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China Everbright Bank (Europe) S.A.

Financial statements as at 31 December 2020, Management Report and Report of the *Réviseur d'Entreprises Agréé*

Ravelin Building
10, Avenue Emile Reuter
L-2420 Luxembourg
R.C.S. Luxembourg B213 668

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General Management who served the Bank during the year ended 31 December 2020

Name	Position	Address
Mr. Wang Dong (from 3 July 2020)	General Manager of China Everbright Bank (Europe) S.A.	10 Avenue Emile Reuter, L-2420, Luxembourg
Mr. Zhang Wei (until 2 July 2020)	General Manager of China Everbright Bank (Europe) S.A.	10 Avenue Emile Reuter, L-2420, Luxembourg
Mr. Guangyu Xiao (until 23 September 2020)	Deputy General Manager of China Everbright Bank (Europe) S.A.	10 Avenue Emile Reuter, L-2420, Luxembourg
Mr. Bi Tao	Deputy General Manager of China Everbright Bank (Europe) S.A.	10 Avenue Emile Reuter, L-2420, Luxembourg
Mr. Qing Li (from 16 January 2020)	Assistant General Manager of China Everbright Bank (Europe) S.A.	10 Avenue Emile Reuter, L-2420, Luxembourg

Board of Directors who served the Bank during the year

Name	Position	Address
Mr. Zhang Wei	Chairman of Director of the Board of China Everbright Bank (Europe) S.A.	10 Avenue Emile Reuter, L-2420, Luxembourg
Mr. Wang Dong (from 10 September 2020)	Executive director of the Board of China Everbright Bank (Europe) S.A.	10 Avenue Emile Reuter, L-2420, Luxembourg
Mr. Norbert Becker	Independent director of the Board of China Everbright Bank (Europe) S.A.	10 Avenue Emile Reuter, L-2420, Luxembourg
Mr. Robert Goebbels	Independent director of the Board of China Everbright Bank (Europe) S.A.	10 Avenue Emile Reuter, L-2420, Luxembourg
Mrs. Yao HongYu	Director of the Board of China Everbright Bank (Europe) S.A.	10 Avenue Emile Reuter, L-2420, Luxembourg
Mr. Zhao Ling	Director of the Board of China Everbright Bank (Europe) S.A.	10 Avenue Emile Reuter, L-2420, Luxembourg

Authorised Management Report

Report on the 2020 financial statements:

We are pleased to report on the 2020 financial statements of China Everbright Bank (Europe) S.A. (the "**Bank**").

Executive summary:

The Bank is incorporated in Luxembourg as a wholly owned subsidiary of China Everbright Bank Co Ltd ("**CEB**"), in the form of a Société Anonyme, under the name of China Everbright Bank (Europe) S.A on March 20, 2017. As of the end of 2020 the Bank employs 7 (2019: 6) employees.

Activities:

In 2020, the Bank has continued to follow the group strategy to pursue the internationalization of its business activities and provides corporate banking service to Chinese companies developing businesses in Europe, as well as well-known European and global companies doing business with China.

Indeed, as CEB is a well-established bank in China, it can leverage on its significant domestic client base built up over the past decades to provide the necessary gateway for Chinese companies looking to expand their business into Europe. The Bank continued to act as European head-office, interbank and treasury center and is the basis for Pan-European business development.

In 2020, the Bank offered the following services:

- Deposit taking;
- Commercial remittance and international settlement;
- Overseas loans under domestic guarantee or domestic loans under overseas guarantee;
- Securities dealing for own account;
- Interbank service (placement and deposit with/from banks and other financial institutions, and other inter-bank trade finance service).

The financial year of 2020 was the third full year for the Bank and its operations. The Bank's portfolio is mainly composed of loans and bonds. The loan portfolio is composed of a risk participation loan guaranteed by Standby Letter of Credit (SBLC) and the bonds portfolio is composed of government bonds.

At the end of 2020, no branches have been opened abroad.

Financial results:

For the year ended 31 December 2020, the loss for the period amounted to EUR -1,166,354 (2019: EUR -840,267).

The interest receivable and similar income amounted EUR 429,565 (2019: EUR 632,087) whereas, general administrative expenses amounted to EUR 2,272,430 (2019: EUR 2,696,715) which mainly consist of staff costs of EUR 1,375,068 and other administrative expenses of EUR 897,362. In 2020, the Bank decided to donate EUR 100,000 to two major hospitals in Luxembourg for the fight against the COVID-19 pandemic.

Other operating incomes was EUR 21,891 in 2020 and 2019.

The commissions receivable amounted to EUR 1,539,591 (2019: 1,962,761) and relate to services to originate business opportunities.

As of 31 December 2020, the total assets of the Bank amounted to EUR 36,345,737 (2019: EUR 35,046,141). As of 31 December 2020, the Bank did not acquire any of its own shares.

Overview by product:

As of 31 December 2020, the outstanding of the loans guaranteed by SBLC issued by a CEB branch in China was nil (2019: nil). The Bank has invested in treasury bonds for USD 27 million (2019: USD 15 million). The Bank has an existing outstanding loan amounting to EUR 3 million.

Risk management:

The Bank establishes the risk management process to fully and timely identify, measure, monitor and control various risks upon the principle of prudence.

The Bank manages the following risk categories:

- Credit risk and counterparty risk;
- Concentration risk;
- Country risk (transfer risk);
- Market risk, including interest rate risk arising from non-trading activities;
- Operational risk, including IT risk, risk linked to outsourced processes as well as risk linked to new activities or products;
- Liquidity risk;
- Reputational risk;
- Compliance and legal risk;
- Business and strategic risk;

- Risks generated by the macroeconomic and regulatory environment in which the institution operates; and

Material risks were monitored at all times during the year, when applicable. In assessing its material risks the Bank will pay particular attention to liquidity and funding risks.

The Bank performs its business in accordance with the development and risk strategies, risk appetite framework and risk management policies. These policies of risk management are established and monitored by the Authorized Management.

A Risk Management and Compliance Committee and Credit Review Committee are in place in order to perform specific duties as formulation of policies, credit review, approval of loan and its extension, transaction confirmation, limit monitoring and risk reporting.

In addition, the Asset & Liability Committee meets on a regular basis to examine, control and plan the Liquidity and Asset and Liabilities positions of the Bank.

Market overview

The Global output and trade was strongly affected by the COVID-19 pandemic in 2020. The COVID-19 pandemic continues to cause human suffering, illness and death, while disrupting economic activity and lowering employment. In the first half of the year, the pandemic outbreak and associated lockdown measures took a severe and unprecedented toll on the EU economy, but with the depth of contractions uneven across countries. Annual real GDP in the euro area shrank by 7.5 percent in 2020.

Meanwhile, China has declared win over the virus and has resumed normal life from Q3 2020. Despite the historic bad first quarter of 2020 whereby it declined by 6.8 percent compared to first quarter of 2019, the second and third quarter grew which lead to real GDP growth at 4.9 percent. According to the International Monetary Fund, Chinese economy is only the one showing positive growth in 2020.

In a nutshell, China's fixed assets investment grew by 0.8 percent to CNY 43 trillion in the third quarter of 2020. The increase was seen in property investment of 5.6 percent and infrastructure of 0.2 percent boosted by government funding support. The private partnership projects rose by 7 percent to CNY 18.9 trillion until third quarter of 2020. The fixed assets investment accelerated during the last quarter of 2020 and overall growth of 2.9 percent is seen at the end of the year.

On 27 November 2020, National Bureau of Statistics (NBS) showed that major industrial firms returned to the positive growth leading to 0.7 percent expansion in the first 10 months. On 7 December 2020, the total exports of China increased by 21.1 percent due to the high demand of medical goods and electronics. This is the fastest growth seen since February 2018. As the economy starts to recover, the unemployment rate dropped significantly. Total 10.99 million new urban jobs were created in the first 11 months of 2020. Economic growth in China is set to accelerate in 2021 as the recovery continues and the impact of stimulus measures launched this year feed through. According to the World Bank, the Chinese economy is expected to grow 7.9% in 2021 despite the slowdown due to COVID-19 pandemic.

In a global perspective and according to Bloomberg, the proportion of the worldwide growth is expected to increase from 26.6 percent to 27.7 percent in 2025. The global economy is expected to expand 4 percent in 2021 considering the widespread rollout of COVID-19 vaccine. The Euro area GDP is expected to be rebounding by 4.2 percent in 2021 and 3 percent in 2022, which implies that GDP in 2022 will be lower than in 2019. It is expected that Euro area real GDP will recover in Q4 2022 to pre-covid level. Inflation in the euro area was -0.3 percent in 2020 and to expected to tick higher to 1.1 percent in 2021 and 1.3 percent in 2022.

In terms of business collaboration between China and Europe, on 30 December 2020, European Union and China concluded in principle the negotiation for a comprehensive agreement on investment which was in the process of negotiation for seven years. The deal focuses on investment opportunities for European companies in Chinese market. The agreement is expected to create better balance in the EU-China trade relationship. EU is China's biggest trading partner. 28 percent of the automotive sector and 22 percent of basic material are manufactured in China for EU businesses which includes production of electric cars, chemicals other telecoms and health equipment etc. This will bring clear opportunities for the Bank to position itself in supporting both Chinese and European companies in the implementation of this investment agreement.

Since several years, we also noted the increased emphasis from Europe and the Global on the Climate change and Green finance. On 11 December 2019, the European Commission presented the European Green Deal, with the ambition of becoming the first climate-neutral bloc in the world by 2050. Europe's transition to a sustainable economy means significant investment efforts across all sectors: reaching the current 2030 climate and energy targets will require additional investments of €260 billion a year by 2030. The Bank will continue the effort to capture this market and being a socially responsible company.

Regarding the Brexit, UK voted to leave EU in 2016 and officially left EU on 31 January 2020. European commission release EU-UK trade and cooperation agreement on 24 December 2020 which sets out preferential arrangements in areas such as trade in goods and in services, digital trade, intellectual property, etc. The Bank will continue to explore any opportunities in this area and to plan a bridge role for companies established in UK and wish to expand in EU and in China.

China observed the effective risk management in the banking sector powered by technologies and improvement in quality and efficiency. Considering the positive development of the Chinese economy despite the global pandemic, the business activities in China or Chinese business overseas looks more optimistic, which bring the confidence and positive prospective to the Bank.

Outlook

Taking into account the global macroeconomic environment and China economy growth forecast for 2021, the management of the Bank follows a cautious and steady development philosophy, continue to improve the business performance of the Bank, to diversify the service offering and continue to explore the development in European market.

In addition, in line with the Group strategy for international expansion and increase of the market share, the Bank focuses on supporting the business growth and competitive position by developing strong relationships with its target client base and providing high quality services.

Other information

In 2020, the Bank did not undertake any Research and Development activity.

In 2020, the Bank did not acquire its own shares.

No significant event having an impact on the Bank's activity or financial statements as at year-end occurred since 31 December 2020.

China Everbright Bank (Europe) S.A.

Authorized Management

Date: March 19, 2021

Mr. Wang Dong	Mr. Bi Tao	Mr. Li Qing
General Manager	Deputy General Manager	Assistant General Manager

Independent auditor's report

To the Board of Directors
China Everbright Bank (Europe) S.A.
10, Avenue Emile Reuter
L-2420 Luxembourg

Report on the audit of the financial statements

Opinion

We have audited the financial statements of China Everbright Bank (Europe) S.A. (the "Bank"), which comprise the balance sheet as at 31 December 2020, and the profit and loss account for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2020, and of the results of its operations for the year then ended in accordance with Luxembourg legal and regulatory requirements relating to the preparation and presentation of the financial statements.

Basis for opinion

We conducted our audit in accordance with EU Regulation N° 537/2014, the Law of 23 July 2016 on the audit profession (the "Law of 23 July 2016") and with International Standards on Auditing ("ISAs") as adopted for Luxembourg by the "Commission de Surveillance du Secteur Financier" ("CSSF"). Our responsibilities under the EU Regulation Nº 537/2014, the Law of 23 July 2016 and ISAs as adopted for Luxembourg by the CSSF are further described in the "Responsibilities of the "réviseur d'entreprises agréé" for the audit of the financial statements" section of our report. We are also independent of the Bank in accordance with the International Code of Ethics for Professional Accountants, including International Independence Standards, issued by the International Ethics Standards Board for Accountants ("IESBA Code") as adopted for Luxembourg by the CSSF together with the ethical requirements that are relevant to our audit of the financial statements, and have fulfilled our other ethical responsibilities under those ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matter

We have determined that there are no key audit matters to communicate in our report.

Other information

The Board of Directors is responsible for the other information. The other information comprises the information included in the management report but does not include the financial statements and our report of "réviseur d'entreprises agréé" thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report this fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and of those charged with governance for the financial statements

The Board of Directors is responsible for the preparation and fair presentation of the financial statements in accordance with Luxembourg legal and regulatory requirements relating to the preparation and presentation of the financial statements, and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Responsibilities of the "réviseur d'entreprises agréé" for the audit of the financial statements

The objectives of our audit are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a report of the "réviseur d'entreprises agréé" that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with EU Regulation N° 537/2014, the Law of 23 July 2016 and with the ISAs as adopted for Luxembourg by the CSSF will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts.

As part of an audit in accordance with EU Regulation N° 537/2014, the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.

- Conclude on the appropriateness of Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report of the "réviseur d'entreprises agréé" to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our report of the "réviseur d'entreprises agréé". However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our report unless law or regulation precludes public disclosure about the matter.

Report on other legal and regulatory requirements

We have been appointed as "réviseur d'entreprises agréé" by the Board of Directors on 10 September 2020 and the duration of our uninterrupted engagement, including previous renewals and reappointments, is four years.

The management report is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

We confirm that the prohibited non-audit services referred to in EU Regulation No 537/2014 were not provided and that we remained independent of the Bank in conducting the audit.

Ernst & Young
Société anonyme
Cabinet de révision agréé

Ernst & Young
Société anonyme
Cabinet de révision agréé

Jean-Michel Pacaud

Antoine Le Bars

Luxembourg, March 19, 2021

Balance Sheet (expressed in euros)

Assets	Notes	31/12/2020	31/12/2019
Cash in hand, balances with central banks and post office banks	3,4	**6,561,791**	**5,094,275**
Loans and advances to credit institutions	3, 5, 10	**2,604,764**	**2,463,762**
a) Repayable on demand		2,604,764	2,463,762
Loans and advances to customers	3, 6, 10	**2,999,875**	**11,919,263**
Debt instruments at amortized cost	3, 7, 10	**22,293,804**	**13,333,922**
a) Issued by public bodies		22,293,804	13,333,922
Tangible assets	8	**1,722,644**	**2,094,800**
Prepayments and accrued income	9	**162,859**	**140,119**
Total assets		**36,345,737**	**35,046,141**

The accompanying notes form an integral part of these financial statements.

Balance Sheet (expressed in euros)

Liabilities	Notes	31/12/2020	31/12/2019
Amounts owed to credit institutions	3, 21	**20,585,005**	**16,955,959**
b) with agreed maturity dates or period of notice		20,585,005	16,955,959
Other liabilities	8, 11	**1,960,059**	**2,344,408**
Accruals and deferred income	12	**1,029**	**542,589**
Provisions	13	**318,515**	**555,702**
a) Provisions for taxation	13.1	-	168,515
b) Other provisions	13.2,13.3	318,515	387,187
Subscribed capital	14	20,000,000	20,000,000
Profit / (loss) brought forward	14	(5,352,517)	(4,512,250)
Loss for the financial year	14	(1,166,354)	(840,267)
Total shareholders' equity	14	**13,481,129**	**14,647,483**
Total liabilities		**36,345,737**	**35,046,141**

Profit and Loss Account (expressed in euros)

	Note	2020	2019
Interest receivable and similar income		**429,565**	**632,087**
of which showing separately:			
that arising from fixed-income securities		*315,863*	*366,835*
Interest payable and similar charges		**(209,839)**	**(279,866)**
Commissions receivable	20	**1,539,591**	**1,962,761**
Commissions payable		**(16,051)**	**(14,986)**
Net profit/ (loss) on financial operations		**(188,602)**	**8,355**
Other operating income		**21,891**	**-**
General administrative expenses		**(2,272,430)**	**(2,696,715)**
a) staff cost	17	(1,375,068)	(1,485,657)
of which:			
- wages and salaries		(1,076,721)	(1,115,617)
- social security costs		(118,586)	(189,628)
of which:			
o *social security costs relating to pensions*		*(61,465)*	*(56,307)*
- other staff cost		(179,761)	(180,412)
b) other administrative expenses	18	(897,362)	(1,211,058)
Value adjustment in respect of tangible assets	**8**	**(350,368)**	**(354,051)**
Value adjustments in respect of loans and advances and provisions for contingent liabilities and for commitments		**-**	**(20,602)**
Value re-adjustments in respect of loans and advances and provisions for contingent liabilities and for commitments		**53,124**	**-**
Loss on ordinary activities after tax		**(993,119)**	**(763,017)**
Extraordinary charges	**19**	**(100,000)**	**-**
Other taxes not shown under the preceding items		**(73,235)**	**(77,250)**
Loss for the year		**(1,166,354)**	**(840,267)**

Notes to the financial statements
As at 31 December 2020

NOTE 1 – GENERAL INFORMATION

China Everbright Bank (Europe) S.A. ("the Bank") is a bank fully licensed in Luxembourg, incorporated on 20 March 2017.

The Bank is registered with the Trade and Companies Register of Luxembourg with the number B 213 668 and has its register office at 10, avenue Emile Reuter, L-2420 Luxembourg.

The banking license allowing all banking activities was granted to the Bank on 11 July 2017 by the Minister of Finance. The Bank is a wholly owned subsidiary of China Everbright Bank Co.Ltd.

The financial statements of the Bank are fully consolidated in the consolidated accounts of China Everbright Bank Co.Ltd (the "sole shareholder") whose head office is located in China, China Everbright Center No. 25 and 25A Taipingqiao Avenue, Xicheng District, 100033 Beijing.

The Bank is involved in the corporate banking activities. The Bank's main products and services are the following:

- Deposit taking;
- Commercial remittance and international settlement;
- Cross-border RMB settlement and finance;
- Syndicated loans;
- Project financing;
- Overseas investment loans;
- M&A financing and advisory;
- Trade finance (including per aval, forfaiting, discounting of bills of exchange, letters of credit, factoring etc) ;
- Overseas loans under domestic guarantee or domestic loans under overseas guarantee;
- Securities dealing for own account;
- Interbank service (including forfaiting secondary market transactions, refinancing, discounts, placement and deposit with/from banks and other financial institutions, certificates of deposit, and other inter-bank trade finance service).

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

<u>2.1 Basis of preparation</u>

These financial statements have been prepared in accordance with the laws and regulations in force in the Grand Duchy of Luxembourg and on basis of accounting principles generally accepted in the banking sector in the Grand Duchy of Luxembourg. The accounting policies and valuation principles are determined and applied by the Board of Directors, except for those that are defined by law and by the "*Commission de Surveillance du Secteur Financier."*

On 1 January 2019, the Bank elected to draw up its annual financial statements in accordance with the mixed financial reporting framework or "mixed regime " (Generally Accepted Accounting Principles in the Grand Duchy of Luxembourg, "Lux GAAP" with "IAS options"). The Bank adopted IFRS 9 and IFRS 16 in drawing its financial statements in accordance with the mixed regime since 1 January 2019.

The amended Law of 17 June 1992 allows financial institutions to publish their financial statements in accordance with Lux GAAP using certain IAS/IFRS standards as adopted by the European Union ("IAS options"). The Bank is however ensuring compliance with the provisions of Articles 7 and 41 of the amended law of 17 June 1992 regarding the presentation of annual accounts.

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

Notes to the financial statements (continued)
As at 31 December 2020

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Foreign Currency transactions

The Bank maintains its accounts in Euro ("EUR") in which the capital is expressed. Business transactions are entered daily in the original currencies and booked on the trade date. The accounting entries are posted on the valuation date. The conversion of the balances denominated in foreign currencies into the reporting currency takes place daily.

The Bank uses the multi-currency accounting system which records all assets and liabilities in their original currencies.

The accounting for transactions and account balances in a currency other than the Euro is done as follows :

- Monetary assets and liabilities in foreign currencies are revalued at the exchange rate prevailing at the balance sheet date. Exchange gains and losses are recorded in the profit and loss account.

- Income and charges are converted into EUR at the rate of exchange prevailing on the date of the transaction.

- Results on unsettled forward transactions linked to spot transactions and on swap transactions are accrued at the balance sheet date. The revaluation of these transactions does not affect the result of the financial year.

- Uncovered forward transactions are valued individually on the basis of forward exchange rates applicable at the balance sheet date. Unrealized revaluation profits are ignored, whereas a provision is set up in respect of any unrealized revaluation losses. This provision is included on the liabilities side of the balance sheet under "Other Provisions". Uncovered forward foreign exchange transactions have not been contracted during the year.

As at 31 December 2020, the following significant spot exchange rates have been applied : 1 EUR= 1.22905 USD (31 December 2019: 1 EUR= 1.12055 USD)

2.3 Financial Instruments

2.3.1. Date of recognition: Financial assets and liabilities, with the exception of loans and advances to customers / credit institutions and balances due to customers / credit institutions, are initially recognized on the trade date, i.e., the date on which the Bank becomes a party to the contractual provisions of the instrument. This includes regular way trades, i.e., purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place. Loans and advances to customers / credit institutions are recognized when funds are transferred to the customers / credit institutions' accounts. The Bank recognizes balances due to customers / credit institutions when funds are transferred to the Bank.

2.3.2. Initial measurement of financial instruments: The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments, as described in Notes 2.3.4 and 2.3.5. Financial instruments are initially measured at their fair value (as defined in Note 2.10), except in the case of financial assets and financial liabilities recorded at Fair Value Through Profit or Loss ("FVPL"), transaction costs are added to, or subtracted from, this amount.

Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets. After the initial recognition, an Expected Credit Loss ("ECL") allowance is recognized for financial assets measured at Amortized Cost ("AC") and investments in debt instruments measured at Fair Value Through Other Comprehensive Income ("FVOCI"), resulting in an immediate accounting loss.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Financial Instruments (continued)

2.3.3. Measurement categories of financial assets and liabilities: The Bank measures all of its financial assets at either amortized cost, FVOCI and FVPL. The classification and subsequent measurement of debt financial assets depends on: (i) the Bank's business model for managing the related assets portfolio and (ii) the cash flow characteristics of the asset.

All financial liabilities are measured at amortized cost.

(a) Financial assets at amortized cost: The Bank measures financial assets at amortized cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows, and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

(b) Financial assets at fair value through other comprehensive income: The Bank measures debt instruments at FVOCI on financial assets when both of the following conditions are met:

- The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset meet the SPPI test.

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognized in OCI. Interest income and foreign exchange gains and losses are recognized in profit or loss in the same manner as for financial assets measured at amortized cost (as described in Note 2.9).

The ECLs for debt instruments measured at FVOCI do not reduce the carrying amount of these financial assets in the statement of financial position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortized cost is recognized in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognized in OCI is recycled to the profit and loss upon derecognition of the assets.

Where the Bank holds more than one investment in the same security, they are deemed to be disposed of on a first–in first–out basis. On derecognition, cumulative gains or losses previously recognized in OCI are reclassified from OCI to profit or loss.

In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL. As at 31 December 2020 and 2019, the Bank does not hold such financial instruments

(c) Financial assets and liabilities at fair value through profit or loss: Financial assets and financial liabilities in this category are those that are held to sell or have been either designated by management upon initial recognition or are mandatorily required to be measured at fair value under IFRS 9. Management only designates an instrument at FVPL upon initial recognition when one of the following criteria are met. Such designation is determined on an instrument-by-instrument basis:

- The designation eliminates, or significantly reduces, the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing gains or losses on them on a different basis; or
- The liabilities are part of a group of financial liabilities, which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or

Notes to the financial statements (continued)
As at 31 December 2020

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Financial Instruments (continued)

- The liabilities contain one or more embedded derivatives, unless they do not significantly modify the cash flows that would otherwise be required by the contract, or it is clear with little or no analysis when a similar instrument is first considered that separation of the embedded derivative(s) is prohibited.

Financial assets and financial liabilities at FVPL are recorded in the Balance sheet at fair value. Changes in fair value are recorded in profit and loss with the exception of movements in fair value of liabilities designated at FVPL due to changes in the Bank's own credit risk. Such changes in fair value are recorded in the own credit reserve through OCI and do not get recycled to the profit or loss. Interest earned or incurred on instruments designated at FVPL is accrued in interest income or interest expense, respectively, using the EIR, taking into account any discount/ premium and qualifying transaction costs being an integral part of instrument interest earned on assets mandatorily required to be measured at FVPL is recorded using the contractual interest rate. Dividend income from equity instruments measured at FVPL is recorded in profit or loss as other operating income when the right to the payment has been established. As at 31 December 2020 and 2019, the Bank does not hold such financial instruments".

2.3.4. Business model assessment: The Bank determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective – (i) solely to collect the contractual cash flows from the assets ("hold to collect contractual cash flows",) or (ii) to collect both the contractual cash flows and the cash flows arising from the sale of assets ("hold to collect contractual cash flows and sell") or, if neither of (i) and (ii) is applicable, the financial assets are classified as part of "other" business model and measured at FVPL. Factors considered by the Bank in determining the business model include:

- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed;
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected); and
- The expected frequency, value and timing of sales are also important aspects of the Bank's assessment;

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realized in a way that is different from the Bank's original expectations, the Bank does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

2.3.5. Contractual cash flow characteristics: As a second step of its classification process the Bank assesses the contractual terms of the financial asset to identify whether they meet the SPPI test.

'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortization of the premium/discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Bank applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Financial Instruments (continued)

2.3.6. Reclassification of financial assets and liabilities: The Bank does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Bank acquires, disposes of, or terminates a business line. Financial liabilities are never reclassified.

2.3.7. Expected Credit Losses (ECL): The adoption of IFRS 9 has fundamentally changed the Bank's loan loss impairment method by Lux GAAP's replacing lump-sum provision approach with a forward-looking ECL approach. From 1 January 2019, the Bank has been recording the allowance for expected credit losses for all loans and other debt financial assets not held at FVPL, in this section all referred to as 'financial instruments'. Equity instruments are not subject to impairment under IFRS 9.

The measurement of ECL reflects: (i) an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes, (ii) time value of money and (iii) all reasonable and supportable information that is available without undue cost and effort at the end of each reporting period about past events, current conditions and forecasts of future conditions. It is a significant estimate that involves determination of methodology, models and data inputs.

The ECL is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case the allowance is based on the 12 months' expected credit loss (12mECL)). The Bank's policies for determining if there has been a significant increase in credit risk are outlined below.

The 12mECL is the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Both LTECLs and 12mECLs are calculated on an individual basis.

The Bank has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument.

Based on the above process, the Bank groups its loans into Stage 1, Stage 2 and Stage 3, as described below:

- Stage 1: When loans are first recognized, the Bank recognizes an allowance based on 12mECLs. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2.
- Stage 2: When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECLs. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3.
- Stage 3: Loans considered credit-impaired (as defined below). The Bank records an allowance for the LTECLs.

For financial assets for which the Bank has no reasonable expectations of recovering either the entire outstanding amount, or a proportion thereof, the gross carrying amount of the financial asset is reduced. This is considered a (partial) derecognition of the financial asset.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Financial Instruments (continued)

The calculation of ECLs

The Bank calculates ECLs based on a three probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the EIR. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive.

The components that have a major impact on credit loss allowance include: definition of default, SICR, probability of default ("PD"), exposure at default ("EAD"), and loss given default ("LGD"), as well as models of macro-economic scenarios, as defined below:

- *Probability of Default.* The PD is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognized and is still in the portfolio.

- *Exposure at Default*. EAD is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.

- *Loss Given Default.* LGD is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral or credit enhancements that are integral to the loan. It is usually expressed as a percentage of the EAD.

- *Definition of Default.* The Bank considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in all cases when the borrower becomes 90 days past due on its contractual payments. It also considers a financial instrument to be defaulted when:
    - Financial asset has a substantial, doubtful or loss category from the 5-tier classification based on internal credit risk rating;
    - Where the debtor's financial status becomes deteriorating and the restructuring is made in a unified way;
    - Where the debtor is classified as a bankrupt enterprise or under similar status;
    - Other circumstances identified by the Bank which may lead to the inability of the debtor to repay its debts.

- *Significant Increase in Credit Risk.* The Bank continuously monitors all assets subject to ECLs on an individual basis and on a portfolio basis. In order to determine whether an instrument or a portfolio of instruments is subject to 12mECL or LTECL, the Bank assesses whether there has been a significant increase in credit risk since initial recognition. The Bank considers an exposure to have significantly increased in credit risk when the instrument experiences a "three notch downgrade", subject to the use of low credit risk exemption. The Bank has not applied credit risk exemption.

  The Bank also applies a secondary qualitative method for triggering a significant increase in credit risk for an asset, such as moving a customer/facility to the watch list, or the account becoming forborne. Regardless of the change in credit grades, if contractual payments are more than 30 days past due, the credit risk is deemed to have increased significantly since initial recognition.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Financial Instruments (continued)

The maximum period for which the credit losses are determined is the contractual life of a financial instrument unless the Bank has the legal right to call it earlier. Impairment losses and releases are accounted for and disclosed separately from modification losses or gains that are accounted for as an adjustment of the financial asset's gross carrying value.

The mechanics of the ECL method are summarized below:

Stage 1:	The 12mECL is calculated as the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. The Bank calculates the 12mECL allowance based on the expectation of a default occurring in the 12 months following the reporting date. These expected 12-month default probabilities are applied to a forecasted EAD and multiplied by the expected LGD and discounted by an approximation to the original EIR. This calculation is made for each of the three scenarios, as explained above.
Stage 2:	When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECLs. The mechanics are similar to those explained above, including the use of multiple scenarios, but PDs and LGDs are estimated over the lifetime of the instrument. The expected cash shortfalls are discounted by an approximation to the original EIR.
Stage 3:	For loans considered credit-impaired, the Bank recognizes the lifetime expected credit losses for these loans. The method is similar to that for Stage 2 assets, with the PD set at 100%.

2.3.8. Derecognition due to substantial modification of terms and conditions:

The Bank derecognizes a financial asset, such as a loan to a customer, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, with the difference recognized as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognized loans are classified as Stage 1 for ECL measurement purposes, unless the new loan is deemed to be credit impaired.

When assessing whether or not to derecognize a loan to a customer, amongst others, the Bank considers the following factors:

- Change in currency of the loan
- Introduction of an equity feature
- Change in counterparty
- If the modification is such that the instrument would no longer meet the SPPI criterion

2.3.9. Derecognition other than for substantial modification

If the modification does not result in cash flows that are substantially different, as set out below, the modification does not result in derecognition. Based on the change in cash flows discounted at the original EIR, the Bank records a modification gain or loss, to the extent that an impairment loss has not already been recorded. For financial liabilities, the Bank considers a modification substantial based on qualitative factors and if it results in a difference between the adjusted discounted present value and the original carrying amount of the financial liability of, or greater than, ten percent. For financial assets, this assessment is based on qualitative factors.

Financial assets - A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when the rights to receive cash flows from the financial asset have expired. The Bank also derecognizes the financial asset if it has both transferred the financial asset and the transfer qualifies for derecognition. The Bank has transferred the financial asset if, and only if, either:

- The Bank has transferred its contractual rights to receive cash flows from the financial asset; or
- It retains the rights to the cash flows, but has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass–through' arrangement.

Notes to the financial statements (continued)
As at 31 December 2020

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Financial Instruments (continued)

Pass-through arrangements are transactions whereby the Bank retains the contractual rights to receive the cash flows of a financial asset (the 'original asset'), but assumes a contractual obligation to pay those cash flows to one or more entities (the 'eventual recipients'), when all of the following three conditions are met:

- The Bank has no obligation to pay amounts to the eventual recipients unless it has collected equivalent amounts from the original asset, excluding short-term advances with the right to full recovery of the amount lent plus accrued interest at market rates;
- The Bank cannot sell or pledge the original asset other than as security to the eventual recipients;
- The Bank has to remit any cash flows it collects on behalf of the eventual recipients without material delay. In addition, the Bank is not entitled to reinvest such cash flows, except for investments in cash or cash equivalents, including interest earned, during the period between the collection date and the date of required remittance to the eventual recipients.

A transfer only qualifies for derecognition if either:

- The Bank has transferred substantially all the risks and rewards of the asset; or
- The Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

The Bank considers control to be transferred if and only if, the transferee has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without imposing additional restrictions on the transfer.

When the Bank has neither transferred nor retained substantially all the risks and rewards and has retained control of the asset, the asset continues to be recognized only to the extent of the Bank’s continuing involvement, in which case, the Bank also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration the Bank could be required to pay.

If continuing involvement takes the form of a written or purchased option (or both) on the transferred asset, the continuing involvement is measured at the value the Bank would be required to pay upon repurchase. In the case of a written put option on an asset that is measured at fair value, the extent of the entity's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities - A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognized in profit or loss.

2.4 Cash in hand, balances with central banks and post office banks

Cash in hand, balances with central banks and post office banks are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. They comprises cash on hand, non–restricted current accounts or mandatory reserve deposits with central banks and amounts from post office banks. These financial assets are carried at amortized cost because: (i) they are held for collection of contractual cash flows and those cash flows represent SPPI, and (ii) they are not designated at FVTPL.

Notes to the financial statements (continued)
As at 31 December 2020

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5 Taxes

The Bank is subject to all taxes applicable in Luxembourg.

Taxes are charged to the profit and loss account on an accrual basis and not in the year in which payment occurs. Accordingly, provisions for taxation have been recorded for the financial years for which no final assessments have been issued by the tax authorities.

2.6 Intangible and tangible fixed assets

China Everbright Bank (Europe) S.A. and China Everbright Bank Co.Ltd, Luxembourg Branch (the "Branch") operate within the same premises, use the same furniture, fixtures, equipment and other fixed assets. These fixed assets are recorded in the balance sheet of the Branch, while amortization charges are shared between the Bank and the Branch. As at 31 December 2020, the caption tangible assets is essentially composed of the right-of-use assets as detailed in section 2.7 of the financial statements.
The amortization charges related to the fixed assets shared with the Branch are presented under other administrative expenses.

2.7 Leases

The Bank assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Bank as a lessee: The Bank applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Bank recognizes lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

i) Right-of-use assets
The Bank recognizes right-of-use (ROU) assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). ROU assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. ROU assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, as follows:

- Office space 7 years from date of initial application of IFRS 16

If ownership of the leased asset transfers to the Bank at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset. The ROU assets are also subject to impairment.

The ROU are presented under tangible assets in the financial statements (Note 8).

ii) Lease liabilities
At the commencement date of the lease, the Bank recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Bank and payments of penalties for terminating the lease, if the lease term reflects the Bank exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognized as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Bank used its incremental borrowing rate ("IBR") at the lease commencement date because the interest rate implicit in the lease is not readily determinable. The IBR is the rate of interest that the Bank would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment.

2.7 Leases (continued)

The Bank estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific adjustments (such as the subsidiary's stand-alone credit rating, or to reflect the terms and conditions of the lease).

After the commencement date, the amount of lease liability is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is premeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

The Bank's lease liability is included in Other liabilities (refer to Note 11).

2.8 Provisions

Provisions intend to cover losses or debt, the nature of which is clearly defined and which at the date of Balance Sheet are either likely to be incurred or certain to be incurred but uncertain as their amount or as to the date on which they will arise.

Provisions may also be created to cover charges which have their origin in the financial year under review or in a previous financial year, the nature of which is clearly defined and which at the Balance Sheet date are either likely to be incurred, or certain to be incurred but uncertain as to their amount or as to the date on which they will arise. Provisions may not be used to adjust the value of assets.

2.9 Recognition of interest income and expense

Under IFRS 9, interest income is recorded using the EIR method for all financial assets measured at amortized cost, interest rate derivatives for which hedge accounting is applied and the related amortization / recycling effect of hedge accounting. Interest income on interest bearing financial assets measured at FVOCI under IFRS 9 is also recorded using the EIR method. Interest expense is also calculated using the EIR method for all financial liabilities held at amortized cost. The EIR is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset or liability or, when appropriate, a shorter period, to the gross carrying amount of the financial asset.

The EIR (and therefore, the amortized cost of the financial asset) is calculated by taking into account transaction costs and any discount or premium on the acquisition of the financial asset, as well as fees and costs that are an integral part of the EIR. The Bank recognizes interest income using a rate of return that represents the best estimate of a constant rate of return over the expected life of the loan.

The Bank calculates interest income on financial assets, other than those considered credit-impaired, by applying the EIR to the gross carrying amount of the financial asset. When a financial asset becomes credit-impaired and is therefore regarded as 'Stage 3', the Bank calculates interest income by applying the EIR to the net amortized cost of the financial asset. If the financial asset is no longer credit-impaired, the Bank reverts to calculating interest income on a gross basis.

Notes to the financial statements (continued)
As at 31 December 2020

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.10 Determination of fair value

The Bank considers fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e., an exit price), regardless of whether that price is directly observable or estimated using a valuation technique.

For each class of the financial instrument, the fair value is determined by the following methods:

- A market value, for those financial instruments for which a reliable market can readily be identified as at measurement date. Where a market value is not readily identifiable for an instrument but can be identified for its components or for a similar instrument, the market value may be derived from that of its components or of the similar instrument; or
- A value resulting from generally accepted valuation models and techniques, for those instruments for which a reliable market cannot be readily identified. Such valuation models and techniques shall ensure a reasonable approximation of the market value.

The Bank periodically reviews its valuation techniques on an instrument-by-instrument basis and remeasures when necessary, based on the facts at the end of the reporting period.

NOTE 3 – ANALYSIS OF PRIMARY FINANCIAL INSTRUMENTS

As of 31 December 2020, the analysis of primary non-trading financial instruments by class and residual maturity is the following (net of ECL):

2020 **In EUR**	**Less than 3 months**	**3 - 12 months**	**1 - 5 years**	**More than 5 years**	**Total**
Cash in hand, balance with central Banks and post office Banks	6,561,791	-	-	-	**6,561,791**
Loans and advances to credit institutions	2,604,764	-	-	-	**2,604,764**
Loans and advances to customers	-	2,999,875	-	-	**2,999,875**
Debt instruments at amortized cost	12,202,167	-	10,091,637	-	**22,293,804**
	21,368,722	**2,999,875**	**10,091,637**	**-**	**34,460,234**
Amounts owed to credit institutions	20,585,005	-	-	-	20,585,005
Total	**20,585,005**	-	-	**-**	**20,585,005**

NOTE 3 – ANALYSIS OF PRIMARY FINANCIAL INSTRUMENTS (continued)

As of 31 December 2019, the analysis of primary non-trading financial instruments by class and residual maturity is the following (net of ECL):

2019 **In EUR**	**Less than 3 months**	**3 - 12 months**	**1 - 5 years**	**More than 5 years**	**Total**
Cash in hand, balance with central Banks and post office Banks	5,094,275	-	-	-	**5,094,275**
Loans and advances to credit institutions	2,463,762	-	-	-	**2,463,762**
Loans and advances to customers	5,944,734	2,999,438	2,975,091	-	**11,919,263**
Debt instruments at amortized cost	-	-	13,333,922	-	**13,333,922**
	13,502,771	**2,999,438**	**16,309,013**	**-**	**32,811,222**
Amounts owed to credit institutions	-	16,955,959	-	-	16,955,959
Total	**-**	**16,955,959**	-	**-**	**16,955,959**

NOTE 4 – CASH IN HAND, BALANCES WITH CENTRAL BANKS AND POST OFFICE BANKS

As at 31 December 2020, cash in hand, balances with central banks and post office banks are composed of the deposit held with the Central Bank of Luxembourg for EUR 6,561,791 compared EUR 5,094,275 at 31 December 2019. The ECL for these balances represents an insignificant amount, therefore the Bank did not recognise any credit loss allowance for deposit held with the Central Bank of Luxembourg.

Notes to the financial statements (continued)
As at 31 December 2020

NOTE 5 – LOANS AND ADVANCES TO CREDIT INSTITUTIONS

The geographical distribution of loans and advances to credit institutions, including those repayable on demand, is as follows:

	2020 EUR	2019 EUR
Europe (EU member countries)	2,575,420	723,667
Other	29,344	1,740,095
Total	**2,604,764**	**2,463,762**

The ECL on loans and advances to credit institutions amounted to EUR 21 for the year ended 31 December 2020 (2019 : EUR 52).

NOTE 6 – LOANS AND ADVANCES TO CUSTOMERS

The geographical breakdown of loans and advances to customers is as follows:

	2020 EUR	2019 EUR
Europe (EU member countries)	3,000,000	3,000,000
Asia	-	8,944,982
Gross amount	3,000,000	11,944,982
Less : Allowance for impairment	(125)	(25,719)
Total	**2,999,875**	**11,919,263**

The breakdown of loans and advances to customers per economic sector may be presented as follows:

	2020 EUR	2019 EUR
Manufacturing	3,000,000	3,000,000
Water supply	-	3,000,000
Construction	-	5,944,982
Gross amount	3,000,000	11,944,982
Less : Allowance for impairment	(125)	(25,719)
Total	**2,999,875**	**11,919,263**

The movement of allowance for impairment for loans and advances to customers is as follows:

	2020 EUR	2019 EUR
As at 1 January	25,719	-
ECL (reversal) / charge for the year	(25,594)	25,743
Foreign exchange (gain) / loss	-	(25)
As at 31 December	**125**	**25,718**

NOTE 7 –DEBT INSTRUMENTS AT AMORTISED COST

	2020 EUR	2019 EUR
Government securities (Gross amount)	22,296,108	13,366,334
Less: Allowance for impairment	(2,304)	(32,412)
Total	**22,293,804**	**13,333,922**

The movement of allowance for impairment for debt instruments at amortized cost is as follows:

	2020 EUR	2019 EUR
As at 1 January	32,412	36,751
ECL (release) / charge for the year	(27,499)	(5,141)
Foreign exchange (gain) loss	(2,609)	802
As at 31 December	**2,304**	**32,412**

NOTE 8 – LEASES

The Bank leases an office building used in its operations. Its lease generally has a lease term of 9 years starting December 1, 2016. The Bank's obligations under its lease is secured by the lessor's title to the leased assets. Generally, the Bank is restricted from assigning and subleasing the leased assets and some contracts require the Bank to maintain certain financial ratios.

Set out below are the carrying amounts of tangible assets ("right-of-use assets") recognized and the movements during the period:

	2020 EUR	2019 EUR
As at 1 January	2,094,800	2,448,851
Remeasurement	(21,788)	-
Depreciation expense	(350,368)	(354,051)
As at 31 December	**1,722,644**	**2,094,800**

Set out below are the carrying amounts of lease liability (included under Note 11 : Other liabilities) and the movements during the period:

	2020 EUR	2019 EUR
As at 1 January	2,106,699	2,448,851
Accretion of interest	19,748	23,804
Remeasurement	(22,226)	-
Payments	(371,428)	(365,956)
As at 31 December	**1,732,793**	**2,106,699**

Notes to the financial statements (continued)
As at 31 December 2020

NOTE 8 – LEASES (continued)

The following are the amounts recognized in profit or loss:

	2020 EUR	2019 EUR
Value adjustment in respect of right of use assets	350,368	354,051
Interest expense on lease liabilities	19,748	23,804
Total amount recognized in profit or loss	**370,116**	**377,855**

The Bank had total cash outflows for leases of EUR 371,428 in 2020 compared EUR 365,956 in 2019.

NOTE 9 – PREPAYMENT AND ACCRUED INCOME

As at 31 December 2020, the following amounts are included in the prepayments and accrued income:

	2020 EUR	2019 EUR
Accrued interest income	144,829	140,119
Prepayments	18,030	-
Total	**162,859**	**140,119**

NOTE 10 – CREDIT RISK ANALYSIS

2020	**Balance Sheet And Off-Balance Sheet items**	**Guarantee & collateral received**	**Net Risk Exposure**
EUR			
Loans and advances to credit institutions	2,604,764	--	2,604,764
Loans and advances to customers	2,999,875	--	2,999,875
Debt instruments at amortized cost	22,293,804	--	22,293,804
Total	**27,898,443**	**--**	**27,898,443**

2019	**Balance Sheet and Off-Balance Sheet items**	**Guarantee & Collateral received**	**Net Risk Exposure**
EUR			
Loans and advances to credit institutions	2,463,762	--	2,463,762
Loans and advances to customers	11,919,263	(8,944,172)	2,975,091
Debt instruments at amortized cost	13,333,922	--	13,333,922
Total	**27,716,947**	**(8,944,172)**	**18,772,775**

Notes to the financial statements (continued)
As at 31 December 2020

NOTE 11–OTHER LIABILITIES

As at 31 December 2020 the following amounts are included in the other liabilities:

	2020	**2019**
	EUR	**EUR**
Lease liability	1,732,793	2,106,699
Consulting fee payable	160,927	171,727
Audit fee payable	66,339	65,018
Other Payables	-	964
Total	**1,960,059**	**2,344,408**

NOTE 12– ACCRUALS AND DEFERRED INCOME

As at 31 December 2020 the following amounts are included in the accruals and deferred income:

	2020	**2019**
	EUR	**EUR**
Accrued interest expense	1,029	542,589
Total	**1,029**	**542,589**

NOTE 13 – PROVISIONS

13.1. Provisions for taxation

	2020	**2019**
	EUR	**EUR**
NWT provision	-	168,515
Total	**-**	**168,515**

As the Bank is in a loss position for the years ended 31 December 2020 and 31 December 2019, the Bank is not liable to Corporate Income Tax or Municipal Business Tax.

13.2. Deposit guarantee and investor compensation schemes

On 18 December 2015 the new law regarding the resolution, recovery and liquidation measures of credit institutions on deposit guarantee schemes and indemnification of investors (hereafter the “Law”) was approved. This Law transposed to Luxembourg two European directives: the directive 2014/59/EU establishing a framework for the recovery and resolution of credit institutions and investment firms and the directive 2014/49/EU related to deposit guarantee and investor compensation schemes.

NOTE 13 – PROVISIONS (continued)

13.2. Deposit guarantee and investor compensation schemes (continued)

The law replaced the old deposit guarantee and investor compensation scheme (“Association pour la Garantie des Dépôts Luxembourg” - AGDL) by introducing a new contribution based system of deposit guarantee and investor compensation. This new system will cover eligible deposits of each depositor up to an amount of EUR 100,000 and investments up to an amount of EUR 20,000.

The scheme is based on two different contributions: the Luxembourg Branching resolution fund “Fonds de resolution Luxembourg” (FRL) and the Luxembourg deposit guarantee fund “Fonds de garantie des dépôts Luxembourg” (FDGL).

The funded amount of the FRL shall reach by the end of 2024 at least 1% of covered deposits, as defined in article 1 number 36 of the Law, of all authorized credit institutions in all participating Member States. This amount will be collected from the credit institutions through annual contributions during the years 2015 to 2024.

The target level of funding of the FGDL is set at 0.8% of covered deposits, as defined in article 163 number 8 of the Law, of the relevant credit institutions and is to be reached by the end of 2018 through annual contributions.

As at 31 December 2020, the Bank’s provision for the contribution to the FRL and FGDL amounted to EUR 1,500. The amount is included on the liabilities side of the balance sheet under “Other provisions”. In 2020, the Bank has paid EUR 1,000 for FRL contributions and EUR 500 for FGDL.

13.3. Other provisions

As at 31 December other provisions may be presented as follows:

	2020	2019
	EUR	EUR
Bonus & welfare provisions	317,015	386,187
FRL and FGDL provision	1,500	1,000
Total	**318,515**	**387,187**

Notes to the financial statements (continued)
As at 31 December 2020

NOTE 14–CAPITAL, RESERVE, PROFIT AND LOSS BROUGHT FORWARD

	Subscribed capital	**Profit/loss brought forward**	**Loss for the financial year**	**Total**
Balance as at 31 December 2019	20,000,000	(4,512,250)	(840,267)	14,647,483
Allocation of the result from previous year	--	(840,267)	840,267	--
Loss for the financial year 2020	--	--	(1,166,354)	(1,166,354)
Balance As at 31 December 2020	**20,000,000**	**(5,352,517)**	**(1,166,354)**	**13,481,129**

14.1 Subscribed capital

As at 31 December 2020 and 2019, the Bank's authorized and fully paid-up capital amounted to EUR 20,000,000 represented by 20,000,000 shares with a nominal value of EUR 1 each.

14.2 Legal reserve

Under Luxembourg Law, the Bank must appropriate to legal reserve an amount equivalent to at least 5% of the annual net profit until such reserve is equal to 10% of the share capital. The legal reserve is not distributable.

NOTE 15 – ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCY

As at 31 December 2020, the aggregate amount of the Bank's assets denominated in foreign currencies, translated into EUR is equivalent to EUR 22,554,054. (2019: EUR 18,279,007)

As at 31 December 2020, the aggregate amount of the Bank's liabilities denominated in foreign currencies, translated into EUR, is equivalent to EUR 20,586,034. (2019: EUR 17,498,548)

NOTE 16– COMMITMENTS

16.1. Contingent liabilities

The Bank has no contingent liabilities as at 31 December 2020. (2019:Nil).

16.2. Commitments

The Bank has no credit commitments as at 31 December 2020. (2019:Nil).

Notes to the financial statements (continued)
As at 31 December 2020

NOTE 17 – STAFF COSTS

17.1. Staff numbers

The average number of persons employed (FTE) by the Bank was:

	2020 EUR	2019 EUR
Management	1.2	0.9
Employees	5.5	4.9
Total	**6.7**	**5.8**

4 persons from the Management and 15 of employees are under Global Employment Contract. They work 30% for the Bank and 70% for China Everbright Bank Luxembourg Branch. As at 31 December 2020, 1 employee is fully employed by the Bank.

17.2. Management remuneration

The Bank has granted the following compensation to the members of the administrative and managerial bodies (30% for the Bank and 70% for China Everbright Bank Luxembourg Branch):

	2020 EUR	2019 EUR
Board of Directors and managerial body	523,200	413 897
Total	**523,200**	**413 897**

During the period ended at 31 December 2020, no pension contribution was paid to any director or member of Management. No loans, advances or guarantees have been granted to the directors or members of Management and/or to the members of their families.

There are no guarantees issued in favor of local Management. There are no pension commitments existing in favor of the Management.

Notes to the financial statements (continued)
As at 31 December 2020

NOTE 18 – OTHER ADMINISTRATIVE EXPENSES

18.1. Other administrative expenses

Other administrative expenses consist of:

	2020	2019
	EUR	EUR
Amortization	312,971	291,329
IT costs	171,481	170,384
Supervision fees	139,795	144,762
Audit and advisory fees	138,443	378,098
Other	134,672	226,485
Total	**897,362**	**1,211,058**

As of 31 December 2020, the IT and other expenses contain shared costs with the Branch for a total amount of EUR 278,698 (2019: EUR 249,477).

18.2. Remuneration of the independent auditor

The fees paid by the Bank to its independent auditor including VAT were as follows:

	2020	2019
	EUR	EUR
Statutory audit of the annual accounts	100,522	98,280
Other advisory services	16,512	102,411
Total	**117,034**	**200,691**

NOTE 19 – EXTRAORDINARY CHARGES

Extraordinary charges consist of:

	2020	2019
	EUR	EUR
Donation	100,000	-
Total	**100,000**	**-**

The Bank decided to make an exceptional donation to fight against the COVID-19 pandemic.

NOTE 20 – COMMISSIONS RECEIVABLE

Commission receivables amounting to EUR 1,539,591 (2019: 1,962,761) relates to services to originate business opportunities provided to China Everbright Bank, Luxembourg Branch ("CEB Branch") in accordance with the Master Inter-Bank business origination service agreement entered into between the Bank and CEB Branch in 2019. The commissions recorded in the year ended 31 December 2020 relates to upfront fees earned upon the origination of 4 loans on behalf and for the benefit of CEB Branch.

NOTE 21 – BALANCE AND TRANSACTIONS WITH RELATED PARTIES

21.1. Assets

As at 31 December 2020, the balance with related parties included on the assets side of the balance sheet consist of tangible assets of EUR 1,722,644 (2019: EUR 2,094,800).

21.2. Liabilities

As at 31 December 2020, the following balances with related parties are included on the liabilities side of the balance sheet:

	2020 EUR	2019 EUR
Amounts owed to credit institutions	20,585,005	16,955,959
Lease liability (note 11)	1,732,793	2,106,699
Accruals and deferred income	1,029	542,589
Total	**22 318 827**	**19 605 247**

These balances with related parties are held with China Everbright Bank Co. Ltd, Luxembourg Branch.

21.3. Related party transactions

The following table provides the total amount of transactions that have been entered into with related parties for the relevant financial year:

	2020 EUR	2019 EUR
China Everbright Bank Co. Ltd, Luxembourg Branch (Entity under common control):		
Commissions receivable (note 20)	1,539,591	1,962,761
Interest payable and similar charges	9,004	3,871
China Everbright Bank Co. Ltd, Beijing (Entity with significant influence over the Bank):		
Interest payable and similar charges	138,477	234,351

NOTE 22– RETURN ON ASSETS ("ROA")

The Bank's return on assets is as follows:

	2020 EUR	2019 EUR
Total assets	36,345,737	35,046,141
Loss for the period	(1,166,354)	(840,267)
Return On Assets	**-3.21%**	**-2.40%**

NOTE 23– SUBSEQUENT EVENTS

No events have occurred subsequent to 31 December 2020 that would require adjustment or additional disclosure in the financial statements.