	Adjustment for lump-sum and reserves recorded in other comprehensive income.
{i}	Accumulated adjustments since prior years.
{j}	Adjustments explained in P&L account.

- **Article 436 (c) to Article 436 (d)**

Not applicable

1.2 Frequency

- **Frequency of disclosure: Article 433**

The Bank publishes the Pillar 3 Disclosure Report ("the Pillar 3 report") in accordance with Article 433 of the CRR on an annual basis. The Bank will assess the need to publish some or all disclosures more frequently than annually in the light of the relevant characteristics of its activity.

1.3 Means of disclosure

- **Determine the appropriate medium, location and means of verification: Article 434**

- Location of publication: available on the Bank's website upon request: http://www.icbc.eu
- Verification: subject to internal review and validation by Management Committee ('MC') members

before being submitted to the Board of Directors ('BoD') for approval. The Bank's Pillar 3 report has been reviewed and approved by the BoD.

1.4 Disclosures not applicable to the Bank

The following articles of the CRR are not applicable to the Bank as at December 31, 2020:

- Indicators of global systemic importance (Art. 441).
- Exposure to equities not included in the trading book (Art. 447).
- Exposure to securitization positions (Art. 449).
- Use of the IRB Approach to credit risk (Art. 452).
- Use of the Advanced Measurement Approaches to operational risk (Art. 454).
- Use of Internal Market Risk Models (Art. 455).

2 Risk management objectives and policies

2.1 Governance

- **Information flow on risk to the management body: Article 435 (2) (e), and**
- **Whether or not the institutions has set up a separate risk committee and the number of times the risk committee has met: Article 435 (2) (d)**

Stakeholder	Risk management governance and arrangements
Management body **-** **Board of Directors** **-** **Supervisory function**	The BoD of the Bank is ultimately responsible for risk management and shall, inter alia, • review and approve the Banks' overall risk management system, risk appetite and risk tolerance for the Bank's business strategy, establish, communicate to the Authorized Management the main principles and objectives governing risk taking and risk management; • establish the basic policies regarding risk management, internal control and compliance matters etc, approve the delegation of authority, supervise the Authorized Management's duties on risk management and control; • periodically review the overall risk management report, internal control function reports, internal capital and liquidity adequacy assessment report(ICLAAP) and recovery plan etc. to maintain its understanding about the risk profile of the Bank; • approve information disclosure report about overall risk and various major risks; take other responsibilities for risk management defined by the legal and regulatory requirements.
Management body **-** **Authorized Management & Management Committee** **-** **Management function**	The AM is responsible for the organization and implementation of risk management, including implementation of risk management strategies and decisions of the BoD, formulation of basic rules for risk management to monitor and assess the adequacy and effectiveness of the risk management system, establishment and improvement of internal organizational framework to ensure effective performance of responsibilities for risk management and reporting to the BoD in time. AM performs the following responsibilities: • effective implementation of risk management strategies, risk appetite and risk limits; • formulating risk limits, in accordance with the risk appetite set by the Board of Directors; • formulating risk management policies and processes, and carrying out regular assessment and necessary adjustment; • assessing the risk management status of various key risks and reporting to the Board of Directors; • establishing management information system and data quality control mechanism; • supervising breach of risk appetite, risk limits, and violations of risk • other duties about risk management.

Specialized committee (latest applicable organization – December 2020

	Sub-committees of the BoD x2
Audit & Compliance Committee (ACC) **Met 6 times in 2020** **(directly under BoD)**	This Committee is a specialized committee of the BoD in the sense of circular 12/552 as amended. The mission consists in providing the BoD with observations and recommendations relating to the organization and the functioning of the Bank in audit and compliance.
Remuneration & Nomination Committee **Met 2 time in 2020**	The Remuneration & Nomination Committee is under the BoaBoD of the Bank and has the general responsibility to oversee the Bank's remuneration policy and nomination matters
	Sub-committees of the Authorized Management x8
Management Committee **Met 4 times in 2020**	The Management Committee is a committee established (i) to oversee the Bank's business and operation and implements its strategy, (ii) to give instructions to the business, operation and administration of the Bank, (iii) to keep the Bank developing stably.
Credit Committee (CC) **Met 66 times in 2020**	The Credit Committee is an ancillary unit of ICBC (Europe) S.A. supporting the decision-making of the Authorized Management of the Bank in credit risk management. The Committee takes the responsibility of collectively reviewing the financing, investment and other credit business that shall be examined and approved by the headquarters of the Bank according to the Credit Committee Charter and Review Scope of the Credit Committee stipulated by the Bank, provides the decision-making support for authorized approvers.
Risk Management Committee (RMC) **Met 5 times in 2020**	RMC is under AM and is responsible for managing the overall risk, formulating the unified principles, policies, strategies and objective in respect of the risk management, in particular pillar 1 risks and liquidity risk. Deliberating and formulating the organization structure and functions regarding the risk management, deliberating all internal control related regulations. Deliberating and formulating the risk management incentive and restraining mechanism and evaluation system, assessing the risk management situation within all the departments of the Bank's headquarters and the Branches, defining the priority of periodical risk management and specifying the requirements. Deliberating the overall risk management report which involved credit risk, market risk, liquidity risk and operational risk management, resolving the significant issues regarding risk management. Guiding, inspecting and urging all risk management relevant tasks within all the departments of the Bank's headquarters and the Branches.
Asset & Liabilities Management Committee (ALCO) **Met 4 times in 2020**	The Asset and Liability Committee acts as a supervisory group that aims at coordinating and deliberating Asset and Liability Management challenges with a goal of earning adequate returns taking into account the appropriate risk tolerance.
Information Technology (IT) and Information Security Management (ISM) Committee **Met 2 times in 2020**	The purpose of Information Technology and Information Security Management Committee is to assist the authorized management and the Board of Directors of the Bank to make important decisions and to fulfil its oversight and management responsibilities on Information Technology and

	Information Security management.
Financial Affairs Committee (FAC) **Met 2 times in 2020**	The FAC is the decision making body on financial affairs approval by adequately assessing the bank's major financial matters and the monitoring of their implementation.
New Product Assessment Committee **No meeting in 2020**	This committee oversees the implementation and manages risk associated with new, expanded, significantly modified Bank's products and services. The committee is in charge to collectively review new products and submit their collective decision to General Manager for endorsement after deep assessment of the governance framework, operational process, resources, financial impact and potential risks. The Committee is also responsible for requiring relevant department which initiated a specific new product to submit post-approval assessment report on this specific new product.
Client Relationship Acceptance Committee (CRAC) **No meeting in 2020**	This committee assesses from an AML/CTF and reputation risk perspective the acceptance of high risk clients (with account opening) including individual, corporate, and any Financial Institution/Assimilated Financial Institution (FI/AFI) for correspondent banking activity (i.e.: Clearing activity), as well as high risk business relationships (clients without account opening) including any kind of relationship with individual, corporate, or FI/AFI (hereafter the "prospect") with whom the Bank will have financial engagement (loan), any form of financial commitment, or any flows of transaction at the exception of interbank transaction performed by counterpart with Financial Markets Department. The CRAC is also in charge of re-assessing existing client/relationship when potential suspicion such as related to financial crime conducted compliance department to investigate client/relationship or to file a SAR/STR (Suspicious Activity Report/Suspicious Transaction Report).

2.2 Risk Management Framework

This sub-chapter refers to the overall risk management framework; the risk management objectives for each category of risk are further detailed under Chapter 4: Capital Requirement.

- **Overall Risk Management objectives and policies for each category of risk, the structure and organisation of the relevant risk management function, the scope and nature of risk reporting and measurement systems and the policy for hedging and mitigating risk: Article 435(1) (a) to (d)**

Overall Strategies and processes to manage the risks

The governance framework and the process to manage the risks are defined within the Bank's Enterprise-wide Risk Management Policy. The BoD bears the ultimate responsibility for risk management and supervises the Authorized Management's duties on risk management and control. The Enterprise-wide Risk Management Policy is reviewed to ensure its adequacy with respect to the Bank's activities and regulatory standards for risks management. Internal Audit is conducting regular independent reviews of its implementation according to the audit plan approved by the BoD.The BoD delegates to the AM to implement the risk strategy through policies and procedures, to inform the BoD of breaches and any other important developments.

The headquarters of the Bank, which is located in Luxembourg, is the risk management center for all branches.

Risk management is performed by the RMC, the Credit Committee, the ALCO, Risk Management Department ('RMD'), Compliance Department, Legal Department and related business operations departments at different levels. Internal Audit Department is in charge of the independent and objective reviews and assessment on the sufficiency and the effectiveness of the risk management system in line with the risk-oriented principle.

The different risk components are defined and described in the Enterprise-wide Risk Management Policy. The RMD takes the leading responsibility to measure, assess and oversee the overall risks and performs daily monitoring.
The Bank specifies applicable business authorisation limits to the European branches, which include the credit approval authorization, weighted credit risk assets limit, country risk limit, large exposure limit, etc... These limits are communicated to the business units and understood by the relevant staff, and also closely monitored by the risk control function at the branch level and at the Headquarters level.

Risk Management Principles
The Bank uses a set of principles that describe the risk management culture:

- Integrity and appropriateness of risk management: risk management policies cover all material risks taking into account the following factors: business strategy; size, nature and complexity of the Bank's business; risk tolerance level of the Bank; the sophistication of the Bank's risk monitoring capability, risk management systems and processes; the management expertise; and the legal and regulatory requirements.
- Independence of risk management: risk management function is independent from the Front Office and other departments responsible for the operations and in particular those taking risks. The risk management function identifies, measures, and assesses the overall risks faced by the Bank.
- Combination of quantitative management and qualitative management: quantitative management aims mainly at identifying, measuring, monitoring and controlling the major risks and capital adequacy, and effectively managing all types of risks. Qualitative management focuses mainly on analysing, assessing and controlling the Bank's corporate governance, internal control and risk management.
- Progressive and orderly management: the Bank aims to improve its risk management governance, process and system to ensure the Bank's business development is coordinated and consistent with its risk management.

Risk identification and overall risk management measures
Risk management processes aim to identify, assess, measure and monitor the following relevant risks that the Bank might be exposed to:

- Risks relating to the Pillar I and fully covered by the regulatory own funds: credit and counterparty risk, market risk (foreign exchange risk) and operational risk.
  The Bank has adopted the standardized approach to credit risk and market risk (mainly focusing on foreign exchange risk) assessment, the Original Exposure Method for counterparty credit risk for derivatives instruments and the Basic Indicator approach to operational risk assessment.

- Other risks: liquidity risk, interest rate risk in non-trading book, concentration risk, reputation risk, settlement risk.

In the context of the ICLAAP, the Bank performs an internal risk identification and assessment and identifies risks which are not covered or not fully captured in the minimum prudential own funds requirements. These risks are subject to a separate qualitative and quantitative assessment and measurement (depending if internal capital is allocated or not) and are added to the risks of the Pillar I in order to define the overall internal capital requirements.

- Setting the definition for different types of risk; reinforcing the regional risk management through the unified risk appetite, risk identification standard and centralized risk monitoring and controlling mechanism.
- Identifying and understanding the types of risk inherent in the Bank's business activities or major new products or services to be launched.
- Setting the risk limits and alert threshold system in line with the Bank's risk appetite, the authorization of the ICBC Head Office and the regulation of the CSSF.
- Determining the appropriate risk measurements (quantitative or qualitative); the accurate and reliable measurements should be subject to periodic updates to reflect changing business environment,

market conditions and legal requirements.
- Effective contingency plan when the risk undertaken is inherent with above-mentioned limits, which especially contains the risk mitigation and transfer strategies.
- Clear reporting system.

Risk Appetite
Risk appetite expresses the maximum level of risk that the Bank is willing to take and that are set within its risk tolerance according to its strategic planning and business model.

The Bank has set the definition for different types of risk, the requirements for risk reporting, the risk limits and alert thresholds.

The Bank's Risk Appetite Statement (RAS) are defined by means of minimum thresholds for a number of key ratios; a mix of financial ratios and regulatory & internal ratios. Ratios are applied with warning thresholds to indicate watch and alert status.
Clear steps, roles and responsibilities have been set in order to effectively monitor the Bank's Risk Appetite indicators and escalate any breaches.

The Bank's Risk appetite framework consists of three levels:
- Guidance by AM and BoD
- Organizational design, i.e. policies, infrastructure and governance.
- Execution, i.e. ownership, metrics, reporting and awareness & culture.

The Bank's Risk appetite framework is developed in order to be used as a reference point:
- To support strategy and planning.
- To ensure that business objectives are in line with regulatory requirements.
- To drive performance in terms of growth and value creation.
- To help making day-to-day decisions on investments, financing and funding.

The Bank's Risk appetite indicators:
- Include a combination of material risks.
- Are timely, clear and can be easily monitored.
- Cover a range of indicators on capital, credit, market, operational, compliance, interest rate risk, country risk, liquidity, profitability, concentration, Bank's reputation.
- Include both points in time and forward looking indicators.

Stress testing
The Bank is taking a forward-looking view in its risk management, strategic planning and capital planning.
The Bank undertakes a range of sensitivity analysis (interest rate of the Banking Book, foreign exchange) and stress analysis (liquidity risk, credit risk, reverse stress test) as part of its stress testing programme in addition of a firm-wide scenario.
The Bank's stress testing is actionable and informs decision making at all appropriate management levels.

Three lines of defence
The Bank has established internal governance arrangements which are consistent with the three-lines-of-defence model.

<u>1st line of defence - risk owners</u>:
Front-office business department is the first line of defence in risk management. The first line of defence shall carry out business activities in accordance with laws, regulations, and the Bank's related provisions and processes, formulate the business policy for its business line, and effectively control customer access; it shall intensify monitoring and examination on its business line which shall covering the Branches; it shall carry out positive identification, assessment and control to the risks in its operation and business process, collect and report risk points, and make improvement targeting at weak links promptly. It shall, through self-evaluation, self-examination, self- improvement and self-training on the systems, processes and

provisions related to businesses and products, perform the self-risk control duty in the course of business operation.

2nd line of defence - risk control functions:
Risk Management Department, Compliance Department, Legal Department and other departments which contribute to the independent risk control are the second line of defence in risk management. The second line of defence shall, through formulating risk management policies, standards and requirements, provide risk management methods, tools, processes, training and guidance to the first line of defence, and promote consistency and effectiveness of the Bank's risk management. It shall monitor the risk status and compliance status of business lines and the Branches with laws, regulations, corporate governance rules and policies, independently assess the risks and problems confronted by business lines and the Branches. It shall supervise and examine the implementation status and effectiveness of risk management measures taken by the first line of defence

3rd line of defence – Internal Audit function:
Internal Audit Department is the third line of defence in risk management. It shall, through internal independent and objective supervision and evaluation, and by applying systematic and standard methods, audit the performance of duties of the first and second lines of defence in risk management, carry out independent and objective supervision, auditing, evaluation and reporting on the effect of risk management, and promote the realization of the Bank's development strategy and business management objectives.

Internal Control Function Hierarchical Supervision
Internal control function refers to Risk Management Department, Internal Audit Department and Compliance Department. Within the branches of the Bank, the internal control functions depend, from a hierarchical and functional point of view, on the internal control functions of the Headquarter to which they belong and to which they report. Internal control function of the Headquarter shall reinforce the supervision through off-site and on-site inspection.

Declaration by the management body on the adequacy of risk management arrangements of the Bank and on its overall risk profile associated with the business strategy: Article 435 (1) (e) & (f)

- The BoD considers that the risk management arrangements of the Bank are adequate with regard to the Bank's profile and strategy. This declaration is based on the reliability of the risk-related information communicated to the Management Body through dedicated committees and reports foreseen by the governance.

- The BoD signs a liquidity and capital adequacy statements on an annual basis as part of the Internal Liquidity Adequacy Assessment Process (ILAAP) and Internal Capital Adequacy Assessment Process (ICAAP).

- The Bank's current risk-bearing capacity was adequate in 2020 to cover both expected and unexpected losses.

  - **Number of directorships held by members of management body: Article 435 (2) (a)**

Regarding the number of directorships held by the management body, the Board is compliant with the CRD IV and article 38-2 of the Law of 5 April 1993 on the Financial Sector as amended with regards to the limitation of mandates of the Bank's management body. Consequently, the Board members have sufficient time available to perform their duties as directors of the Bank.

Concise Risk Statement – Key ratios

Pillar I Credit risk Capital Requirement **EUR 286.7m** (Credit Capital at end-2019: EUR 269.32m)	Pillar I Market risk Capital Requirement **EUR 0.98m** (Credit Capital at end-2019: EUR 2.41m)	Pillar I Operational risk Capital Requirement **EUR 12.03m** (Credit Capital at end-2019: EUR 14.91m)
ECL (IFRS 9) **EUR 18.73m** (EUR 32.90M in 2019)	NPL **0.17%** **EUR 4.97m** (0.74% &EUR 24.65M in 2019)	Leverage Ratio **8.98%** (9.84% in 2019)
CET1 Capital ratio **16.54%** (17.49% in 2019)	Total Capital ratio **16.54%** (17.49% in 2019)	TSCR (SREP) **11.00%** (11% in 2019)
Overall capital requirement ratio **13.53%** (13.53% in 2019)	IRRBB Supervisory Outlier test (200bps) **-1.04%**	LCR **228.26%** (31.12.2020) (158.93% in 2019) **225.83%** (daily average) (131.44% in 2019)

Recruitment policy for the selection of the members of the management body: Article 435 (2) (b)

Recruitment Policy for the selection of members of the management body and key function holders

In accordance with CSSF Circular 12/552 as amended and the guidelines on the assessment of the suitability of members of the management body and key function holders published by the European Banking Authority ("EBA/GL/2017/12"),, the following positions are regarded as the key function position holders of the Bank:

- Members of BoD,
- Authorized Management, including General Manager and Deputy General Managers of the Bank.
- Local Management, including General Manager and Deputy General Manager of all branches of the Bank,
- Heads of Internal Control Functions at HQ and branches level (i.e. European Chief Compliance Officer (CCO), Chief Internal Auditor (CIA), and Chief Risk Officer (CRO)),
- Heads of front lines departments at Headquarters level (Banking Department, Corporate Banking Department, Financial Institutions Department and Financial Markets Department).

Roles and Responsibilities

The AM (with the assistance of Human Resources Department) is responsible for the preliminary selection for key function position holders of the Bank

Human Resources Department is responsible for applications for authorisation, appointment and departure notifications with CSSF regarding any changes of key function position holders.

Criteria of key function positions

Practices of the Bank comply with EBA/GL/2017/12, Circular CSSF 12/552 to ensure the good repute, honesty, integrity and independence of mind of candidates, as well as their appropriate knowledge, skills, experience and availability for the functions that they must perform. The overall assessment is performed on the following criteria:

- Reputation criteria
- Experience criteria
- Governance criteria

Planning and Review

At least once a year, under instructions of BoD, the AM (with the assistance of Human Resources Department) should review the status and potential succession of all key function position holders.

Candidate Identification

The Headquarters shall be informed and consulted about the requirements of the newly open position and the relevant profile of candidates before making any appointment or proposal in accordance with the Prudential Procedure for the Appointment of Members of the Management Body and Key Functions Holders in Credit Institutions as set out by CSSF.

Assessment

The AM shall make an initial assessment of each candidate. The candidate shall provide relevant information, files or evidence of the person, comprising at least the documents and information pursuant to the "Prudential Procedure for the Appointment of Members of the Management Body and Key Functions Holders in Credit Institutions" issued by CSSF.

Application to and Approval of CSSF

The application letter, together with documents required, should be sent to CSSF by the Human Resources department after the approval of the BoD. In the event of reassessment of any key function position holders, the notification procedure shall apply.

- ### Diversity with regards to selection of members of the management body: Article 435 (2) (c)

The Bank assesses whether the diversity and the collective knowledge, skills and experience within these bodies remain adequate considering the Bank's business model and the nature, size and complexity of its activities and inherent risks.

3 Own funds

3.1 Capital instruments' main features

The Bank's own funds are calculated in accordance with article 72 of the CRR and consist of the sum of its Tier 1 capital (Common Equity Tier 1 + Additional Tier 1 capital) and Tier 2 capital.

- In order to calculate the eligible own funds, the Bank's system takes into account original own funds as defined in the CRR.
- The Bank excludes the interim profits from own funds until they are audited and booked in the annual accounts.
- The Bank has no subordinated liabilities and hybrid capital instruments as original own funds.

  - **Own funds reconciliation following Annex I the Commission Implementing Regulation (EU) No 1423/2013 of 20 December 2013, Article 2 (Annex I): Article 437 (1) (a) CRR**

As at 31 December 2020, there is no reconciliation differences between the amounts disclosed as Common Tier 1 capital to those treated as equity in the audited financial statements of the Bank. Indeed, the capital structure of the Bank is only composed of CET 1 (the Bank does not issued any Additional Tier 1 or Tier 2 capital instruments).
However, the profit for the financial year is not considered as eligible regulatory own funds until retained earnings are audited.

  - **Capital instruments' main features according to the template of the Commission Implementing Regulation (EU) No 1423/2013 of 20 December 2013, Article 3 (Annex II): Article 437 (1) (b) CRR**

Capital instruments main features template		
1	Issuer	Industrial and Commercial Bank of China (Europe) S.A.
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	N/A
3	Governing law(s) of the instrument	Luxembourg Law and registered in the "Registre de Commerce et des Sociétés à Luxembourg"
Regulatory treatment		
4	Transitional CRR rules	Common Equity Tier 1
5	Post-transitional CRR rules	Common Equity Tier 1
6	Eligible at solo/(sub-)consolidated/ solo&(sub-consolidated	Solo
7	Instrument type (types to be specified by each jurisdiction)	Capital
8	Amount recognized in regulatory capital (Currency in million, as of most recent reporting date)	EUR 437,432,880.00
9	Nominal amount of instrument	EUR 437,432,880.00
9a	Issue price	EUR 12.00
9b	Redemption price	N/A
10	Accounting classification	Shareholders' equity
11	Original date of issuance	Multiple Initial: 08.09.2006 1st increase of the share capital: 28.10.2010 2nd increase of the share capital: 19.07.2013 3rd increase of the share capital: 30.07.2015
12	Perpetual or dated	Perpetual
13	Original maturity date	no maturity
14	Issuer call subject to prior supervisory approval	No
15	Optional call date, contingent call dates and redemption amount	N/A

16	Subsequent call dates, if applicable	N/A
Coupons / dividends		
17	Fixed or floating dividend/coupon	N/A
18	Coupon rate and any related index	N/A
19	Existence of a dividend stopper	N/A
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	N/A
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	N/A
21	Existence of step up or other incentive to redeem	N/A
22	Noncumulative or cumulative	N/A
23	Convertible or non-convertible	N/A
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	N/A
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	N/A
36	Non-compliant transitioned features	N/A
37	If yes, specify non-compliant features	N/A

3.2 Own funds disclosure

- **Full terms and conditions of all Common Equity Tier 1, Additional Tier 1 and Tier 2 instruments: Article 437 (1) (c) CRR**

The Bank is fully owned by Industrial and Commercial Bank of China Limited, Beijing, China and its own funds are composed of Common Equity Tier 1 instruments only. The Bank capital amounts to EUR 437,432,880 which represents 36,452,740 shares at a par value of EUR 12, each fully paid-up.

- **Disclosure of nature and amounts of specific items on own funds - template of the Commission Implementing Regulation (EU) No 1423/2013 of 20 December 2013, Article 5 (Annex VI): Article 437 (1) (d) CRR**

Own Funds Disclosure template		Amount (EUR M)
Common Equity Tier 1 capital: instruments and reserves		
1	Capital instruments and the related share premium accounts	437.43
	of which: Instrument type 1	437.43
	of which: Instrument type 2	
	of which: Instrument type 3	
2	Retained earnings	128.22
3	Accumulated other comprehensive income (and other reserves, to include unrealized gains and losses under the applicable accounting standards)	45.44
4	Other reserves	10.78

5	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**621.87**
	Common Equity Tier 1 (CET1) capital: regulatory adjustments	
6	Additional value adjustments (negative amount)	-
7	Intangible assets (net of related tax liability) (negative amount)	-0.08
8	Adjustments to CET1 due to prudential filters	-2.19
9	**Common Equity Tier 1 (CET1) Capital**	**619.60**
Additional Tier 1 (AT1) capital: instruments		
36	**Additional Tier 1 (AT1) capital before regulatory adjustments**	**-**
Additional Tier 1 (AT1) capital: regulatory adjustments		
43	Total regulatory adjustments to Additional Tier 1 (AT1) capital	-
44	Additional Tier 1 (AT1) capital	-
45	**Tier 1 capital (T1 = CET1 + AT1)**	**619.60**
Tier 2 (T2) capital: instruments and provisions		
51	Tier 2 (T2) capital before regulatory adjustments	-
Tier 2 (T2) capital: regulatory adjustments		
57	Total regulatory adjustments to Tier 2 (T2) capital	-
58	Tier 2 (T2) capital	-
59	**Total capital (TC = T1 + T2)**	**619.60**
60	**Total risk weighted assets**	**3,746.39**
Capital ratios and buffers		
61	Common Equity Tier 1 (as a percentage of risk exposure amount)	16.54%
62	Tier 1 (as a percentage of risk exposure amount)	16.54%
63	**Total capital (as a percentage of risk exposure amount)**	**16.54%**
64	Institution specific buffer requirement (CET1 requirement in accordance with article 87 (1) (a)plus capital conservation and countercyclical buffer requirements, expressed as a percentage of risk exposure amount)	2.53%
65	of which capital conservation buffer requirement	2.50%
66	of which: countercyclical buffer requirement	0.03%
67	of which: systemic buffer requirement	0%
67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	0%
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	16.54%
Amounts below the thresholds for deduction (before risk weighting)		
Applicable caps on the inclusion of provisions in Tier 2		
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2013 and 1 Jan 2022)		
80	Current cap on CET1 instruments subject to phase out arrangements	0%
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	0%

- **Description of all restrictions applied to the calculation of own funds in accordance with the CRR and the instruments, prudential filters and deductions to which those restrictions apply: Article 437 (1) (e)**

Not applicable as the Bank does not apply any restriction.

- **Institutions which disclose capital ratios calculated using elements of own funds determined on a basis other than that laid down in the CRR, a comprehensive explanation of the basis on which those capital ratios are calculated: Article 437 (1) (f)**

The Bank discloses capital ratios calculated using elements of own funds determined on the basis laid down in the CRR only.

3.3 Capital buffers

- **Institutions shall disclose information related to capital buffers: Article 440**

The Bank's CET 1 requirement is 13.53% as of 31.12.2020, which is the sum of (i) 8% Pillar 1 requirement (ii) 3% Pillar 2 requirement, being the CSSF's decision on their SREP, (iii) the 2.5% capital conservation buffer and (iv) 0.03% for the bank-specific countercyclical buffer. The Bank is not subject to (i) systemic, (ii) G-SII and (iii) O-SII buffers.

- **Capital conservation buffer**

2.5% of Total Risk Exposure Amount (as defined in article 92(3) CRR) corresponding to the capital conservation buffer as defined in article 59.5 of the law of 5 April 1993 on the financial sector ('LFS').

- **Countercyclical Buffers**

As of 31.12.2020, the institution-specific countercyclical buffer to be considered amounted to 0.03%, near zero level.

Breakdown of countercyclical buffer (EUR M)

Breakdown per country	Exposure value under the standardised approach	Risk weighted exposure amount	Own funds requirements	Own funds requirements weights (%)	Countercyclical buffer rate (%)
Hong Kong	58.48	58.48	0.58	52.11%	1.00%
Norway	7.00	7.00	0.07	6.24%	1.00%
Czechia	17.33	17.33	0.09	7.72%	0.50%
Luxembourg	152.35	152.35	0.38	33.94%	0.25%
Total	**235.15**	**235.15**	**1.12**	**100.00%**	

		Data
1	Total risk exposure amount (EUR M)	3,583.58
2	Institution specific countercyclical capital buffer rate (%)	0.03%
3	Institution specific countercyclical capital buffer requirement (EUR M)	**1.12**

3.4 Leverage

3.4.1 Qualitative Statement

- **Disclosure on how the institution applies article 499 (2) and (3): Article 451 (1) (a) CRR**

Leverage ratio calculation as at 31 December 2020 is based on the Commission Delegated Regulation (EU) No. 2015/62 of 10 October 2014 amending the CRR with regard to the leverage ratio. According to this regulation, the leverage ratio is calculated by dividing Tier 1 capital resources by a defined measure of on-balance sheet assets and off-balance sheet items, while the Tier 1 capital is based on fully-fledged definition as the transitional provisions of CRR do not apply to the capital instruments of the Bank and therefore Article 499 (2) is not applicable to the Bank.

Article 429(2) of Regulation (EU) 575/2013, as amended by Regulation (EU) No 2015/62 no longer requires the calculation of the leverage ratio as the simple arithmetic mean of the monthly leverage ratios over a quarter. As a result, there cannot be, any longer, any need for competent authorities to ever provide the permission referred to in Article 499(3) of Regulation (EU) 575/2013. Therefore, the uniform disclosure templates for the disclosure of the leverage ratio no longer need to include any specification about how the institution applies Article 499(3).

- **Description of the processes used to manage the risk of excessive leverage: Article 451 (1) (d) CRR**

Leverage ratio is essentially a non-risk based capital measure and has been introduced by CRR/CRD IV framework in order to limit the excessive use of leverage across banking system.
The Bank reports a leverage ratio equal to 8.98% as of 31.12.2020 which exceeds the upcoming requirement at 3% expected for June 2021. As part of the Risk appetite framework, this metric is controlled, monitored and reported to the RMC and to the AM which will take any corrective actions when required.

- **Description of the factors that had an impact on the leverage Ratio during the period to which the disclosed leverage Ratio refers: Article 451 (1) (e) CRR**

Compared with 31 December 2019 the Bank's leverage ratio slightly decreased from 9.84% to 8.98%. The leverage ratio remains quite stable along the year 2020; therefore the Bank did not identify specific factors which had a material impact on the leverage ratio during 2020.

3.4.2 Leverage Ratio disclosure

- **Breakdown of the total exposure measure as well as reconciliation of the total exposure measure with the relevant information disclosed in the published financial statements: Article 451 (1) (b) CRR**

Table: Summary reconciliation of accounting assets and leverage ratio exposures

		Applicable Amounts (EUR M)
1	Total assets as per published financial statements	5,460.27
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	-
3	(Adjustment for fiduciary assets recognized on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio exposure measure in accordance with Article 429(13) of Regulation (EU) No 575/2013 "CRR")	-
4	Adjustments for derivative financial instruments	29.88
5	Adjustments for securities financing transactions "SFTs"	-
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	802.50
7	Other adjustments	608.38
8	**Total leverage ratio exposure**	**6,901.03**

Table: Leverage ratio common disclosure		
		CRR leverage ratio exposures (EUR M)
On-balance sheet exposures (excluding derivatives and SFTs)		
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	6,070.91
2	(Asset amounts deducted in determining Tier 1 capital)	-2.27
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)**	**6,068.64**
Derivative exposures		
4	Replacement cost associated with *all* derivatives transactions (i.e. net of eligible cash variation margin)	-
5	Add-on amounts for PFE associated with *all* derivatives transactions (mark-to-market method)	-
EU-5a	Exposure determined under Original Exposure Method	29.88
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	-
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	-
8	(Exempted CCP leg of client-cleared trade exposures)	-
9	Adjusted effective notional amount of written credit derivatives	-
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	-
11	Total derivative exposures (sum of lines 4 to 10)	29.88
Securities financing transaction exposures		
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	-
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-
14	Counterparty credit risk exposure for SFT assets	-
EU-14a	Derogation for SFTs: Counterparty credit risk exposure in accordance with Article 429b (4) and 222 of Regulation (EU) No 575/2013	-
15	Agent transaction exposures	-
EU-15a	(Exempted CCP leg of client-cleared SFT exposure)	-
16	Total securities financing transaction exposures (sum of lines 12 to 15a)	-
Other off-balance sheet exposures		
17	Off-balance sheet exposures at gross notional amount	802.50
18	(Adjustments for conversion to credit equivalent amounts)	0
19	**Other off-balance sheet exposures (sum of lines 17 to 18)**	**802.50**
Exempted exposures in accordance with CRR Article 429 (7) and (14) (on and off balance sheet)		
EU-19a	(Exemption of intragroup exposures (solo basis) in accordance with Article 429(7) of Regulation (EU) No 575/2013 (on and off balance sheet))	
EU-19b	(Exposures exempted in accordance with Article 429 (14) of Regulation (EU) No 575/2013 (on and off balance sheet))	
Capital and total exposures		
20	Tier 1 capital	619.61
21	**Total leverage ratio exposures (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)**	**6,901.03**
		Leverage ratio
22	**Leverage ratio**	**8.98%**
Choice on transitional arrangements and amount of derecognized fiduciary items		
EU-23	Choice on transitional arrangements for the definition of the capital measure	Fully phased in
EU-24	Amount of derecognized fiduciary items in accordance with Article 429(11) of Regulation (EU) NO 575/2013	-

Table: Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)		
		CRR leverage ratio exposures (EUR M)
EU-1	**Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:**	6,070.91
EU-2	Trading book exposures	-
EU-3	Banking book exposures, of which:	6,070.91
EU-4	Covered bonds	-
EU-5	Exposures treated as sovereigns	1,588.63
EU-6	Exposures to regional governments, MDB, international organizations and PSE NOT treated as sovereigns	-
EU-7	Institutions	2,470.89
EU-8	Secured by mortgages of immovable properties	3.27
EU-9	Retail exposures	-
EU-10	Corporate	1,904.98
EU-11	Exposures in default	5,04
EU-12	Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	98,14

- **Where applicable, the amount of derecognized fiduciary items in accordance with Article 429 (11) of the CRR: Article 451 (1) (c) CRR**

Not applicable

4 Capital requirements

4.1 Internal capital requirement

- **Summary of the Bank's approach to assessing the adequacy of its internal capital to support current and future activities: Article 438 (a)**

In addition of the Pillar 1 regulatory capital requirement, the Bank performs an Internal Capital and Liquidity Adequacy Assessment Process (ICLAAP) in accordance with the circular CSSF 07/301, as amended.
According to the principle of proportionality, for Pillar 2, the approach retained by the Bank to evaluate its internal capital is a "Pillar I plus" approach.

In the context of the ICLAAP, the Bank performs an internal risk identification and assessment and has identified risks which are not covered or not fully captured in the minimum prudential own funds requirements.

The Bank's internal capital is conformed to the strategic goals, business developing plans, risk management objectives and expected market image of the Bank. The possible influences caused by external elements such as capital market, macro economy and so on are taken into account when stipulating the standard of internal capital.

The Bank implements a centralized platform in charge of unified control, access and manages the internal capital within the scope of all entities.

The minimum solvency ratio is determined in accordance the prudential methods defined by the CSSF and applicable EU regulation such as the Capital Requirements Regulation on which an internal buffer is added.
The Pillar II measures per risk types are determined based on the internal capital requirements defined by the Bank which shall be at least as conservative as the prudential ones. The internal capital is also tested in accordance with extreme, but plausible, stress scenarios which results are communicated to AM and BoD.

- Pursuant to the "Multi-Year plan on SSM Guides on ICAAP and ILAAP" published by the European Central Bank, regulatory authorities expect banks to apply two supplementary ICAAP perspectives: a normative and an economic perspective.

- This view was affirmed in the "ECB Guide to the ICAAP", published in December 2018.

- Whilst the normative perspective aims at fulfilling all capital-related legal requirements, supervisory demands and internal objective; the economic perspective covers all material risks which might threaten the Bank's economic viability.

- Both perspectives are designed to safeguard the Bank's ability to survive: they are based on internal assessments on the capital required to safeguard the Bank's continued existence – considering all of its specific effects, risks and losses.

- Both perspectives are implemented considering the principle of proportionality, the Bank's simplified and stable capital structure (made of CET1), its business type (simple core-business lines: corporate lending and bonds investment), its asset size, its non-systemic risk, the Bank's size compared to its parent company and the fact that its parent company has committed itself to grant the solvency and the liquidity of the Bank including its branches at any time, if deemed necessary.

- Over and above the risk-bearing capacity analysis, the ICLAAP comprises additional management tools, including a system of limits and early-warning thresholds based on risk and capital indicators, together with a comprehensive monthly and quarterly monitoring and reporting process.

- Moreover, stress tests are employed to analyse the impact of hypothetical developments on the Bank's risk-bearing capacity.

- Under the normative perspective, the Bank has adopted the standardized approach to credit risk and market risk (foreign exchange risk) assessment, the Original Exposure Method for counterparty credit risk for derivatives instruments and the Basic Indicator approach to operational risk assessment.

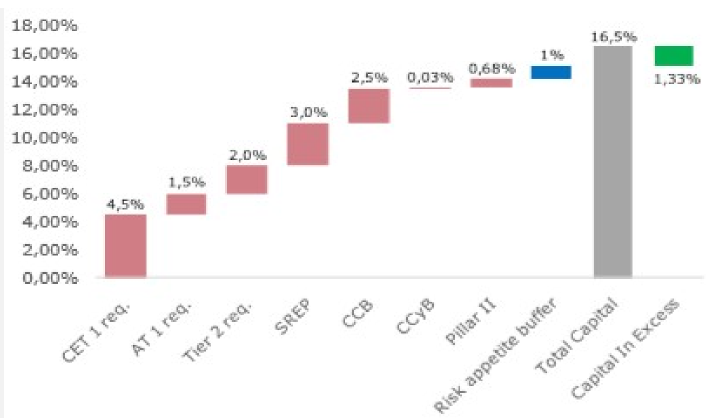
- Under the economic perspective, the Bank has performed an internal risk identification and assessment and has identified risks which are not covered or not fully captured in the minimum prudential own funds requirements. The risks identified are mainly related to liquidity risk, interest rate risk in non-trading book and concentration risk. These risks are subject to a separate assessment and are added to the risks of the Pillar I in order to define the overall internal capital requirements.

Adequacy for 2020: √
In 2020: adequacy under both normative and economic perspective.

Capital Surplus: **+ 2.33%** of which 1% allocated as Risk Appetite buffer.

Pillar 2 buffer (P2i): **+0.68%**

Capital Adequacy ratio: 16.54%



Capital Adequacy – buffer view

- **Upon demand of the relevant competent authority, the result of the Bank's Internal Capital Adequacy Assessment Process: Article 438 (b)**

Not applicable

4.2 Regulatory capital requirement

As of 31.12.2019, the regulatory CET 1, Tier 1 and Total capital ratio are set as follows:

- Common Equity Tier 1 capital ratio: 4.5%.

- Tier 1 capital ratio: 6%.
- Total capital ratio: 8%.

In addition, i) under Article 6 of CSSF Regulation N° 14-01 to hold, from 1 January 2014, a capital conservation buffer (made up of Common Equity Tier 1) equal to 2.5% of the total amount of their risk exposure, ii) 3% Pillar 2 requirement, being the CSSF's decision on their SREP, iii) 0.03% for the bank-specific countercyclical buffer leading to an overall requirement of 13. 53%.

The table below summarises RWAs and minimum capital requirements by risk type for the Bank. Further information on individual risk types is found in subsequent tables in this report. Minimum Capital Requirement is calculated as 8% of RWAs.
The Bank achieved a capital adequacy ratio of 16.54% as at December 31, 2020.

Template EU OV1 – Overview of risk weighted exposure amounts (EUR M)

		RWA		Capital Requirements
		31.12.2020	31.12.2019	31.12.2020
1	**Credit risk (excluding CCR)**	3,574.26	3 364.25	285.94
2	Of which the standardised approach	3,574.26	3 364.25	285.94
3	Of which the foundation IRB (FIRB) approach	-	-	-
4	Of which the advanced IRB (AIRB) approach	-	-	-
5	Of which equity IRB under the simple risk-weighted approach or the IMA	-	-	-
6	**CCR**	9.32	2.21	0.75
7	Of which mark to market	-	-	-
8	Of which original exposure	9.32	2.21	0.75
9	Of which the standardised approach	-	-	-
10	Of which internal model method (IMM)	-	-	-
11	Of which risk exposure amount for contributions to the default fund of a CCP	-	-	-
12	Of which CVA	-	-	-
13	**Settlement risk**	-	-	-
14	Securitisation exposures in the banking book (after the cap)	-	-	-
15	Of which IRB approach	-	-	-
16	Of which IRB supervisory formula approach (SFA)	-	-	-
17	Of which internal assessment approach (IAA)	-	-	-
18	Of which standardised approach	-	-	-
19	**Market risk**	12.35	30.19	0.99
20	Of which the standardised approach	12.35	30.19	0.99
21	Of which IMA	-	-	-
22	Large exposures	-	-	-
23	**Operational risk**	150.46	176.87	12.04
24	Of which basic indicator approach	150.46	176.87	12.04
25	Of which standardised approach	-	-	-
26	Of which advanced measurement approach	-	-	-
27	Amounts below the thresholds for deduction (subject to 250% risk weight)	-	-	-
28	Floor adjustment	-	-	-
29	**Total**	3,746.39	3 573.52	299.71

4.3 Regulatory capital requirement: Credit Risk

4.3.1 Risk management framework

- **Credit and Counterparty credit risk management: Article 435 (1)**

The Bank defines credit risk as the risk of losses arising because counterparties fail to meet all or part of their payment obligations to the Bank. The counterparty credit risk refers to the risk that the counterparty to a transaction could default before the final settlement of the transaction's cash flows.

Credit risk is inherent to the business model of the Bank and is therefore the most crucial risk facing by the Bank. As of 31.12.2020, Credit Risk RWA accounts for 95.65% of Total Risk Exposure Amount ('TREA') under Pillar 1, of which 0.25% related Counterparty Credit Risk.

The main sources of Credit risk for the Bank are:

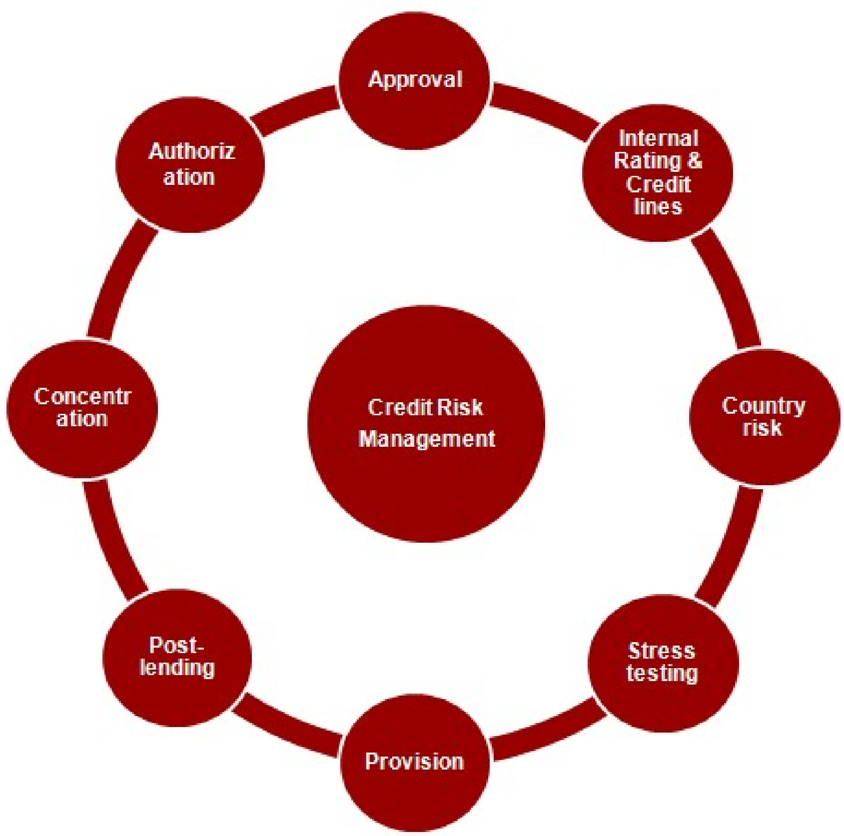
- On-balance sheet credit exposures: bilateral loans, trade finance granted, syndicated loans participated and bonds purchased by the Bank.
- Off-balance sheet credit exposures: loan commitments given and guarantees given.

The main source of Counterparty Credit risk is arising from Derivatives transactions.

For the vast majority of loans, credit is granted on the basis of the customer's financial circumstances and specific individual assessments.

Most of these loans have been provided to non-financial corporate loans guaranteed by ICBC domestic branches or other domestic Chinese banks, and representing the core lending activities of the Bank. The Bank facilitates domestic companies in overseas investment and working capital loans and effectively solves their financing needs against guarantee or stand-by letter of credit issued by ICBC group domestic branches and other Chinese financial institutions.

Credit Risk Management framework



- Branches can only conduct credit business within their approval authorization and can only approve credit business within the limit authorized by the HQ (annual basis).

- Credit Approval Department at HQ aims to support the centralized management of credit approval, guide credit development of branches and enhance the Bank's specialization of credit examination and approval.

- Decision-making structure on loans is hierarchically organized according to the customer's risk profile. Above a specific threshold, credit business application must be deliberated by Credit Committee and ratified by AM in headquarter. The Credit committee deliberate on the credit risk and provides the decision-maker with supportive analysis through collective deliberation

- The standardized credit approval flow goes through three steps: (i) due diligence, (ii) examination (analysis and evaluation) and (iii) credit approval.

- The business exceeding credit authorization limit must go through higher-level for approval (Branches ► HQ ► HO).

- Credit committee aims to support decision-maker (as defined within the charter of the Credit committee) with expertise financial and non-financial information on customer's profile (i.e. borrower's operation & financial situation, solvency, purpose of the loan, guarantee, country risk, Risk Transfer Pricing…).

Risk control measures
The Bank establishes a unified procedure and measurements on credit rating and credit line, as well as the business entry thresholds, strengthening the risk identification and the control of large exposures to groups of connected clients. The Bank aims to assume risks only within the limits of applicable risk management framework and its credit policy.

The Bank also specifies applicable limits within the Business Authorization to the branches, including credit approval authorization, loan security policy, access criteria for credit facilities, weighted credit risk assets limit, country risk limit, large exposure limit, etc. Apart from the above-mentioned aspects, the RMD monitors credit exposures, issues risk reminder notices where necessary and verifies the respect of business authorizations and credit limits of correspondent banks for daily dealing activities.

Internal ratings are based on HO methodology and are strictly used during credit approval process. Internal rating is used to map PD's table and thus have a direct impact on the prudential capital of the Bank.
Credit facilities authorization are directly capped and mapped on the internal rating.
Credit line size is directly calculated and granted based on a combination of qualitative and quantitative analysis & measures which are embedded in GCMS.

Credit RWA allocation
Credit RWA is allocated to branches based on quantitative indicators and strategy.
The Bank has established a sound and effective procedure for the allocation, monitoring and control of risk weighted credit assets.
The Branches calculate the risk weighted credit assets amount already used before entering in a new credit business and ensure that their total used limit will not be breached.
An internal monthly report is performed by the European Branches and sent to the RMD HQ which keep a close review and examination in case of surpassing limit, which will avoid taking too much risky credit assets that cannot be covered by the current own funds. It is also the same for the large exposure and other limits.

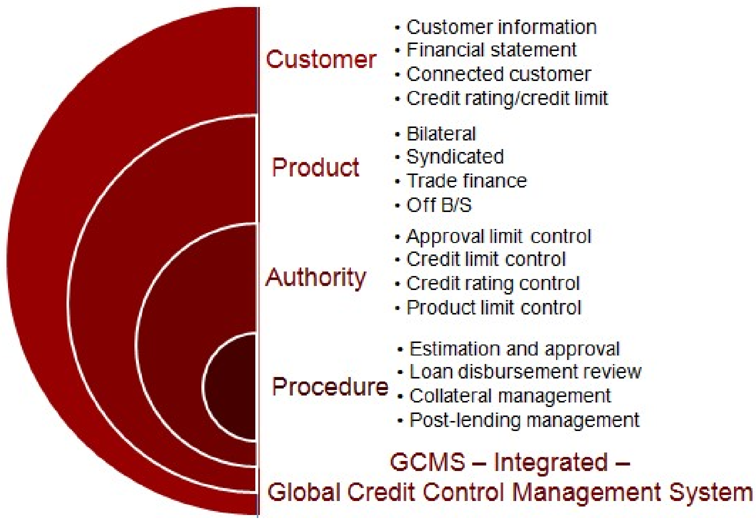
Post-loan management
The Bank has developed the monitoring and issued the post-loan management performance assessment on front offices in HQ and the branches quarterly. The Bank also strengthened the study of economic industry.
The European Branches keep close watch on their customers, perform strictly the daily post-lending management, and draft the monitoring report periodically which should be submitted to the RMD for review.

Ongoing follow-up on developments (post-loan/duration management) in the customer's financial situation enables the Bank to assess whether the basis for the credit facility has changed. The credit facilities should match the customer's creditworthiness, capital & future cash-flow positions and assets.

Systems infrastructure

Global Credit Management System (GCMS) is the in-house system platform developed by ICBC HO, which supports domestic and overseas branches and institutions in credit business risk control and management, covering corporate customers, institutional customers and personal customers as well as their credit rating, credit limit and all kinds of on-balance-sheet and off-balance-sheet credit business.

The Bank has fully used the GCMS to gain internal credit ratings as well as the related credit line of customers, to prevent surpassing the credit approval power and to monitor the overall occurring credit business.



➢ Customer management: create and maintain customer's basic information and financial statements; set related party relationship between customers.

➢ Credit rating: input rating information according to scoring card model, and determine customer's credit rating after review and approval.

➢ Credit limit: the customers are classified into single customer and group customer. The process of credit limit determining include credit information collection, calculate the reference amount of credit limit according to quantitative measurement, qualitative analysis, credit limit application, review and approval.

➢ Examination and approval: credit risk officer and authorized approver can complete examination and approval procedure within the range of respective authorities in GCMS. The credit approval powers in GCMS of General Manager are set by ICBC Europe Headquarters. Afterwards General Manager delegates some powers in GCMS to Deputy General Manager in charge of credit risk management. Once the amount exceeds the credit approval powers beforehand set in GCMS, the credit business cannot be approved and need to be submitted to the authorized approver. This is how the GCMS prevents potential breaches of credit approval powers.

➢ Application for drawdown and subsequent service for loan: create permits for the application for drawdown based on approved agreement after going through control steps; Support subsequent service for loan which includes: prepayment, interest rate adjustment, extension or contraction of loan tenor, etc.

➢ Credit assets classification: it provides different types of classification models. The system will automatically generate a preliminary credit asset quality classification result. If the preliminary classification result has not truly reflected the practical business risks, adjustment can be made in accordance with specified procedure and authorization.

➢ Post-lending management and risk warning: it allows the relationship manager to input inspection and investigation opinion and make a risk control proposal when performing post-lending management.

Risk warning information can be given according to the set warning indicators and parameters in the system; the users are allowed to check and process warning information.

- IFRS 9 stage: as for credit assets classification, the system will automatically generate a preliminary IFRS 9 stage grade.

4.3.2 Use of ECAIs

- **Names of the nominated ECAIs and ECAs and the reasons for any changes: Article 444 (a)**

Pursuant to article 138 of the CRR, the Bank has nominated the following three External Credit Rating Assessment Institutions ('ECAI's) to calculate regulatory capital requirements under the credit risk standard approach (hereafter "CRSA"):

- Standard & Poor's Ratings Services ('S&P').
- Moody's Investors Service.
- Fitch Ratings Ltd.

These three ECAIs comply with the regulation (Article 3 (98) of the CRR) as they are registered or certified in accordance with Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies or a central bank issuing credit ratings which are exempt from the application of Regulation (EC) No 1060/2009.
Fitch Rating Ltd. was added to the list of ECAI used by the Bank.
The Bank does not make use of Export Credit Agencies ('ECA') for credit risk assessment.

- **The exposure classes for which each ECAI or ECA is used: Article 444 (b)**

These three nominated ECAIs are applied on a standardized basis for all CRSA exposure classes.

- **Description of the process used to transfer the issuer and issue credit assessments onto items not included in the trading book: Article 444 (c)**

External credit assessments on the borrower (the issuer) or specific securities issued by the borrower (the issue) are the basis for the determination of risk weights under the standardised approach for exposures to sovereigns, central banks, public sector entities, institutions, corporate as well as certain other specific portfolios.

In cases where an exposure does not have an issuer or issue rating, the exposure shall be deemed unrated and shall be accorded a risk weight appropriate for unrated exposures in their respective exposure category in accordance with article 111-134 of the CRR.

The Bank uses external ratings for capital adequacy purposes on a consistent basis. The Bank complies with articles 138 and 139 of the CRR and articles 111-134 which imply that:

- External rating announcements are closely monitored.
- Risk weights are revised promptly following any changes in external ratings.
- The latest ratings assigned to the issuers or issues are used.
- Where two credit assessments are available from nominated ECAIs and the two correspond to different risk a weight for a rated item, the higher risk weight is assigned.
- Where the Bank invests in a particular security which has an issue-specific rating, the risk weight for this exposure will be based on this rating assessment.
- Where there is no specific rating available, the credit rating assigned to the issuer or counterparty of the particular credit exposure is used.
- The Bank follows the provision of the CRD IV, Part three, Chapter 2, where external ratings cannot be obtained.

- **Association of the external rating of each nominated ECAI or ECA with the Credit quality steps prescribed in Part Three, Title II, Chapter 2, taking into account that this information needs not be disclosed if the institution complies with the standard association published by EBA: Article 444 (d)**

The Bank complies with the standard association published by EBA.
The Bank uses these three ECAIs for the determination of risk weights to be assigned to assets and off-balance sheet items. A mapping of these three ECAI's credit assessments to credit quality steps is

performed for each exposure class in order to define the risk weight to be applied as defined under the standardised approach for credit risk under Articles 111-134 of the CRR.

Credit rating agencies and credit quality step under the standardised approach:

S&P	Moody's	Fitch	Credit Quality Step
AAA to AA-	Aaa to Aa3	AAA to AA-	1
A+ to A-	A1 to A3	A+ to A-	2
BBB+ to BBB-	Baa1 to Baa3	BBB+ to BBB-	3
BB+ to BB-	Ba1 to Ba3	BB+ to BB-	4
B+ to B-	B1 to B3	B+ to B-	5
CCC+ and below	Caa and below	CCC and below	6

Own funds requirement for CVA risk is based on ECAIs ratings of the derivatives counterparties pursuant to article 384 (2) of the CRR.

For off balance-sheet items, the exposure amounts are multiplied by the credit conversion factor (‘CCF’). Pursuant to article 111 (1) of the CRR, the CCF factor level is:

- 100 % if it is a full-risk item;
- 50 % if it is a medium-risk item;
- 20 % if it is a medium/low-risk item;
- 0 % if it is a low-risk item.

4.3.3 Capital requirement

- **Risk weighted exposure amounts in accordance with the standardized approach: Article 438 (c)**

The Bank’s capital requirement for credit risk exposures is mainly arising from on balance-sheet assets (82.40%).

Exposure type	Risk Weighted Exposure (EUR M) as at 31.12.2020	Capital requirement (EUR M) as at 31.12.2020
On-balance sheet exposures	2 952.84	236.23
Off-balance sheet: Loan commitment & Guarantees given	621.43	49.71
Derivatives	9.32	0.75
TOTAL	**3 583.58**	**286.69**

- **The exposure values and the exposure values after credit risk mitigation associated with each credit quality step prescribed in Part Three, Title II, Chapter 2 as well as those deducted from own funds: Article 444 (e)**

Exposure values after credit risk mitigation: aggregated exposure values of on-balance sheet and off-balance sheet exposures and exposure amounts from derivatives.

For on balance-sheet exposures, the exposure amounts on institutions are deducted of the total amount related to the netting agreement for exposure on ICBC Ltd as further detailed under section 4.4 on “Credit risk mitigation techniques: Article 453 of the CRR”.

Exposure classes: exposure classes are defined in Article 112 to Article 134 in Part Three, Title II, Chapter 4 of Regulation (EU) 575/2013.

Credit exposure post-CCF and post-CRM: Exposure value after taking into account specific credit risk adjustments as defined in Commission Delegated Regulation (EU) No 183/2014 and write-offs as defined in the applicable accounting framework, all credit risk mitigations and credit conversion factors. This is the amount to which the risk weights according to Article 113 and Part Three Title II Chapter 2 section 2 of Regulation (EU) 575/2013 are applied. It is a net credit equivalent amount, after having applied CRM techniques and CCF.
The standardized method for credit risk uses external ratings linked to certain risk weightings. Under the

standardized approach, capital requirement for credit risk is calculated by applying a flat rate (8%) to the total of its risk weighted exposures. The risk weight is directly coming from the CRR tables depending of the ECAI credit ratings mapping table.

On balance-sheet exposures: Breakdown of the credit and counterparty credit risk by exposure pre/post-CRM and Risk weighted exposure amount (EUR M)

Exposure classes	Original exposure pre-CCF	Weight %	Net exposure post-CRM	Risk Weighted exposure amount	Weight %	RWA density
Central Gov. and Central bank	1 310.94	22.9%	1 302.72	45.82	1.6%	3.5%
Public Sector entities	3.60	0.1%	3.60	0	0.0%	0%
Multilateral Development Bank	282.16	4.9%	282.16	-	0.0%	0.0%
Institution	963.88	16.8%	2 091.66	1 006.07	34.1%	48.1%
Corporate	3 051.27	53.3%	1 904.98	1 800.50	61.0%	94.5%
Equity	-	-	-	-	-	0.0%
International Organization	0	0%	0	-	0.0%	0.0%
CIU	16.36	0.3%	16.36	16.36	0.6%	100.0%
Retail	6.65	0.1%	-	-	-	0.0%
Default	5.00	0.1%	1.17	1.17	0.0%	100.0%
Secured by mortgages on residential	3.27	0.1%	3.27	1.14	0.0%	34.9%
Others	**81.78**	**1.4%**	**81.78**	**81.78**	**2.8%**	**100%**
Total	**5 724.92**	**100%**	**5 687.70**	**2 952.84**	**100%**	**51.92%**

Off balance-sheet exposures: Breakdown of the credit and counterparty credit risk by exposure pre-CRM, post-CRM&CCF and Risk weighted exposure amount (EUR M)

Exposure classes	Original exposure pre-CCF	Weight %	Net exposure post-CRM	Risk Weighted exposure amount	Weight %	RWA density
Central Gov. and Central bank	0.28	0.0%	0.28	0.03	0.0%	10.7%
Public Sector entities	-	-	-	-	-	0.0%
Multilateral Development Bank	-	-	-	-	-	0.0%
Institution	151.83	9.5%	656.90	180.64	29.1%	27.5%
Corporates	1 450.50	90.5%	945.42	440.76	70.9%	46.6%
Equity	-	-	-	-	-	0.0%
International Organization	-	-	-	-	-	0.0%
CIU	-	-	-	-	-	0.0%
Retail	-	-	-	-	-	0.0%
Default	-	-	-	-	-	0.0%
Secured by mortgages on residential	-	-	-	-	-	0.0%
Other exposures	-	-	-	-	-	0.0%
Total	**1 602.61**	**100%**	**1 602.61**	**621.43**	**100%**	**38.78**

RWA density: Total risk-weighted exposures/exposures post-CCF and post-CRM. The result of the ratio is expressed as a percentage. RWA density provides a synthetic metric on riskiness of each exposure class.

Breakdown of net exposures values by risk weight – post CCF & CRM

Exposure classes	0%	10%	20%	35%	50%	100%	150%
Central Gov. and Central bank	1 073.6		229.3	-	-	-	-
CIU	-	-	-	-	-	16.4	-
Institutions	-	-	407.0	-	1 898.5	165.4	0
Corporate	-	-	-	-	260.1	2 071.3	26.6
Default	-	-	-	-	-	1.2	-
Secured by mortgages on immovable property	-	-	-	3.3	-	-	-
MDB	282.2	-	-	-	-	-	-
Other	-	-	-	-	-	81.8	-
PSE	3.6	-		-	-	-	-
International org.	0	-	-	-	-	-	-
Total	**1 359.4**	**0**	**636.3**	**3.3**	**2 158.5**	**2 336.0**	**26.6**

- **Average amount Net exposure (on&off) after CRM & CCF over the period broken down by different types of exposure classes: Article 442 (c)**

Exposure classes	Average Net exposure in 2020	Net Exposure 31.12.2020
Central Gov. and Central bank	885.6	1,302.9
CIU	15.9	16.4
Institutions	2,675.7	2,470.9
Corporate	2,321.3	2,358.0
Default	1.3	1.2
Secured by mortgages on immovable property	3.4	3.3
MDB	297.7	282.2
Other	76.7	81.8
PSE	16.4	3.6
International org.	19.4	-
Retail	-	-
Total	6,313.3	6,520.1

The above table presents on balance-sheet credit risk exposure value (post-CRM) based on CoRep C.07 on a period end and annual average basis (based on quarterly average), analysed by exposure class. It excludes counterparty credit risk.
Exposure value is the amount after CRM and after applying credit conversion factors (CCF) to off balance sheet exposures in accordance with CRR regulatory rules.

- **Geographic distribution of the exposures, broken down in significant areas by material exposure classes, and further detailed if appropriate: Article 442 (d)**

In accordance with Article 442 (h) of the CRR, the table below provides a breakdown of defaulted and non-defaulted exposures by geographical areas.

The geographical distribution is based on the legal residence of the counterparty or issuer as reported under CoRep 09.01.

Credit quality of exposures by geography (EUR M)

(in EUR million)	ORIGINAL EXPOSURE PRE CONVERSION FACTORS	Defaulted exposures	Specific credit risk adjustments	Of which: write-offs	Credit risk adjustments/write-offs for observed new defaults	Net values
Europe	5,414.73	4.66	3.50	0.00	0.00	5,415.89
China	1,362.51	0.34	0.34	0.00	0.00	1,362.51
Asia	144.31	0.00	0.00	0.00	0.00	144.31
Africa	132.50	0.00	0.00	0.00	0.00	132.50
North America	204.43	0.00	0.00	0.00	0.00	204.43
Latin America	9.22	0.00	0.00	0.00	0.00	9.22
Others	89.71	0.00	0.00	0.00	0.00	89.71
Total	7,357.41	5.00	3.84	0.00	0.00	7,358.58

- **Distribution of the exposures by industry or counterparty type, broken down by exposure classes, including specifying exposure to SMEs, and further detailed if appropriate: Article 442 (e)**

The below provides a breakdown of credit business such as loans and trade finance by industry.

Breakdown of On-Balance sheet credit business* exposures by Industry (EUR M)

Industry	Balance Q4 2020	%	Balance ∆2019	∆ 2020/2019
Manufacturing	846	28.24	-5	-1%
Telecommunication	257	8.59%	-208	-45%
Wholesale and Retail	252	8.41%	-125	-33%
Finance	360	12.04%	66	23%
Mining	153	5.10%	-73	-33%
Leasing	186	6.20%	-21	-10%
Construction	93	3.11%	-100	-52%
Real estate	149	4.99%	-18	-11%
Others	125	4.16%	-6	-4%
Transportation	145	4.85%	12	9%
Electricity, gas supply	221	7.38%	95	76%
Hotels	39	1.31%	0	-1%
Business service	129	4.30%	92	253%
Scientific research	40	1.34%	20	100%
Total	**2,994**	**100%**	**-271**	**-8%**

*** Credit business: related to corporate banking activities (Bank's core business lines)**

Residual maturity breakdown of on balance-sheet credit risk exposures, broken down by exposure classes, and further detailed if appropriate: Article 442 (f)

On balance-sheet exposures post-CCF & CRM (EUR M)	No stated maturity	≤ 1 year	> 1 year ≤ 5 years	Over 5 years	Total
Central Bank	978.31	-	-	-	978.31
Central Government	-	53,75	63.52	207.14	324.42
CIU	16.36	-	-	-	16.36
Corporate	-	271.74	1,430.51	202.74	1,904.98
Credit Institution	119.22	992.35	955.42	87.94	2,154.92
Default		-	-	1.17	1.17
International Organization	-	-	-	-	-
Multilateral Development Bank	-	57.09	225.07	-	282.16
Other	81.78	-	-	-	81.78
Public Sector Entity	-	-	3.6	-	3.6
Secured by mortgages on residential	-	-	-	3.27	3.27
Total	**1,195.66**	**1,374.93**	**2,678.12**	**502.25**	**5,750.96**

- **Risk weighted exposure amounts in accordance with an internal rating based ("IRB") approach (Chapter 3 of Part Three, Title II,): Article 438 (d)**

Not applicable, the Bank uses the standardized approach in accordance with Chapter 2 of Part Three, Title II of the CRR.

4.4 Credit risk mitigation techniques

The Bank currently used cash collateral, financial guarantees and netting agreement as credit risk mitigation techniques.

- **Description of the main types of credit risk mitigants ('CRM') and their process for collateral valuation and management Article 453 (a), (b), (c) and (d)**

The Bank considers the following guarantees as eligible to mitigate credit risk:

Guarantee subject type	The Requirements of Guarantee
Sovereign entity	Within its country limit approved by Head Office.
International Financial Organization	With long term credit rating A (including A1、A2、A3 of Moody's, A+、A、A- of S&P's) or above.
Correspondent Bank	Within its credit limit.
Insurance Company	Insurance company shall unconditionally take the indemnity liability or the deductible clause is clear and reasonable, the bank shall be the first ranking for full amount repayment, and the insurance tenor shall not be shorter than loan tenor.
Corporation	Rated A+ or above.
Individual Client	Guarantee to be provided by individual shall be deliberated carefully. Guarantor shall be with entirely capacity for civil conduct, having legitimate income, no delinquent credit record, and having sufficient assets under his/her name to perform the guarantee.

Security Type	Collateral
Pledge	Pledged deposit (Deposit certificate)
Pledge	Bond (except structural bond)

Pledge	Toll rights
Pledge	Account receivables
Pledge	Stock /Share pledge
Mortgage	Warrant and inventory
Mortgage	Land/ Land use right mortgage
Mortgage	Real estate

- For each collateral type, a maximum loan-to-value is defined in the risk management policy of the Bank.

- Netting agreement: The Bank has signed a netting agreement (NA) with its Parent company, which allows the Bank to net on-balance sheet assets and liabilities with the specific entities of ICBC Ltd. It is complaint with CRR regulation EU No 5675/2013.

- Guarantees and risk participation agreements: part of the Bank's lending activities benefit from guarantees, standby letters of credit and risk participation agreements. In accordance with the standardized approach, the Bank considers credit risk as being the guarantee providers rather than the underlying borrowers. Eligible guarantors are mainly large financial institutions with long-term external credit rating of A or above as categorized under Standard & Poor's rating scale.

- The Bank's policy regarding the use of collaterals may vary between the different types of credit products. The Bank considers the necessity of security arrangements according to the risk profile of customers and transactions.

- The Bank prudentially and reasonably determines the acceptable types of collaterals and the collateralization ratio. It included the assessment of the eligibility of the CRM under the standardized approach, its valuation frequency, currency, the identification of the guarantor credit risk profile and legal clauses inserted in the contracts.

  - **Information about market or credit risk concentrations within the credit mitigation taken: Article 453 (e)**

EU CR3 – CRM TECHNIQUES – OVERVIEW* (EUR M)

(In EUR million)	Exposures unsecured – Carrying amount	Exposures secured – Carrying amount	Exposures secured by collateral	Exposure secured by guarantees	Exposures secured by Credit derivatives
Loans	832.70	3,204.44	394.20	2,810.24	0.00
Debt securities	1,448.12	0.00	0.00	0.00	0.00
Total exposures	2,280.91	3,204.44	394.20	2,810.24	0.00
Of which non-performing exposures	4.97	0.00	0.00	0.00	0.00

**Source FINREP F.13, F.18*

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

  - **For each exposure class, the total exposure value that is covered by eligible financial collateral and other eligible collateral: Article 453 (f) and by guarantees or credit derivatives: Article 453 (g)**

The breakdown of both on & off exposures secured by (i) collateral, (ii) financial guarantees and (iii) by credit derivatives for each exposure class can simply be referred to the above table treated under article 453 (e).

Indeed, only corporate exposures significantly benefits from credit risk mitigation. All the credit risk mitigations are related to (ii) financial guarantees.

Cash collateral received for retail exposures are immaterial.

4.5 Credit risk adjustments

- **Accounting definition of 'past due' & 'impaired': Article 442 (a)**

Past due: assets qualify as past due when counterparties have failed to make a payment when contractually due. (Annex V. Part 2, paragraph 48 of the Regulation (EU) No 680/2014 13 ITS on supervisory reporting of institutions)

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred.
Evidence that a financial asset is credit-impaired include observable data about the following events:
(a) significant financial difficulty of the issuer or the borrower;
(b) a breach of contract, such as a default or past due event;
(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
(e) the disappearance of an active market for that financial asset because of financial difficulties; or
(f) the purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

It may not be possible to identify a single discrete event, instead, the combined effect of several events may have caused financial assets to become credit-impaired.
The Bank uses a five-category classification of credit assets which consists of Pass, Special Mention, Substandard, Doubtful and Loss. The first two categories are collectively referred as "Performing" loans and the last three categories as "Non-performing" loans. The five categories are defined as follows:

- Pass: the customer duly performs the loan contract or obligations guaranteed by the Bank and there is no reasonable ground to doubt customer's ability to fully repay principal and interest when due or the Bank is required to effect loan advance under its guarantee undertaking.
  Off-balance sheet exposures at gross notional amount
- Special Mention: there are adverse factors that undermine the customer’s ability to repay or perform contract. However, the customer currently still has the ability to fully repay loan principal and interest or perform obligation guaranteed by the Bank.

- Substandard: the “Substandard” exposures are those that satisfy either or both the following criteria: (1) material exposures which are more than 90 days past-due; (2) the debtor is assessed as unlikely to pay its credit obligations in full without realization of collateral, regardless of the existence of any past-due amount or of the number of days past due. The Excepted Loss ratio will not exceed 40%.

- Doubtful: the “Doubtful” exposures are those that satisfy either or both the following criteria: (1) material exposures which are more than 180 days past-due; (2) assessed as unlikely to pay its credit obligations in full without realization of collateral, regardless of the existence of any past-due amount or of the number of days past due. The Expected Loss ratio will exceed 40%, but the loan does not meet “Loss” characteristics yet.

- Loss: after exhausting all possible measures or legal procedures, the loan principal and interest recovery is nil or very minimal. EL ratio exceeds 90% or the loan meets the “Loss” characteristics.

In order to enhance the post-classification monitoring and management and in the aim to add more granularity to credit asset quality classification, the Bank sub-divides corporate customers and financial institutions credit assets into twelve grades based on five-category classification, namely: Pass I, Pass II, Pass III, Pass IV, Special Mention I, Special Mention II, Special Mention III, Substandard I, Substandard II, Doubtful I, Doubtful II and Loss.

- **Approaches and methods adopted for determining specific and general credit risk adjustments: Article 442 (b)**

- Specific Credit adjustments:

IFRS 9 establishes a new model for recognition and measurement of impairments in loans and receivables that are measured at Amortized Cost or FVOCI, the “expected credit losses” model.

IFRS 9 requires an impairment allowance against the amortized cost of financial assets held at amortized cost or FVOCI. The change in this allowance is reported in profit and loss. For most such assets, when the asset is acquired the impairment allowance is measured as the present value of credit losses from default events projected over the next 12 months.

The allowance remains based on the expected losses from defaults over the next 12 months unless there is a significant increase in credit risk. If there is a significant increase in credit risk, the allowance is measured as the present value of all credit losses projected for the instrument over its full lifetime. If the credit risk recovers, the allowance can once again be limited to the projected credit losses over the next 12 months.

Breakdown of Expected Credit Loss (ECL) by IFRS9 stage (EUR M)

ECL Stage	Expected Credit Loss
Stage 1	8.22
Stage 2	6.70
Stage 3	3.80
Total	**18.73**

- **Notes for following tables: Article 442 (c), (d), (e), (f)**

These sub-articles are been treated within the previous section related to Capital requirement.

- **by significant industry or counterparty type, the amount of (i) impaired exposures and past due exposures, provided separately; (ii) specific and general credit risk adjustments; (iii) charges for specific and general credit risk adjustments during the reporting period: Article 442 (g)**

Total	Pass 2020	∆ 2019	Special Mention 2020	∆ 2019	Percentage	NPL 2020	∆ 2019	Percentage
2,944	2,865	-340.48	124.20	25.71	4.15%	4.97	-19.69	0.17%

The Bank's NPL ratio was 0.17% as of 31.12.2020.

- Impairment booked in 2020 is attributed to corporate exposure class.

Exposure class	EAD	Impairment	Loss rate
Corporate customer	4.97	3.80	76.46%

- Impaired exposures split in oil and gas services sector: 93.76% and financial leasing company: 6.23%.
- Impaired exposures related customers located in Italy for EUR 4.66M and in China for EUR 0.31M

- **the amount of the impaired exposures and past due exposures, provided separately, broken down by significant geographical areas including, if practical, the amounts of specific and general credit risk adjustments related to each geographical area: Article 442 (h)**

This sub-article has been treated within the above paragraph: Article 442 (g).

- **the reconciliation of changes in the specific and general credit risk adjustments for impaired exposures, shown separately: Article 442 (i)**

This sub-article has been treated within the previous paragraph: Article 442 (g).

4.6 Counterparty credit risk

4.6.1 Risk management framework

- **A discussion of the methodology used to assign internal capital and credit limits for counterparty credit exposures: Article 439 (a)**

Counterparty credit risk means the risk that the counterparty to a transaction could default before the final settlement of the transaction's cash flows.

The Bank determines the exposure value for the contracts listed in Annex II of the CRR (derivatives) on the basis of the Original Exposure Method as defined under article 275 of the CRR. As at 31.12.2020, the Bank did not carry out any repo or securities lending transactions.

In terms of derivative transaction in banking book, the Bank only conducts the hedging purpose for avoiding risks of its own assets and liabilities. The counterparty of these transactions is ICBC Luxembourg Branch.
The term of hedging business the Bank conducts to avoid risks of its own assets and liabilities cannot exceed the term of underlying assets, and the total volume cannot exceed the total underlying assets.

In terms of derivative transaction in trading book, the Bank only conducts the transactions on behalf of customers and the Bank is not allowed to conduct proprietary trading and the exposure will be back-to-back squared with ICBC Luxembourg Branch.

Credit Value Adjustment ('CVA')
In addition to the capital requirement for counterparty default risk, the Bank is required to calculate capital requirements for CVA (Credit Value Adjustment) for all OTC derivative instruments in respect of all of business activities, other than credit derivatives intended to mitigate the risk-weighted exposure amounts for credit risk.
This additional capital charge aims to cover the unexpected risk of mark-to-market losses on the expected counterparty risk to OTC derivatives.

The Bank applies the standardized method as described in article 384 of the CRR. This capital requirement calculated using a standard formula is mainly based on exposure, rating and average terms of derivatives positions entered into with counterparties.

As of 31.12.2020, the Bank is not subject to additional CVA capital requirement.

- **A discussion of policies for securing collateral and establishing credit reserves: Article 439 (b)**

The Bank enters into derivative transaction with ICBC Luxembourg Branch and has signed an ISDA master agreement with ICBC Ltd. There is no securing collateral requirement for intragroup entities.

- **A discussion of policies with respect to Wrong-Way risk exposures: Article 439 (c)**

According to Article 291 CRR, (i) General Wrong-Way risk arises when the likelihood of default by counterparties is positively correlated with general market risk factors; whereas (ii) Specific Wrong-Way risk arises when future exposure to a specific counterparty is positively correlated with the counterparty's probability of default due to the nature of the transactions with the counterparty. An institution shall be considered to be exposed to Specific Wrong-Way risk if the future exposure to a specific counterparty is expected to be high when the counterparty's probability of a default is also high.

The Bank is not exposed to wrong way risk as OTC counterparty is ICBC Luxembourg Branch.

- **A discussion of the impact of the amount of collateral the Bank would have to provide given a downgrade in its credit rating: Article 439 (d)**

As above mentioned the Bank enters only into derivative transaction with ICBC Luxembourg Branch and thus did not receive or provide collateral. As a result, a downgrade of the Bank's credit (and thus the margin requirement increase) is not expected.

4.6.2 Capital requirement

- **Measures for exposure value under the methods set out in Part Three, Title II, Chapter 6, Sections 3 to 6 which ever method is applicable: Article 439 (f)**

The Bank has adopted the Original Exposure Method for counterparty credit risk for derivatives instruments, which follows the requirement of article 275 of the CRR.
The exposure value is the notional amount of each instrument multiplied by the percentages set out in the below table:

Original maturity	Interest-rate contracts	Contracts concerning FX rates and gold
One year or less	0,5 %	2%
Over one year, not exceeding two years	1%	5%
Additional allowance for each additional year	1%	3%

For calculating the exposure value of interest-rate contracts, the Bank uses the original maturity.

- **Gross positive fair value of contracts, netting benefits, netted current credit exposure, collateral held and net derivatives credit exposure: Article 439 (e)**

The Bank does not use any netting agreements and collateral arrangements for derivatives; therefore the gross positive value of the contracts equals the net credit exposure in derivatives.

Exposures / Transactions subject to counterparty credit risk	Exposure amounts (after CCF & CRM)	Risk Weighted Exposure amounts	Capital requirement
Derivatives & Long Settlement Transactions	29.88	9.32	0.75
Total	**29.88**	**9.32**	**0.75**

- **Credit derivatives hedges: Article 439 (g) & (h)**

The Bank does not enter into total return swap, credit-linked notes, credit default swap or any other credit derivatives instruments in either banking book or trading book. Therefore disclosure on such instruments is not applicable for the Bank.

- **The estimate of α if the institution has received the permission of the competent authorities to estimate α: Article 439 (i)**

Not applicable as the Bank does not use internal models.

4.7 Market Risk

4.7.1 Risk Management framework

- **Market risk management: Article 435 (1)**

Market risk is the risk of losses in on and off-balance sheet positions arising from the volatility of market prices, including position risk, foreign exchange risk, commodities risk, CVA risk, credit spread risk and equity risk.

Foreign exchange risk refers to the risk that the foreign exchange exposure arising from the imbalance in the currency structure between foreign exchange assets and foreign exchange liabilities is subject to loss due to unfavourable exchange rate movements.

Identification
The Bank is neither involved in any speculative activity nor in trading of structured products. The nature and composition of market risk can be considered as non-complex. The sensitivities to risk factors such as commodities, equities, CVA do not exist or are deemed not significant.
The FX risk remains the main source of market risk faced by the Bank. The Bank's sensitivity to FX risk is mainly due to the positions mismatch between currencies other than reporting currency (EUR) and maturities of its foreign currency assets and liabilities.

The Bank deals entirely spot, forward, NDF and FX Swap transaction in USD, EUR, GBP, PLN, RMB and HKD. The largest transaction volumes are being performed on USD, EUR and RMB currencies. These transactions are conducted for hedging purpose and the open currency positions are back-to-backed with the Branch. No speculative transactions are carried out by the Bank.

The Bank's internal overall policy clearly stipulates that the Bank is not allowed to take any speculative currency position in trading book. Its capital is denominated in EUR, which is also the accounting currency. The Bank has fair amounts of assets and liabilities denominated in currencies other than EUR, which exposes the Bank to a certain exchange rate risk.

Major market risks are identified through the monitoring of relevant market risk factors, events and prediction of their possible impact on the profit and loss as well as the capital adequacy of the Bank.

Major market risk events include but not limited to significant changes in interest rates, violent volatility of exchange rates, massive counterparty default, severely exceeding the annual market risk limit, changes of important policies and regulations, major changes in trading venues, banking system severe failure, natural disasters and other major emergencies.

Market risk management framework
Governance
The Bank's market risk management is the process of identifying, measuring, monitoring, controlling and reporting market risk for the purposes of setting up and enhancing the market risk management system, specifying responsibilities and process, determining and standardizing the measurement approaches, limit management indicators and market risk reports, controlling and mitigating market risk and improving the level of market risk management.

In 2020, the market risk management was mainly performed by the Risk Management Department, Asset & Liability Management Department and the Financial Markets Departments. The Risk Management Department focuses on the control of the risk limits, sensitivity scenario pillar 1 and 2 measures whereas Asset & Liability Department controls, monitors and reports foreign exchange risk and interest rate risk in banking book. Financial Markets department is in charge to implement the necessary controls.

The Operations Management Department performs the settlement of dealing transactions and is responsible for the settlement of money and exchange transactions, payments and account administration. The control activities within the department take place via the internal control function whose responsibilities include different reconciliation and completeness controls.

An appropriate market risk management ensures a profitable outlook for treasury and credit business.

The Authorized Management and its authorized Risk Management Committee of the Bank in HQ is responsible for:

- Developing, periodically reviewing and overseeing implementation of policies, procedures and operating rules on market risk management.
- Collecting timely information on the levels and management of market risks.
- Ensuring the Bank has sufficient human resources and materials, appropriate organizational structure and adequate information management systems and techniques to effectively identify, measure, monitor and control market risks in businesses.
- Approving the plan for market risk limit management, approving significant matters regarding market risk management.

Risk control measures and risk mitigation
ICBC Head Office authorizes the controlling limits, exposure limit, potential loss amount based on relative interest rate or exchange rate risk for the Bank, and updates the limits annually. These limits should be strictly observed by the Bank. Risk Management Department performs an on-going monitoring of these limits.

The Bank set up comprehensive and adequate market risk measurement, monitoring and reporting systems with the aim to ensure the consistency between the Bank's market risk policy & strategy, its overall strategy and its risk appetite.

The Bank has set limits and indicators for the purpose of monitoring, reporting and managing the market risk.

Market risk is managed by the following limits:
For foreign exchange business in trading book, limits should be regulated as,

- Intra-day exposure limit.
- Overnight exposure limit.
- Overnight single currency exposure limit.
- Holding period limit
- Stop loss limit
- Value-at-Risk
- Net position per currency (pillar 1 measure)

The trading Book of ICBC (Europe) S.A. mainly includes trading book businesses, such as the foreign exchange and derivatives trades for customers.
The Bank actively takes measures to adjust and optimize the aggregate amount and structure of foreign exchange assets and liabilities. The Bank has set foreign exchange risk exposure for the branches. The exchange rate risk is monitored by RMD. The Bank submits a monthly aggregated foreign exchange exposure report to ICBC Head Office and conducts a quarterly FX risk scenario analysis which calculates the loss in case the exchange rate of EUR against USD and RMB increases 5% and 10% respectively.

Contingency management for market risk
In order to improve its capability of handling abrupt major market risk, and to reduce and mitigate market risk exposures, the Bank revised the Contingency Management Policy for Major Market Risk (2019) in accordance with the CSSF Circular 12/522, the market risk management policies and overall emergency plan of the Bank.

Major market risk, as referred to in this Policy, is the risk of a substantial loss the Bank may suffer due to abrupt changes in market risk factors as a result of major changes in political, economic and/or financial conditions or violent financial market turbulences resulting from emergencies, natural disasters or other causes.

This Policy mainly includes identification of major market risk, emergency solutions and emergency plan procedures applicable to business units and the branches, including the Bank.

Systems infrastructure
Market risk is mainly controlled and monitored through 3 in-house systems:

- Global Market Risk Management System (GMRM), designed by the Head Office, for the globe market risk management;
- Global Product Control system (GPC) designed by the Head Office, for middle office management (pricing, reconciliation, monitoring, market value validation and profit and loss analysis.
- Financial Markets Business Management system (FMBM), designed by the Head Office, for the management of financial market business;

4.7.2 Capital requirement

- **Exposure to market risk - Own funds requirements calculated in accordance with points (b) and (c) of Article 92(3): Article 438 (e) & Article 445**

The Bank’s market risk is composed of foreign exchange risk and interest rate risk. Therefore, the Bank does not allocate own funds for the following risks:

- Position risk.
- Large exposure exceeding the limits specified in Articles 395 to 401 CRR, to the extent that the Bank is permitted to exceed those limits.
- Settlement risk.
- Commodities risk.

Foreign exchange risk Pillar I capital requirement is calculated using the Standardized Approach.

Under the Market Risk Standardized approach, the total exposure to be considered for Foreign exchange risk is the maximum between the total of the Long and the total of the Short positions in foreign currency if this total is higher than 2% of the own funds.
The overall net currency position amounted to more than 2% of its eligible own funds, and hence leading to additional capital requirements at year end.

Currency	Weight of positive net position
USD	74.49%
CNY	15.70%
GBP	2.83%
Other*	6.98%
Items	**Amount (EUR M)**
Market RWA	12.35

*Other includes insignificant foreign exchange exposure (JPY, HKD, CHF, AUD, CZK, HUF, ZAR, SGD)

At the end of Q4 2020, the Market Risk RWA reached EUR 12.35M, 0.33% only of total Pillar 1 RWA which is the historical lowest level.
Pursuant to Article 438(e) and Article 445 of the CRR, the Bank does not operate a trading book business and therefore the information relating to position risk in Article 92(3) (b) of the CRR is not relevant to its activities.

Furthermore, the Bank is not exposed to material settlement risk or to commodities risk for the purposes of Article 92(3) (c) of the CRR.

As at 31.12.2020, own funds required for market risk amount to EUR 0.99M.

Market risk (Standardized approach)	RWA (EUR M)	Capital requirement (EUR M)
Position risk	-	-
Large exposures exceeding the limits	-	-
Foreign exchange risk	12.35	0.99
Settlement risk	-	-
Commodities risk	-	-
Total Market risk	**12.35**	**0.99**
Specific interest rate risk of securitization positions	-	-

4.8 Interest rate risk on positions not included in the trading book

- **Nature of the IRR: Article 448 (a)**

Interest rate risk is the volatility in the economic value of the Bank's positions, or in the income derived therefrom, due to adverse movements in market yields or to the term structure of interest rates exposures, caused by differences in re-pricing and maturity characteristics of the various asset, liability and hedge instruments."
It is the Bank's policy not to maintain a significant exposure to interest rate fluctuations.

The Bank also actively prevents interest rate repricing risk and strives to reduce interest costs, thereby improving the interest rate risk management of the Bank. The EUR, USD and RMB fixed-rate securities investments are offset by the favourable bond portfolio duration and yield ratio.

The interest risk of the fixed-rate trade finance is mostly offset by the short financing period and the enhanced margin.
For bilateral loan and syndicated loan activities, the Bank normally offers floating rate and also sets a favourable interest margin for the fixed rate loans.

The main source of potential interest rate risk derives from the assets (loans and securities investments) that are fixed rate.

- **Measures used by the management: Article 448 (b)**

- Regulatory stress test:

Pursuant to the CSSF Circular 16/642 implementing EBA guidelines 2018/02, on the management of interest rate risk arising from non-trading book activities, the Bank is subject to an interest rate risk sensitive indicator limit which does not allow the Bank to face a variation in the Economic Value of its Equity (EVE) by more than 20% of own funds aroused by the “Standard shock” (parallel shift of the interest rate curve), or a variation of its EVE by more than 15% of its CET1 capital, after the application of the additional 6 stress scenarios.

Indicator	**Value EUR M**	**Indicator**	**Value EUR M**
△EVE if Interest rate increase 200bp	-9.57	△EVE if Interest rate decrease 200bp	0.75
△EVE/Total EVE	-1.55%	△EVE/Total EVE	0.12%

Stress scenario	△EVE **2020 EUR currency**	△NII **2020 EUR currency**
(i) parallel shock up	-9.55	22.65
(ii) parallel shock down	0.75	-22.65
(iii) steepener shock (short rates down and long rates up)	-6.52	
(iv) flattener shock (short rates up and long rates down)	2.75	
(v) short rates shock up	-1.16	
(vi) short rates shock down	0.46	
Maximum change in EvE	**-9.55**	
Tier 1 Capital	**619.61**	

- Fixed interest rate gap ratio:

The Bank has set up an internal Fixed Interest Rate Gap Ratio at branches’s level to ensure better control, monitoring and management of this risk and thus this supervisory indicator. This will enable the Bank to highlight the risk exposures and could be used to develop hedge position.

4.9 Operational Risk

4.9.1 Risk Management Framework

- **Operational risk management: Article 435 (1)**

Operational risk is the risk of operational errors which give rise to financial/reputation loss or accounting misstatements. Operational risk is inherent in all banking products, activities, processes and systems, and the effective management of operational risk has always been a fundamental element of the Bank’s risk management program.

The Bank’s objectives for sound operational risk management can be summarized by the followings:

- To find out the extent of the Bank’s operational risk exposure.
- To understand what drives it.
- To allocate capital against it.
- To identify and employ tools both internally and externally which would help in risk mitigation.

Operation Risk management framework

Governance

Control and reporting of operational risk findings and identified losses is the responsibility of all staff within the Bank, and ultimate accountability for operational risk management rests with the Bank ’s AM while the process to manage the reporting and oversight of risk issues rests with the RMD.

The Bank has set up the operational risk governance structure on the basis of the principle of “three lines of defence” and enhanced its internal control for effective operational risk management through the application of detailed bylaws, ongoing training, clear definition of the roles and responsibilities and proper segregation among relevant functions so as to avoid potential conflicts of interests.

The AM sets down an effective, integrated operational risk management framework with defined roles and responsibilities for all aspects of operational risk management /monitoring and appropriate tools that support the identification, assessment, control and reporting of key risks. RMD implements the strategic direction set by the AM.

The AM of the branches is responsible for consistently implementing and maintaining throughout the organization policies, processes and systems for managing operational risk.

Identification

The Bank identifies the operational risk inherent in all types of products, activities, processes and systems.

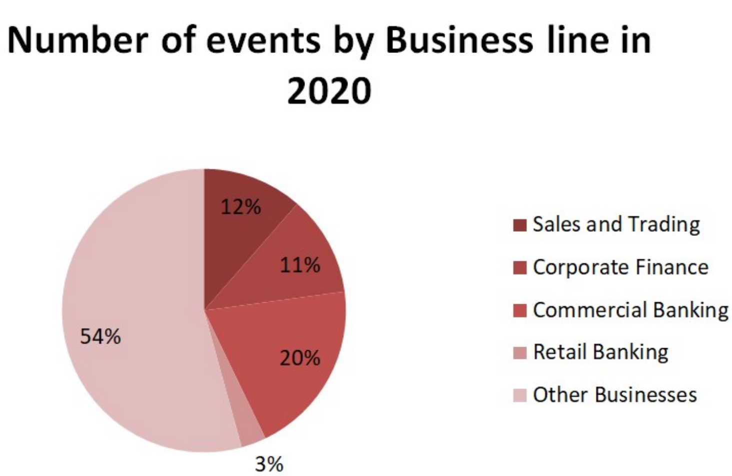
The level of operational risk is managed by rigorous operating policies, procedures and controls set by the AM and leading implemented by RMD and carried out by the other departments of the Bank.

The Bank is monitoring several Key Operation risk indicators which are reported through an in-house system “Operational risk Management System”.
The Bank has set operational risk limits. Compliance and Legal risks indicators are part of the Key Operational Risk Indicators.

To further enhance the operational risk management, the Bank issued the Notice on Strengthening the Monitoring and Management of Operational Risk Events, requesting all branches to strengthen the daily supervision and management of operational risk event and to report to the Bank Headquarter in Luxembourg any events, regardless of whether it incurs any financial loss.

The Bank headquarter in Luxembourg is taking the lead in monitoring and guiding branches’ handling measures regarding the event in cooperation with competent departments concerned. The Bank has implemented an operational risk events monitoring dashboard which includes related measures to take or to be taken.

In 2020, the Bank records 35 operational risk events.



Risk control measures and risk mitigation
The Bank has established a formal procedure for managing internal incidents and deliberate regularly self-assessments conducted by department heads in the RMC meeting.
Regular reporting mechanisms on loss due to operational risk/significant operational risk events are in place.
Business Modules of Operational Risk Management, designed by the Head Office, are in place for the global management of operational risk. Annual operational risk scenario analysis and fraud risk self-examination are performed to identify weakness of operational risk control.

The Bank's internal control for effective operational risk management includes:

- Clear definition of the roles and responsibilities of each department and making proper separation among relevant functions so as to avoid potential conflicts of interests.
- A code of conduct to regulate on-job and off-job behaviour particularly for the staff in important positions or at sensitive links.
- Every business department appoints one representative (usually Head of Department) responsible for controlling operational risk in its department.
- Strengthening the business line management by filing the effective operational procedures.
- Fully assessing the operational risk in the approval process for all new products, activities and systems.
- Implementing regularly monitor of operational risk profiles and material exposures to losses, which is on a monthly basis for the branches.
- On-going training in the usage of internal systems.
- Testing and evaluating by internal audit whether the operational management framework has been implemented as intended and is functioning effectively.

The Bank has set the Disaster Recovery Plan (DRP), Business Continuity Plan (BCP) and Crisis Management Guidelines in place, ensuring the continuity of the Bank's operations in significant incident.

In addition, the Bank HQ organized the relevant departments and branches to analyse operational risk scenario of 2020. These scenarios aim to analyse different business lines under adverse events by stressing different operational risk event as defined under the Basel 2 framework and the Guidelines for the Measurement of Operational Risk Regulatory Capital of Commercial Banks issued by CBIRC.

These guidelines are combined with actual situation of operation and concerns of local regulatory authorities. The Bank set up the scenarios which are consistent with its business characteristics and are concentrated in some business lines and risk events. For each of these operational stress tests, the following has been performed:

- Definition of a scenario;
- Maximum Loss/Cost estimation;
- Management Actions.

4.9.2 Capital requirement

- **Exposure to Operational Risk - Own funds requirements calculated in accordance with Part Three, Title III, Chapters 2, 3 and 4 and disclosed separately: Article 438 (f) & Article 446**

The Bank uses the Basic Indicator Approach to calculate the regulatory minimum own funds requirement for operational risk. Under the Basic Indicator Approach, the capital requirement for operational risk is equal to 15% of the simple arithmetic average over the last three years of the sum of net interest income and non-interest income.

The calculation shall be based on positive amounts. If, for any given observation, the sum of revenues is equal to zero or negative, this figure shall not be taken into account in the calculation of the average for the determination of the Basic Indicator.

As at 31.12.2020, own funds required for operational risk amount to EUR 12.03M equivalents to a total risk weighted assets of EUR 150.45M.
The EUR 12.03M capital amount allocated to operational risk significantly exceed the 2020 financial losses as there was actually no operational risk loss over the year. .

- Additional Operational Risk measurement for internal approach:

As part of the ICLAAP, the Bank uses the new Standardized Approach ('new SA') for Pillar II Operational Risk based on forecasted income statement and balance sheet.
Conceptually the new SA assumes that operational risk increases at an increasing rate with a firm's income. It also assumes that firms that have experienced greater operational risk losses in the past are more likely to experience operational risk losses in the future.

4.10 Other Risks

- **Risk management for other risks: Article 435 (1)**

4.10.1 Liquidity risk

Qualitative information

The following section is provided as per Annex 1 of the EBA guidelines (EBA7GL72017/01) on LCR disclosure to complement the disclosure requested under Article 435 of the CRR.

- **Definition**

Liquidity risk is commonly divided into two components, the risk that the Bank may not be able to sell an asset due to lack of liquidity in the market (Market liquidity risk), and the risk that liabilities cannot be met when they fall due or can only be met at an uneconomic price (Funding liquidity risk).

- **Strategies and processes in the management of the liquidity risk**

In light of the Circular CSSF 09/403, the Bank has established an adequate liquidity risk management framework and appropriate mechanism.
Liquidity risk management framework is defined within the Bank's liquidity policy and aims to clarify the governance provide adequate risk indicators and appropriate limits to effectively manage liquidity risk.
The branches take their own responsibility to optimize the scale and structure of liquid assets and to maintain an appropriate maturity structure of funding. The Bank's headquarter supervised the implementation of liquidity processes and systems at branches' level and control their effectiveness.

- **Structure and organization of the liquidity risk management function (authority, statute, other arrangements)**

The RMD is in leading charge of identifying the liquidity risk, and has put procedure in place to monitor the LCR and report the liquidity risk appetite indicators as part of the overall risk appetite framework including both regulatory and internal liquidity risk indicators.

The FMD is responsible for implementing liquidity management strategy such as the diversity and stability of funding sources, managing liquidity in different currencies, as well as daily liquidity monitoring and delivering a daily liquidity report to Banque Centrale du Luxembourg about the short-term liquidity situation.
A quarterly liquidity risk management report is drafted by the RMD and is delivered to the AM.

Frequent information is established between various internal and external stakeholders. For instance, daily LCR calculation and prediction over the 5-business days are sent to the Authorized Management on a daily basis, monthly report related to regulatory indicators (LCR, NSFR) but also monthly results of the internal liquidity stress testing are introduced to the Authorized Management. ALCO meet on a frequent basis to discuss the development of the balance sheet such as wholesale & corporate deposits, interest rates etc.

- **Scope and nature of liquidity risk reporting and measurement systems**

The Bank has implemented a set of liquidity risk indicators which consists of:

- Regulatory liquidity risk indicators and.
- Internal monitoring liquidity risk indicators.

The regulatory indicators are mandatory in respect of the local regulatory requirements; internal monitoring indicators aim to be indicative of the Bank's liquidity risk profile.

The Bank's liquidity risk appetite framework is part of the overall risk appetite framework in order to ensure a better integration of the governance, monitoring and escalation processes.
Liquidity risk indicators are monitored by RMD and reported to the AM.

The Bank has defined:

- A first warning value and a tolerance value as part of the liquidity risk appetite framework for both regulatory and internal monitoring liquidity risk indicators.
- A contingency alert threshold and a contingency limit for at least the regulatory liquidity risk indicators triggers which, if breached, could signal the Bank's Liquidity Contingency Plan activation (part of the recovery plan)

The Bank has implemented the LCR prediction mechanism and achieved the automation of daily LCR calculation and prediction both at branch's level and consolidated (headquarter) level. Even if LCR at branch's level is not a regulatory constraint, AM has decided to apply internal LCR minimum target to each Branch in order to ensure requirements are met at consolidated level.
Daily results and predictions are monitored by the headquarters' RMD and daily reported to the AM.

In case additional HQLA is needed, the RMD informs the Financial Markets Department which is in charge of adjusting the needs in HQLA by either increasing the Central Bank reserves, buying additional HQLA or reducing the funding gap (net outflows).

With the usage of FMBM system in its daily liquidity management, the Bank is monitoring the cash flow incurred by treasury business (Money market, FX, Forward, Swaps) and other transactions (remittance, trade finance, loans) to define a sound funding plan.

The liquidity risk reporting framework consists of:

- BCL daily cash reporting performed by FMD and submitted to BCL via FAD
- LCR daily monitoring reporting (in reporting currency) performed by RMD and submitted to AM
- Monthly LCR (in reporting and significant currencies) performed by RMD and submitted to CSSF and controlled by BCL
- Monthly additional liquidity monitoring metrics (in reporting and significant currencies) performed by RMD and submitted to CSSF and controlled by BCL
  - Concentration of funding by counterparty
  - Concentration of funding by product type
  - Prices for various lengths of funding
  - Roll-over of funding
  - Concentration of counterbalancing capacity by issuer/counterparty
- Quarterly NSFR (in reporting and significant currencies) performed by RMD and submitted to CSSF and controlled by BCL
- Monthly monitoring regulatory report performed by RMD and submitted to AM contains:
  - Regulatory liquidity risk indicators (i.e. LCR)
  - Monthly liquidity risk stress testing results
- Quarterly liquidity risk report (which is included in the quarterly overall risk management report as well) performed by RMD and submitted to AM and Asset & Liability Management department of H.O. contains:
  - Liquidity risk situation in the European market
  - Breakdown by funding resources
  - Breakdown of the allocation of the funds used
  - Gap in Maturity and gap in cumulative maturity both in consolidated currency, in Renminbi currency and in the reporting currency
  - Concentration of the Top 10 counterparties (greater than 1% of the total liability)
  - Reciprocal interbanking funding lines
  - Liquidity regulatory and internal risk indicators
  - Liquidity stress-testing results
  - Liquidity risk management measures and schemes
- Annual ILAAP is drafted by RMD and submitted to AM, BoD, BCL and CSSF and includes the

description of the internal process for identifying, measuring, managing and reporting the liquidity risks to which the Bank is exposed. This process allows the Bank to control its risks and to assess its available liquidity buffer needs and, where appropriate, its internal capital needs.

- **Policies for hedging and mitigating the liquidity risk and strategies and processes for monitoring the continuing effectiveness of hedges and mitigants**

First of all, the stock of HQLAs represents the principal counterbalancing capacity of the Bank. The unadjusted amounts at 31.12.2020 represent 32.53% of the total assets which are principally made of central bank reserves and HQLA level 1.

Furthermore, the Bank has set-up a list of indicators ensuring sufficient distance to react to both internal and external stress events. The Bank's liquidity contingency plan ('LCP') as formulated under the Bank's liquidity policy aims to establish an effective prevention, warning and resolution mechanism for liquidity risk, enhancing the Bank's capacity to respond and resolve liquidity risk contingencies and preventing and reducing liquidity risk contingencies and their damages to the biggest extent.

- **A declaration approved by the management body on the adequacy of liquidity risk management arrangements of the institution providing assurance that the liquidity risk management systems put in place are adequate with regard to the institution's profile and strategy**

&

- **A concise liquidity risk statement approved by the management body succinctly describing the institution's overall liquidity risk profile associated with the business strategy. This statement shall include key ratios and figures (other than those already covered in Annex II of these guidelines) providing external stakeholders with a comprehensive view of the institution's management of liquidity risk, including how the liquidity risk profile of the institution interacts with the risk tolerance set by the management body**

In the view of the internal liquidity assessment process report and on-going monitoring metrics, the Board of Directors considers that the Bank holds sufficient available liquidity resources and has adequate liquidity and funding risk management.

The Board of Directors reminds that its Head Office issued an official letter which is signed by the Chairman of the Board of Directors of ICBC Ltd. in which it states that ICBC Ltd. is fully committed to grant the solvency and the liquidity of the Bank including its branches at any time, if deemed necessary.

- The Authorized Management is in the opinion that the exiting set-up process ensures the Bank is sufficiently robust to correctly manage liquidity and funding risk, including the process for identifying, measuring and controlling liquidity and funding risks.

- Money market activities and corporate savings have been the core part of the Bank's funding strategy over the years and will continue to be the dominant source of funding for the balance sheet.

- The Bank is dependent on its corporate deposits to ensure stability of its funding structure and avoid excess over-reliance towards short-term money market activities which could face a sudden dry-up in times of stress. It is the intention of the Bank to keep increasing the portion of the corporate savings in order to stabilize the source of funding and comply with NSFR requirement.

- The Bank maintains a significant buffer to cover unexpected liquidity outflows. The holding of the liquidity buffer is mainly made of Level1 assets and represents a preventive measure to reduce liquidity risk. In addition, the Bank has contingency funding plans in place which define what constitutes a liquidity contingency as well as he measures available to rectify a liquidity crisis.

- The Bank has implemented adequate LCR system and limit at branches' level to ensure short-term liquidity adequacy.

- The Bank maintains a significant buffer to cover unexpected liquidity outflows. The holding of the liquidity buffer is mainly made of Level1 assets and represents a preventive measure to reduce liquidity risk. In addition, the Bank has contingency funding plans in place which define what constitutes a liquidity contingency as well as he measures available to rectify a liquidity crisis.

- The 2020 annual daily average LCR stands at 225.83% and a median level at 224.43%.

- In addition, the Bank has set a comprehensive liquidity stress testing framework built under three different scenarios to measure potential liquidity stress testing and set a short-term survival period to measure potential risks.

- The Bank has identified several vulnerabilities and has already engaged several set of corrective measures: the Bank mainly relies on Luxembourg Branch (as part of its role of treasury function for financing the activity of ICBC in Europe) capacity to raise funds through wholesale counterparties. The Bank has improved and diversied its funding with the implementation of the NSFR requirement, the intragroup funding ratio and internal fixed rate interest gap ratio.

- Therefore, the Bank could be relatively more exposed to the price and credit risk sensitivities of funds providers. In times of market stress, or for reasons inherent to the Bank itself (such as a rating downgrade of ICBC ltd.), the Bank consider that liquidity may not be accessible on a timely or cost-effective basis, or in amounts sufficient to meet its needs.
- The Bank has kept strengthening its source of stable funding over the year (funding more than one year stood at 32.29% EOY2020 instead of 28.92% in 2019)

However the Bank:

- relies on Luxembourg Branch capacity to raise fund through wholesale counterparties due to the centralization business model of ICBC in Continental Europe and due to rating considerations;
- is fully linked to the reputation and brand of the Group and thus the funding cost and credit spread risk;
- is dependant of guarantee received from Head Office (through Luxembourg Branch) to attract large corporate deposits.

Quantitative information

LIQ1: Liquidity Coverage Ratio: 31.12.2020 (EUR M)

		Total unweighted value	Total weighted value
HIGH-QUALITY LIQUID ASSETS			
1	Total high-quality liquid assets (HQLA)		1,538.32
CASH-OUTFLOWS			
2	Retail deposits and deposits from small business customers, of which:	4.46	0.89
3	*Stable deposits*	-	-
4	*Less stable deposits*	4.46	0.89
5	Unsecured wholesale funding	988.67	674.73
6	*Operational deposits (all counterparties) and deposits in networks of cooperative banks*	-	-
7	*Non-operational deposits (all counterparties)*	988.67	674.73
8	*Unsecured debt*	-	-
9	Secured wholesale funding		-
10	Additional requirements	1,373.44	145.44
11	*Outflows related to derivative exposures and other collateral requirements*	0.00	0.00
12	*Outflows related to loss of funding on debt products*	-	-
13	*Credit and liquidity facilities*	1,373.44	145.44
14	Other contractual funding obligations	-	-
15	Other contingent funding obligations	-	-
16	**TOTAL CASH OUTFLOWS**	-	821.07
CASH-INFLOWS			
17	Secured lending (eg reverse repos)	-	-
18	Inflows from fully performing exposures	178.69	149.30
19	Other cash inflows	7.01	7.01
EU-19a	(Difference between total weighted inflows and total weighted outflows arising from transactions in third countries where there are transfer restrictions or which are denominated in non-convertible currencies)		-
EU-19b	(Excess inflows from a related specialised credit institution)		-
20	**TOTAL CASH INFLOWS**	185.69	156.31
EU-20a	***Fully exempt inflows***	-	-
EU-20b	***Inflows Subject to 90% Cap***	-	-
EU-20c	***Inflows Subject to 75% Cap***	185.69	156.31
			TOTAL ADJUSTED VALUE
21	**LIQUIDITY BUFFER**		**1,517.40**
22	**TOTAL NET CASH OUTFLOWS**		**664.76**
23	**LIQUIDITY COVERAGE RATIO (%)**		**228.26%**

With a daily average annual LCR of 225.83% and a year-end level of 228.26%, the Bank's LCR is well above the regulatory requirement and the Bank has a sufficient buffer to face a liquidity stress of 30 days.

LCR Daily Average	2020 Q1	2020Q2	2020 Q3	2020 Q4	2020 Year
Europe SA	136.00%	234.66%	247.87%	285.44%	225.83%

4.10.2 Concentration risk

Concentration risk refers to excessive exposures to the single or related risk driver such as single business area (market environment, industry sector, geographic region and country), single customer (borrower, depositor, counterparty, guarantor, issuer) and single product (source of funding, currency, maturity, risk mitigation tool) with the potential to produce: (i) losses large enough to threaten the Bank's health or ability to maintain its core operations; or (ii) a material change in the Bank's risk profile.

Concentration risk may arise in the Bank's assets, liabilities, off-balance sheet items, or through the execution or processing of transactions, also may arise from interrelated exposures across risk categories.

The Bank has implemented a "Concentration risk management procedure and policy" in order to take into account regulatory requirements applicable to the Bank, such as the CSSF circular 12/552, as amended, and CSSF circular 13/574. The following key aspect of a sound concentration risk management is considered as part of the above mentioned policy: Risk management mechanisms, risk tolerance and limits management on various types of risk (credit risk, market risk, liquidity risk and operational risk), risk monitoring and reporting system, risk stress testing.

In addition to prudent and strict management on large exposure, the Bank is monitoring several risk indicators to avoid concentration risk.

Concentration risk internal capital requirement is allocated as part of the Pillar II framework and is quantified on the basis of the concentration on sector, geographical area, and single name exposure.

4.10.3 Outsourcing risk

Outsourcing risk is a sub-risk of operational risk due to the services and products performed by independent third parties and the affiliated institutions or related companies established by the Head Office.

The Bank has implemented an outsourcing policy in order to enhance the outsourcing management of the Bank and its branches, regulate the outsourcing activities, improve the management of outsourcing risks, and guarantee the ongoing operation of business.

4.10.4 Strategy risk

Strategic risk refers to the risk caused by improper business strategy or unexpected changes in external environment or material deviation in implementing the strategies that prevents business strategies from being effectively implemented.

Business risk is defined by the Bank as the variability of earning and costs due to an impact of changed within the market environment and/or strategic decisions.
Business and strategic risk refer to the current and future risk of losses caused by chances in market conditions (changes in volumes, interest margins and other price changes concerning deposit and lending) and inaccurate and misguided business decision.

An effective management of strategic risk requires that policies, procedures and limits be established to ensure objective evaluation of and responsiveness to the Bank's business environment.
Procedures for defining and reviewing the Bank's business strategy is intended to ensure that adequate consideration is given to the following aspects:

- The Bank's inherent strengths and its identified weakness.
- Opportunities external to the Bank and external factors that pose threats to the Bank.

- Exposure limits to different sectors.
- Growth of business and staff strength.

The Bank regularly evaluates business and strategic risks through RMC and AM committee, and of course during the BoD meetings. The Bank has built a material maters matrix as part of its ICLAAP as Material matters have the most impact on the Bank's ability to create long-term value. These matters influence how the Board and Authorized Management steer the Bank.

4.10.5 Reputation risk

Reputation risk is the potential that negative publicity regarding the Bank or ICBC Group will cause a decline in the customer base, increase cost of funding, costly litigation, or revenue deductions. Reputation risk can threaten the Bank's business continuity even if the underlying business is sound.

Regarding the reputation risk, the AM of the Bank and the European branches are in leading charge and have the ultimate responsibility in controlling and managing this kind of risk.
As per the Reputation risk, the Bank has Issued Administrative Measures for Reputation Risk of the Bank and consolidate the quarterly reputation risk management reports submitted by the branches and the General Administration Department of headquarter in Luxembourg which are provided to the AM and ICBC Head Office.

For the reputation risk, the Bank adheres to the prevention oriented principle and incorporates reputation risk management into each aspect of operational management of the Bank and every customer service process, for the purpose of controlling and mitigating reputation risk based on its source. The Bank has established a mechanism to collect customer complaints, monitor negative news, and identify the possible reputation risk in launching new product and service.

Reputation risk management is performed also at branch's level and reported to Luxembourg Headquarter and AM.

Reputation risk is derived from the actualization of other risk types and it deemed to a "consequential" risk rather than a primary risk. Therefore, the Bank has to identify the potential sources and events which could lead to reputation damage. In the same way, reputation risk can lead to chain reaction of other risks.

4.10.6 Country risk

Country risk refers to the risk that, due to economic, political, social changes and events in a country, a borrower or debtor in that country cannot or refuses to pay back its debts, or the Bank's commercial interest in that country is damaged, or the Bank suffers any other loss.
Country risk may arise from deteriorating economic conditions, political and social upheaval, nationalization or expropriation of assets, government repudiation of external indebtedness, exchange control, currency devaluation, etc.
The term "Country" or "economy" as used here, not necessarily being "sovereign state" as understood by international law and practice, covers also territorial entities that are not states.

Risk Management Department: Monitor, analyse and report to management body the observance of country risk limits.

All Departments should establish mechanism to monitor and report on how country limits are observed, ensure country limits allocated by HO are complied with, assist RMD in carrying out monitoring, and report to RMD, among others, on any events that indicate change in country risk profile of any country in their business.

In the aim to improve the control and monitoring of country risk limits, the Bank has approved and issued provisions on the administration and risk appetite statement and Country Risk Limit Control program.

Country limits are embedded in the overall Risk Appetite statement of the Bank.
Country limits are set by HO and allocated to the Bank for a specific period of time.

The objective of country limit management is, by categorizing country riskiness and applying country limit,

and with continuous monitoring and reporting, to effectively control excessive concentration of country risk exposures. All branches and relevant departments in HQ have to strictly fulfil the requirements of the Program when extending credit.
Note that Country limit should not be seen as the Bank's expectation or business plan for exposures to a certain country.

Categorization
Countries/economies are classified into five risk categories:

- Low
- Moderate
- Medium
- Significant
- High

Country limits are set for each country/economy.
Exposures to international multilateral organizations are not referring to any countries but deemed to belong to a special categorization of "international organization", which is not subject to country limit.

Scope
Country risk exposure is calculated according to Country Risk Exposure Statistics Policies, covering loans & advances (incl. loans, finance leasing and trade finance etc.), due from banks (incl. due from central banks, deposit with banks, interbanking placement and securities purchased with resale agreement), bond instruments, equity instruments, derivative assets, other on-balance sheet exposure (incl. operating leasing receivables and receivable under investment banking services etc.), off-balance sheet exposures (incl. guarantees, performance/prepayment bonds, LC, undrawn commitment etc.).

The Bank reports Country Exposure Report to Head Office on a monthly basis.

A dashboard is used as a control and monitoring tool for the country limits allocated to the Bank for 2020. The dashboard includes the name of all the country/economy, their risk category, the total limit allocated if any which is split by:

- credit limit
- financial market limit
- other limits

In case one or several branches are making use of the limits, Branch's name and allocated amount is recorded as well.

4.10.7 Settlement risk

Settlement risk can be broadly defined as the risk of incurring losses in the event counterparties fail to make delivery as contracted (the risk applies particularly to transactions for which cash movements only occur at maturity. The failure could be caused by bankruptcy, lack of foreign exchange, implementation of capital controls or any other eventualities and contingencies.
Several types of reconciliations are regularly performed by the Operation Management Department as routine procedures to control settlement risk.

5 Unencumbered assets

- **Disclosure of unencumbered assets as developed by EBA: Article 443**

In line with the guidelines established by the EBA, the concept of asset encumbrance includes both on-balance sheet assets pledged as collateral in operations to obtain liquidity as well as those off-balance sheet assets received and re-used for a similar purpose, in addition to other assets associated with liabilities other than for funding reasons.

The amount of exposure shown in the tables below was calculated as the median of the values disclosed in the regulatory information for the four quarters of the year, in accordance with EU Delegated act.

In EUR M

	ASSETS	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
		010	040	060	090
010	Assets of the reporting institution	713,375,330.36		4,942,805,538.68	
030	Equity instruments				
040	Debt securities	-	-	1,463,080,261.32	1,442,472,750.54
120	Other assets	-		155,169,475.38	

	COLLATERAL RECEIVED	Fair value of encumbered collateral received or own debt securities issued	Fair value of collateral received or own debt securities issued available for encumbrance
		010	040
130	Collateral received by the reporting institution	-	-
150	Equity instruments	-	-
160	Debt securities	-	-
230	Other collateral received	-	-
240	Own debt securities issued other than own covered bonds or ABSs	-	-

	SOURCES OF ENCUMBRANCE	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
		010	030
010	Carrying amount of selected financial liabilities	-	-
120	'Other sources of encumbrance	-	713,375,330.36

6 Remuneration policy

This section aims at describing the main characteristics of the Remuneration Policy and practices of the Bank.

- **Information concerning the decision-making process used for determining the remuneration policy: Article 450 (a)**
- Description of the decision making process used for determining the remuneration policy and information about the mandate of the remuneration committee:

The Remuneration Policy is guided by principles and provides clear statement on how the variable remuneration is computed.

The remuneration shall be competitive, taking into consideration market practice, being built for encouraging long-term results, growing competencies, strict compliance and long-term performance of the employee;
The remuneration policy is in line with the business strategy, objectives, values and long-term interests of the Bank, such as sustainable growth prospects and shall be consistent with the principles relating to the protection of clients and investors in the courses of service provided.
Staff and Management within the Audit, HR function, Risk control and Compliance functions are compensated in a manner that is independent from the financial results of the underlying businesses being controlled, commensurate with their key role in the organization and based on non-financial objectives.

On allocating individual variable remuneration, the Bank is comparing risk taking of individuals with peers within the Bank.

As defined by the regulation, the Bank has determined the list of individuals whose professional activities have a material impact on the risk profile of Bank as follows:

Material Risk Taker category	Number of employees
Total number of identified Material Risk Takers* based on qualitative and quantitative criteria:	49

(*branches included)

- Duties and responsibilities of the Remuneration and Nomination Committee:
  - Proposing to the BoD of the Bank, the Remuneration Policy that is aligned with the Bank long-term business strategy, its business objectives, its risk appetite and values, whilst recognizing the interests of relevant stakeholders.
  - Advising the BoD on the policy governing the remuneration.
  - Liaising internal control functions in relation to risk-adjusted performance measures.

- Composition of the Remuneration and Nomination Committee:

As set by the Remuneration Policy of the Bank, the composition of the Remuneration and Nomination Committee is comprised of three members of the BoD: the Chairman of the Board, and two other non-executive directors. The members of the Remuneration and Nomination Committee shall have sufficient expertise and professional experience concerning risk management and control activities, namely with regard to the mechanism for aligning the remuneration structure to the institutions' risk and capital profiles.

- Duties and responsibilities of the relative functions:
  - The Control functions assist and inform on the definition of suitable risk-adjusted performance measures. The Remuneration Policy will be updated when necessary to reflect legal and regulatory evolution as well as new business impacts which will affect the Material Risk Takers population and the risk profile of ICBC.
  - Human Resources department on behalf of the Remuneration and Nomination Committee assures the Remuneration Policy does not only attract and retain the staff but also is aligned with the institution's risk profile. Going further, the Human Resources department provides support in

the identification process of Material Risk Takers, as well as the identification of Identified Staff eligible to the proportionality principle.

- **Information on link between pay and performance: Article 450 (b)**

ICBC has designed a remuneration structure based upon the following components:

- Salary (fixed part).
  - The fixed part of the remuneration is agreed contractually and increased either further to legal increases, if any (Collective Bargaining Agreements increases or wage indexation), or reviewed on a discretionary basis, depending on the career evolution and job responsibilities.
- Performance bonus (variable part)
  - The outcome is based on a prudential approach and linked to the financial situation of the Bank.

The above-mentioned components are used to achieve a market competitive total remuneration with a fair mix of fixed and variable compensation, which appropriately reflects the responsibility of the role they perform day-to-day and as a contribution to affect appropriate behaviors and actions as well as their performance.

In order to prevent conflicts of interest, variable compensation for Internal Control Functions is never based on the specific financial results of the underlying businesses being controlled.
The level of this compensation is based on the results of the Bank and on individual objectives using Non-Financial KPIs.
Internal Control Functions are defined as:

- Risk Management department
- Internal Audit department
- Compliance department

- **Characteristics and criteria used for performance measurement and risk adjustment. Article 450 (c)**

The Bank is committed to compensate its employees in a way that staff members benefit from their personal contribution to the Bank's long-term success.
The Bank believes in and promotes a sound and dynamic performance culture as a means for achieving long-term success and encourages the right behaviours among the employees.

The performance of the Bank each year is based on the comparison between the quantitative and qualitative budgets fixed at the beginning of the year and the final results for the year (that include net profit, return on risk weighted assets, other profitability indicators and relative risk compliance indicators).

At an individual level, the Bank's employees and members of management are assessed every year.
The individual performance is evaluated and appraised on the competency in duties/responsibilities (Non-Financial KPIs) for promoting the Bank's long-term interest and strategic development.

As set by the Remuneration Policy of the Bank, variable remuneration could further be subject to malus and/or clawback. In such circumstances, the Bank has the right to clawback some or all variable part of the remuneration paid to the given member of staff.

- **Ratio between fixed and variable remuneration set in accordance with article 94(1)g) of Directive 2013/36/EU: Article 450 (d)**

In EUR	Ratio between fixed & variable
Board of Directors	None
Authorized Management	Up to 100%
Others Material Risk Takers	Up to 100%
Control functions	Up to 100%

- **Information on the performance criteria on which the entitlement to shares, options or variable components of remuneration is based: Article 450 (e)**

In 2020, the Bank does not grant any variable remuneration in the form of financial instruments (e.g. shares or options).

- **Main parameters and rationale for any variable component scheme and any other non-cash benefits: Article 450 (f)**

Please refer to the point: Information on link between pay and performance.

- **Aggregate quantitative information on remuneration, broken down by business area: Article 450 (g)**

Given the Bank's organization and its non-complex nature of activities with one core business area (corporate loans business); the broken down by business area is not relevant.

- **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 Bank: Article 450 (h)**

In EUR as of 31.12.2020	Management & Heads of ICF
Number of beneficiaries	49
Sum total of remuneration	11,581,805
of which fixed	7,932,330
of which variable	3,649,474

* Branches included

- **Number of individuals being remunerated EUR 1 million or more in 2020: Article 450 (i)**

There is no individual in the Bank receiving remuneration in excess of EUR 1 million.

- **Upon demand from the Member State or competent authority, the total remuneration for each member of the management body or senior management: Article 450 (j)**

Not applicable

7 Glossary

AM	Authorized Management
ALCO	Asset & Liability Committee
BoD	Board of Directors
BCL	Central Bank of Luxembourg
CAR	Capital Adequacy Ratio
CBIRC	China Banking and Insurance Regulatory Commission
CC	Credit Committee
CET1	Common Equity Tier 1 Capital
CRD IV	Capital Requirements Directive
CRR	Capital Requirements Regulation
CRM	Credit Risk Mitigation
CRSA	Credit Risk Standardized Approach
CSSF	Commission de Surveillance du Secteur Financier
EAD	Exposure at Default
EBA	European Banking Authority
ECAI	External Credit Assessment Institution
FAD	Financial accounting Department
FAC	Financial Affairs Committee
FMD	Financial Markets Department
FID	Financial Institutions Department
GAD	General Administration Department
HQLA	HIGH Quality Liquid Asset
H.O.	Head Office
HQ	Headquarter in Luxembourg
ICAAP	Internal Capital Adequacy Assessment Process
ILAAP	Internal Liquidity Adequacy Assessment Process
ICLAAP	Internal Capital and Liquidity Adequacy Assessment Process
ICBC	Industrial and Commercial Bank of China
LCR	Liquidity Coverage Ratio
LD	Legal Department
OCR	Overall Capital Requirement
NSFR	Net Stable Funding Ratio
PBOC	People's Bank of China
PRC	Peoples Republic of China
RMC	Risk Management Committee
RMD	Risk Management Department
RW	Risk Weight
RWA	Risk Weighted Asset
TREA	Total Risk Exposure Assets
TSCR	Total SREP Capital requirement