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# China Everbright Bank (Europe) S.A.

## Financial statements as at 31 December 2022, 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 2022

| Name | Position | Address |
|---|---|---|
| Mr. ZHANG Wei (until 12 January 2022) | Chairman of China Everbright Bank (Europe) S.A. | 10 Avenue Emile Reuter, L-2420, Luxembourg |
| Mr. WANG Dong (from 13 January 2022) | Chairman of China Everbright Bank (Europe) S.A. | 10 Avenue Emile Reuter, L-2420, Luxembourg |
| Mr. WANG Dong (until 12 January 2022) | General Manager of China Everbright Bank (Europe) S.A. | 10 Avenue Emile Reuter, L-2420, Luxembourg |
| Mr. LI Baokun (from 12 January 2022) | General Manager of China Everbright Bank (Europe) S.A. | 10 Avenue Emile Reuter, L-2420, Luxembourg |
| Mr. LI Baokun (until 11 January 2022) | 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. LI Qing | Assistant General Manager of China Everbright Bank (Europe) S.A. | 10 Avenue Emile Reuter, L-2420, Luxembourg |

## Board of Directors who served the Bank for the year ended at 31 December 2022

| Name | Position | Address |
|---|---|---|
| Mr. Zhang Wei (until 12 January 2022) | Chairman of the Board of Directors of China Everbright Bank (Europe) S.A. | 10 Avenue Emile Reuter, L-2420, Luxembourg |
| Mr. Wang Dong (from 13 January 2022) | Chairman of the Board of Directors of China Everbright Bank (Europe) S.A. | 10 Avenue Emile Reuter, L-2420, Luxembourg |
| Mr. Wang Dong (until 12 January 2022) | Executive Director of the Board of Directors of China Everbright Bank (Europe) S.A. | 10 Avenue Emile Reuter, L-2420, Luxembourg |
| Mr. Li Baokun (from 12 January 2022) | Executive Director of the Board of Directors of China Everbright Bank (Europe) S.A. | 10 Avenue Emile Reuter, L-2420, Luxembourg |
| Mr. Norbert Becker | Independent director of the Board of Directors of China Everbright Bank (Europe) S.A. | 10 Avenue Emile Reuter, L-2420, Luxembourg |
| Mr. Robert Goebbels | Independent director of the Board of Directors of China Everbright Bank (Europe) S.A. | 10 Avenue Emile Reuter, L-2420, Luxembourg |
| Mrs. YAO HongYu | Non-executive director of the Board of Directors of China Everbright Bank (Europe) S.A. | 10 Avenue Emile Reuter, L-2420, Luxembourg |
| Mr. SUN Xinhong | Non-executive director of the Board of Directors of China Everbright Bank (Europe) S.A. | 10 Avenue Emile Reuter, L-2420, Luxembourg |
| Mr. YANG Wenhua | Non-executive director of the Board of Directors of China Everbright Bank (Europe) S.A. | 10 Avenue Emile Reuter, L-2420, Luxembourg |

**Authorized Management Report**

We are pleased to report on the 2022 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 2022 the Bank employs 6 employees (2021:6).

**Activities:**

In 2022, 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 2022, the Bank carried out the following services and activities:

- Overseas loans under domestic guarantee or domestic loans under overseas guarantee;
- Schuldscheindarlehen Loans (loans secured by promissory notes), syndicated loans, bilateral loans;
- Interbank business referral services;
- Interbank service (placement and deposit with/from banks and other financial institutions, and other inter-bank trade finance service);
- Securities dealing for own account.

The financial year of 2022 was the fifth complete year for the Bank and its operations. The Bank's asset portfolio is mainly composed of loans and bond. The loan portfolio is mainly Schuldscheindarlehen loans (loans secured by promissory notes), syndicated loans and loan guaranteed by Standby Letter of Credit (SBLC) via risk participation, and the bonds portfolio is composed of government bonds.

At the end of 2022, no branches have been opened abroad.

**Financial results:**

As of 31 December 2022, the profit for the period amounted to EUR 1,055,302 (2021: EUR 107,713). The main source of income of the Bank are from fees and commission income from referral services and management of loans amounting to EUR 3,059,537 (2021: EUR 2,369,625).

The interest receivable and similar income amounted to EUR 740,933 (2021: EUR 489,315) whereas, general administrative expenses amounted to EUR 2,229,051 (2021: EUR 2,415,686) which mainly consist of staff expenses and other administrative expenses.

Other operating income was EUR 21,893 (2021: EUR 21,891).

As of 31 December 2022, the total assets amounted to EUR 103,762,547 (2021: EUR 151, 998,657). As of 31 December 2022, the Bank did not acquire any of its own shares.

**Overview by product:**

The Bank has an existing outstanding loan amounting to equivalent 81.62 million euros (2021: EUR 104.62m). As of 31 December 2022, the outstanding portion of the loans guaranteed by SBLC issued by CEB branch in China was equivalent 20.47 million euros (2021: 94.05 million euros). The outstanding of the loans guaranteed by SBLC issued by other banks in China was equivalent 17.57 million euros (2021: 10.57 million euros). The Bank has invested in treasury bonds for USD 12 million (2021: USD 12 million).

**Risk management:**

The Bank establishes the risk management framework 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 Bank operates; and

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

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, Asset and Liabilities positions of the Bank.

**Market overview:**

In 2022, the world was in a volatile period: economic, geopolitical, and ecological changes impacting the global finance outlook. Inflation grew to multidecade highs, demanding rapid monetary policy tightening by many Central Banks.

Russia's ongoing war in Ukraine led of significant geopolitical disruption. The Russia – Ukraine war continues to destabilize the global economy and to lead to severe energy crisis in Europe and hampering the economic activity. The Gas prices in Europe grew more than four times since 2021 and the food prices experienced an increase globally causing a hardship for low income economies. The eastern European countries suffered a sharp slowdown mainly due to the war in Ukraine and to the international sanctions to Russia pressuring to end hostilities.

The Federal Reserve increased seven times the interest rates throughout the year starting by a slight increase in March 2002 to a range of between 0.25% to 0.50% and continued to constantly raised where reaching to a range of between 4.25% and 4.5% in December 2022. Since 2014 the interest rates in Euro area were negative but due to high inflation rate the European Central Bank raised the interest rates gradually starting from July 2022 to 0.5%, then on September 2022 to 1.25% , on November to 2% and hiked to 2.5% at the end of December. After the drastic measures in the monetary policy, the inflation rate started to de-escalated in Eurozone and closing the year in an average inflation rate of 9.2% which is the highest annual inflation rate since 2002.

According to the World Economic Outlook edition October 2022, the global economy is in a broad-based slowdown and specifically the second quarter of 2022 exhibits a modest contraction of the global real GDP. According to Eurostat, in the third quarter of 2022 the GDP had grown by 2.1% in the Euro area and the US economy revolved to a GDP growth rate of 1.8% year over year, after two quarters of contraction and was supported mostly by consumption and exports.

The International Energy Agency (IEA) released World Energy Outlook 2022 in October 2022, warning that the world is facing its first-ever global energy crisis. Based on the report, the crisis has several causes and it was initiated by Russia's invasion of Ukraine. As a result, the inflation is growing, challenging climate commitments, and causing governments to spend billions to soften the impact of soaring energy costs on their societies. The need of a solution in a global level where the acceleration of the transition in green energy is the target.

Additionally, the United Nations COP27 climate conference took place in Egypt on November 2022. The UN Secretary mentioned the need of moving forward immediately to meet the commitments in the Paris Agreement of 2015 since under today's policies the rise in average temperatures of 2.8°C (5°F) is inevitable by the end of the century. The investments in renewable energy is more urgent than ever.

Based on the OECD, China's economy expanded at a rate of 3.9% in the third quarter, a significant acceleration since the slacking performance in the previous quarter. The stagnant second-quarter growth pace of 0.4% in China was widely viewed as a result of COVID-19 restrictions. China's Fixed-asset investment growth accelerated to 5.6% year over year in the third quarter (4.5% in Q2). By sectors, manufacturing investment expanded faster at 9.7% (8.1% in Q2); infrastructure investment growth accelerated to 11.2% in the third quarter (6.4% in Q2). However, the contraction in real estate investment deepened, falling –14.9% in the third quarter (−7.7% in Q2).

The 20th CPC Congress was held in October 2022. Themes for economic development were generally indicated in the opening address of President Xi Jinping. The major tasks include the promotion of "high-quality" economic development, the improvement of scientific and technological innovation, deepening the income distribution system in the direction of "common prosperity," and accelerating the transition to green development.

The Central Economic Work Conference was held in Beijing on December 2022, where China has set out its economic policies for 2023. According to the official read out, the prudent monetary policy should be targeted and effective, with reasonable and sufficient liquidity and stronger support from financial institutions for micro and small businesses, technology innovation and green development. The aim is to increase foreign trade and investment cooperation in order to stimulate growth. This perspective boost the confidence and gives positive prospective to the market and encouraging investments. Additionally, the country announced the transition from the Zero-Covid policy to a less restricted business and living environment. All the travel restrictions is erased and international tourism and business travel will grow in 2023. The government hopes to return to the high-growth environment that China fostered before pandemic.

## Outlook

Taking into account the global macroeconomic environment and China economy growth forecast for 2023, 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 continues 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 2022, the Bank did not undertake any Research and Development activity.

In 2022, 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 2022.

*China Everbright Bank (Europe) S.A.*

*Authorized Management*

Date: March 24, 2023

| Mr. LI Baokun | 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 2022, 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 2022, 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**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of the audit of the financial statements as whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each key audit matter, a description of how our audit addressed the matter is set out below:

Impairment of loans and advances to customers

Description

At 31 December 2022, loans to customers amount to EUR 81,79 million against which expected credit losses (ECL) of EUR 30,095 is recorded (see Note 6 to the financial statements).

We considered impairment of loans and advances to customers as a key audit matter as the determination and measurement of impairment under IFRS 9 requires subjective judgments and estimates by the Bank's management. The Bank uses the following methods to assess the required impairment allowance:

- The ECL is measured based on the principles laid down in IFRS9 and adapted by the Bank in its ECL calculation process and model;
- Although the Bank has historically not recognized individual impairment on any loans of the loan portfolio, in case of default the impairment is assessed individually.

The judgements and estimates applied by Management in determining the impairment for loans include the modelling assumptions used to build the model that serve as basis for the ECL calculation, the identification of events that could possibly result in an individual impairment, an appropriate valuation of the related collateral / guarantee, the assessment of customers or guarantors that are likely to default, and the future cash flows relating to loans to customers.

o *How the matter was addressed in our audit*

We walked through the design and operating effectiveness of key controls across the processes relevant to the origination, booking and monitoring of loans to customers. As part of the control testing procedures, we assessed whether the key controls in the above processes were designed, implemented and operated effectively.

For the expected credit losses calculation, we performed the following substantive audit procedures:

- We verified that the data used as a basis to calculate the ECL are complete and accurate. We also tested, on a sample basis, extractions of data used in the models, including rating of counterparts and movements between various ratings, when applicable;
- With the support of our internal modelling specialists, we tested the assumptions, inputs and formulas used in the ECL model. This included the appropriateness of model design and formulas used and recalculating the Probability of Default, Loss Given Default and Exposure at Default for a sample of loans;
- We tested the entire loans portfolio to form our own assessment as to whether they are classified in the appropriate bucket;

For the individual impairment of loans, we performed the following substantive procedures:

- We tested the entire loans portfolio to critically assess whether there were any indicators that could trigger individual impairment. We tested the loans at the reporting date by examining in a critical manner the financial situation and the creditworthiness of the counterparts and its guarantors and by ensuring timely repayment of principal and interest before and after the reporting date.

**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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities and business activities within the Bank to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the Bank audit. We remain solely responsible for our audit opinion.

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 14 October 2022 and the duration of our uninterrupted engagement, including previous renewals and reappointments, is six 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

Antoine Le Bars

Luxembourg, March 24, 2023

## Balance Sheet (expressed in euros)

| Assets | Notes | 31/12/2022 | 31/12/2021 |
|---|---|---|---|
| **Cash in hand, balances with central banks and post office banks** | 3,4 | **3,679,802** | **31,009,301** |
| **Loans and advances to credit institutions** | 3, 5, 10 | **5,705,146** | **3,733,343** |
| a) Repayable on demand | | 997,729 | 3,733,343 |
| b) Other loans and advances | | 4,707,417 | - |
| **Loans and advances to customers** | 3, 6, 10 | **81,762,132** | **104,873,516** |
| **Debt instruments at amortized cost** | 3, 7, 10 | **11,372,890** | **10,869,744** |
| a) Issued by public bodies | | 11,372,890 | 10,869,744 |
| **Tangible assets** | 8 | **1,151,765** | **1,461,941** |
| **Prepayments and accrued income** | 9 | **90,812** | **50,812** |
| **Total assets** | | **103,762,547** | **151,998,657** |

## Balance Sheet (expressed in euros)

| Liabilities | Notes | 31/12/2022 | 31/12/2021 |
|---|---|---|---|
| **Amounts owed to credit institutions** | 3, 21 | **87,507,967** | **136,047,738** |
| a) with agreed maturity dates or period of notice | | 87,507,967 | 136,047,738 |
| **Other liabilities** | 8, 11 | **1,329,688** | **1,940,563** |
| **Accruals and deferred income** | 12 | **-** | **-** |
| **Provisions** | 13 | **280,748** | **421,514** |
| a) Provisions for taxation | 13.1 | - | - |
| b) Other provisions | 13.2,13.3 | 280,748 | 421,514 |
| Subscribed capital | 14 | 20,000,000 | 20,000,000 |
| Profit / (loss) brought forward | 14 | (6,411,158) | (6,518,871) |
| Profit for the financial year | 14 | 1,055,302 | 107,713 |
| **Total shareholders' equity** | 14 | **14,644,144** | **13,588,842** |
| **Total liabilities** | | **103,762,547** | **151,998,657** |

## Profit and Loss Account (expressed in euros)

| | Note | 2022 | 2021 |
|---|---|---|---|
| **Interest receivable and similar income** | | **740,933** | **489,315** |
| *of which showing separately*: | | | |
| *that arising from fixed-income securities* | | *16,396* | *51,083* |
| **Interest payable and similar charges** | | **(277,799)** | **(123,077)** |
| **Commissions receivable** | 20 | **3,059,537** | **2,369,625** |
| **Commissions payable** | | **(19,676)** | **(16,072)** |
| **Net profit/ (loss) on financial operations** | | **256,741** | **210,337** |
| **Other operating income** | | **128,772** | **21,891** |
| **General administrative expenses** | | (2,335,930) | (2,415,686) |
| a) staff cost | 18 | (1,461,461) | (1,416,648) |
| *of which:* | | | |
| - wages and salaries | | (1,094,296) | (1,087,820) |
| - social security costs | | (107,525) | (94,572) |
| *of which:* | | | |
| o *social security costs relating to pensions* | | *(56,955)* | *(63,059)* |
| - other staff cost | | (259,640) | (234,256) |
| b) other administrative expenses | 19 | (874,469) | (999,038) |
| **Value adjustment in respect of tangible assets** | 8 | **(401,034)** | **(361,940)** |
| **Value adjustments in respect of loans and advances and provisions for contingent liabilities and for commitments** | 10 | **(29,162)** | **(701)** |
| **Value re-adjustments in respect of transferable securities held as financial fixed assets, participating interests and shares in affiliated undertakings** | **10** | **860** | **1,426** |
| **Profit/(Loss) on ordinary activities after tax** | | **1,123,242** | **175,118** |
| **Extraordinary charges** | 19 | - | - |
| **Other taxes not shown under the preceding items** | | **(67,940)** | **(67,405)** |
| **Profit for the year** | | **1,055,302** | **107,713** |

**Notes to the financial statements**
**As at 31 December 2022**

## 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:

- Overseas loans under domestic guarantee or domestic loans under overseas guarantee;
- Schuldscheindarlehen Loans (loans secured by promissory notes), syndicated loans, bilateral loans;
- Interbank business referral services;
- Interbank service (placement and deposit with/from banks and other financial institutions, and other inter-bank trade finance service);
- Securities dealing for own account.

## NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

### 2.1 Basis of preparation

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.

In 2022, we reclassified the interest income accrued and interest expense accrued with the balance from which these interests are generated. We also reclassified the 2021 accrued interest figures in the same manner for comparability.

**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 2022, the following significant spot exchange rates have been applied : 1 EUR= 1.0686 USD, 1 EUR= 7.3919 CNY(31 December 2021: 1 EUR= 1.1315 USD, 1 EUR = 7.2120)

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 2.11, except in the case of financial assets and financial liabilities recorded at Fair Value Through Profit or Loss ("FVTPL"), 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. 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 FVTPL. 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 realised 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.

2.3.4. 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 “solely payment of principal and interest on the principal outstanding (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 amortisation 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 FVTPL. As at 31 December 2022 and 2021, the Bank does not hold such financial instruments.

2.3.5. 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.

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

(a) Financial assets at amortised cost: The Bank measures financial assets at amortised cost if both of the following conditions are met:
- The instrument is held within the “hold to collect contractual cash flows” business model; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

## NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Financial Instruments (continued)

2.3.6. Measurement categories of financial assets and liabilities (continued)As at 31 December 2022 and 2021, the Bank's financial assets at amortised cost include: cash in hand, balances with central banks and post office (Note 3), loans and advances to credit institutions and customers (Notes 3, 5 and Notes 6), and certain debt instruments (Note 7).

(b) Financial assets at fair value through other comprehensive income: The Bank measures debt instruments at FVOCI when both of the following conditions are met:
- The instrument is held within the "hold to collect contractual cash flows and sell" business model; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in revaluation reserve. Interest income and foreign exchange gains and losses are recognised in profit or loss in the same manner as for financial assets measured at amortised cost .

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 amortised cost is recognised in revaluation reserve as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognised in revaluation reserve 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 weighted average basis. On derecognition, cumulative gains or losses previously recognised in revaluation reserve are reclassified from revaluation reserve to profit or loss.

As at 31 December 2022 and 2021, the Bank does not hold financial instruments at FVOCI.

(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 and have been either designated by management upon initial recognition or are mandatorily required to be measured at fair value under IFRS 9.

Financial assets and financial liabilities at FVTPL are recorded in the statement of financial position at fair value. Changes in fair value are recorded in profit and loss. Dividend income from equity instruments measured at FVTPL is recorded in profit or loss as other operating income when the right to the payment has been established.

This category also includes derivative instruments as they automatically fail the SPPI test. Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative. Changes in the fair value of derivatives are included in net result on financial operations unless hedge accounting is applied.

As at 31 December 2022 and 2021, the Bank does not hold financial instruments at FVTPL.

*(d) Undrawn loan commitments and letters of credits:*

Undrawn loan commitments and letters of credits are commitments under which, over the duration of the commitment, the Bank is required to provide a loan with pre-specified terms to the customer. Similar to loans and advances, these contracts are in the scope of the ECL requirements.

**Notes to the Financial statements**
**As at 31 December 2022**

## NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Financial Instruments (continued)

*2.3.7. Expected Credit Losses (ECL)*: The Bank records the allowance for expected credit losses for all loans and other debt financial assets not held at FVTPL, together with loan commitments and financial guarantee contracts, 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. There are no such write off occurred during the year.

**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

2.3 Financial Instruments (continued)

***The calculation of ECLs***

The Bank calculates ECLs based on 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.

  The ECL is computed following the general approach and is the product of an EAD, PD and LGD. The PD is either a twelve months or a life time PD depending on the staging and is adjusted for the deal's maturity. The Exposure at default includes all the contractual cash flow within the period (12 months or life time depending on the staging).

  Regarding the PD modelling procedure, The data used in the development of the PD Model stems from Moody's Analytics Credit Risk Calculator ("CRC"). Default Rates ("DRs") are aggregated by broad rating and an adjustment is made in order to take into account both distribution error and sampling error. A 12-month Through-the-cycle ("TTC") PD scale is estimated through a regression analysis on the adjusted broad ratings and their DRs.

  In order to estimate the 12-month Point-in-time ("PIT") PD scale, the global systemic risk factor is extracted from the Moody's data and the sensitivity of the rating's migration to default is determined for the grouping of investment grades and speculative grades. The sensitivity of each rating to the global systemic risk factor is then calibrated in order to estimate the 12-month PIT PD scale given this factor.

  In order to estimate the lifetime PIT PD, the cumulative PIT PD is calculated. In order to do so, the 12-month migration from an initial rating to another (non-default) average rating is calculated using migration data from the CRC. Similarly to the calculation of the PIT PD, the sensitivity of the ratings to the global systemic risk factor is estimated. In the computation of lifetime PD, an exponential decay / growth is applied to the global systemic risk factor to converge towards a set average value over the years.

- *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.

## NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Financial Instruments (continued)

The calculation of ECLs (continued)

- 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.
  Having started operations in Q4 2017, the Bank's portfolio is not in a sufficiently mature stage of its development to allow reasonable trend to be analysed for the purpose of producing LGD assumptions. Thus the LGD values are obtained.
  On yearly basis from CEB Head Office. The Bank's portfolio and business line products are in line with those of the Head Office. It considers the Head Office's LGD parameters as appropriate as they are based on similar however, broader and more diverse portfolio than that of the Bank The HO's LGD assessment framework is standardized resulting in a certain LGD rate. These LGD rates take into account the expected EAD in comparison to the amount expected to be recovered or realised from any collateral held.

- 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 Branch which may lead to the inability of the debtor to repay its debts.

Cured financial instruments refers to those having no further SICR since last downside risk classification. On the contrary, the financial instruments in question demonstrate obvious signs of improvement like rating upgrading or timely payment of interest and principal according to the schedule.

It is the Bank's policy to consider a financial instrument as 'cured' and therefore re-classified out of Stage 3 when none of the default criteria have been present for at least 12 consecutive months. The decision whether to classify an asset as Stage 2 or Stage 1 once cured depends on the updated credit grade, at the time of the cure, and whether this indicates there has been a significant increase in credit risk compared to initial recognition.

Significant Increase in Credit Risk. The Bank continuously monitors all assets subject to ECLs on an individual basis. In order to determine whether an instrument or a portfolio of instruments is subject to 12-month ECL ("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 calculation of ECLs (continued)

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%. |
| Loan commitments and letters of credit | When estimating LTECLs for undrawn loan commitments, the Bank estimates the expected portion of the loan commitment that will be drawn down over its expected life. The ECL is then based on the present value of the expected shortfalls in cash flows if the loan is drawn down, based on a probability-weighting of the four scenarios. The expected cash shortfalls are discounted at an approximation to the expected EIR on the loan. Similar approach is applied to letter of credit. |

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

**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

2.3 Financial Instruments (continued)

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.

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.

**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

2.3 Financial Instruments (continued)

2.3.9. Derecognition other than for substantial modification (continued)

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 comprise of 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 amortised cost.

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 are 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 and SA, and the amortization charges are shared between the Bank and the Branch.

As at 31 December 2022, the caption tangible assets is essentially composed of the right-of-use assets as detailed in section 2.8 of the financial statements.

The amortization charges related to the fixed assets shared with the Branch are presented under other administrative expenses.

## NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.7. Credit enhancements: collateral valuation and financial guarantees

To mitigate its credit risks on financial assets, the Bank seeks to use collateral, where possible. The collateral comes in various forms, such as cash, securities, and letters of credit/guarantees. Collateral, unless repossessed, is not recorded on the Bank's balance sheet. However, the fair value of collateral affects the calculation of ECLs. It is generally assessed, at a minimum, at inception and re-assessed on a quarterly basis.

To the extent possible, the Bank uses active market data for valuing financial assets held as collateral. The bank does not accept the financial assets which do not have readily determinable market values as eligible collateral. Non-financial collateral, such as real estate, is valued based on data provided by third parties such as mortgage brokers, or based on valuation report provided by accepted appraisers.

If a loan, as part of its contractual terms, is guaranteed by a third party, the Bank estimates the corresponding ECLs based on the combined credit risk of the guarantor and the guaranteed party, by reflecting the guarantee in the measurement of the LGD. The Bank considers the financial guarantee integral to the contractual terms' of the guaranteed loan, when the guarantee was entered into at the same time, or within a short time, after the loan is advanced.

Disclosure of the maximum exposure for credit risk by class of financial asset are disclosed in Note 10. They also show the total fair value of collateral, any surplus collateral (the extent to which the fair value of collateral held is greater than the exposure to which it relates), and the net exposure to credit risk.

2.8 Leases (IFRS 16)

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).

**Notes to the financial statements (continued)**
**As at 31 December 2022**

**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

2.8 Leases (IFRS 16) (continued)

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.

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).

2.9 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.

2.10 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.

## NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.10 Recognition of interest income and expense (continued)

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.

### 2.11 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.

The Bank uses the bid price from the Bloomberg on the valuation date as the valuation of financial instruments measured at fair value. following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1 financial instruments − Those where the inputs used in the valuation are unadjusted quoted prices from active markets for identical assets or liabilities that the Bank has access to at the measurement date. The Bank considers markets as active only if there are sufficient trading activities with regards to the volume and liquidity of the identical assets or liabilities and when there are binding and exercisable price quotes available on the balance sheet date.

- Level 2 financial instruments − Those where the inputs that are used for valuation and are significant, are derived from directly or indirectly observable market data available over the entire period of the instrument's life. Such inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical instruments in inactive markets and observable inputs other than quoted prices such as interest rates and yield curves, implied volatilities, and credit spreads. In addition, adjustments may be required for the condition or location of the asset or the extent to which it relates to items that are comparable to the valued instrument. However, if such adjustments are based on unobservable inputs which are significant to the entire measurement, the Branch will classify the instruments as Level 3.

- Level 3 financial instruments − Those that include one or more unobservable input that is significant to the measurement as whole.

As at 31 December 2022, the financial instruments carried at fair value by the Bank comprise of 'Debt instruments at fair value through other comprehensive income' and fall under level 1 hierarchy in terms of valuation technique. For the year ended 31 December 2022, there were no transfers between levels within the fair value hierarchy.

As at 31 December 2022, the Bank does not hold financial instruments at FVOCI nor at FVTPL.

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.

**Notes to the financial statements (continued)**
**As at 31 December 2022**

**NOTE 3 – ANALYSIS OF PRIMARY FINANCIAL INSTRUMENTS**

As at 31 December 2022, the analysis of primary non-trading financial instruments by class and residual maturity presented at carrying amount is as follows:

| 2022<br>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* (Note 4) | 3,679,802 | - | - | - | 3,679,802 |
| Loans and advances to credit institutions* (Note 5) | 5,705,435 | - | - | - | 5,705,435 |
| Loans and advances to customers* (Note 6) | 20,523,718 | 26,222,103 | 35,046,406 | - | 81,792,227 |
| Debt instruments at amortised cost* (Note 7) | - | 11,372,936 | - | - | 11,372,936 |
| | **29,908,955** | **37,595,039** | **35,046,406** | **-** | **102,550,400** |
| Amounts owed to credit institutions (Note 21) | 3,370,346 | 48,318,749 | 35,818,872 | - | 87,507,967 |
| | **3,370,346** | **48,318,749** | **35,818,872** | **-** | **87,507,967** |

* Amount before deduction of the ECL provision

**Notes to the financial statements (continued)**
**As at 31 December 2022**

**NOTE 3 – ANALYSIS OF PRIMARY FINANCIAL INSTRUMENTS (CONTINUED)**

As at 31 December 2021, the analysis of primary non-trading financial instruments by class and residual maturity presented at carrying amount is as follows:

| 2021 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* (Note 4) | 31,009,301 | - | - | - | 31,009,301 |
| Loans and advances to credit institutions* (Note 5) | 3,733,353 | - | - | - | 3,733,353 |
| Loans and advances to customers* (Note 6) | 87,316,063 | 17,558,378 | - | - | 104,874,441 |
| Debt instruments at amortized cost* (Note 7) | - | - | 10,870,817 | - | 10,870,817 |
| | **122,058,717** | **17,558,378** | **10,870,817** | **-** | **150,487,912** |
| Amounts owed to credit institutions (Note 21) | 89,479,207 | - | 46,568,531 | - | 136,047,738 |
| | **89,479,207** | **-** | **46,568,531** | **-** | **136,047,738** |

* Amount before deduction of the ECL provision

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

As at 31 December 2022, 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 3,679,802 compared to EUR 31,009,301 at 31 December 2021. The ECL for these balances represents an insignificant amount, therefore the Bank did not recognize any credit loss allowance for deposit held with the Central Bank of Luxembourg.

## 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:

| | **2022** | **2021** |
|---|---|---|
| | **EUR** | **EUR** |
| Europe (EU member countries) | 5,607,562 | 3,458,061 |
| Other | 97,873 | 275,292 |
| Gross amount | 5,705,435 | 3,733,353 |
| *Less :* Allowance for impairment | (289) | (10) |
| **Total** | **5,705,146** | **3,733,343** |

## Notes to the financial statements (continued)
## As at 31 December 2022

### NOTE 6 – LOANS AND ADVANCES TO CUSTOMERS

The breakdown of loans and advances to customers per economic sector and geographical area are presented as follows:

| **31-Dec-22** | *Gross carrying amount* | | | *Allowance for ECL* | | | |
|---|---|---|---|---|---|---|---|
| **In EUR** | **Stage 1** | **Stage2** | **Stage3** | **Stage 1** | **Stage2** | **Stage3** | **Net exposure** |
| ***Per industry segment*** | | | | | | | |
| Leasing and business service | 21,649,483 | - | - | (1,746) | - | - | 21,647,737 |
| Transportation | 3,008,625 | - | - | (13,676) | - | - | 2,994,949 |
| Construction | 3,003,356 | - | - | (4,443) | - | - | 2,998,913 |
| Wholesale trade | 23,526,032 | - | - | (290) | - | - | 23,525,742 |
| Building & Land | 2,812,439 | - | - | (465) | - | - | 2,811,974 |
| Manufacturing | 25,399,443 | - | - | (7,437) | - | - | 25,392,006 |
| Communication, computer service | 2,392,849 | - | - | (2,038) | - | - | 2,390,811 |
| **Total** | **81,792,227** | **-** | **-** | **(30,095)** | **-** | **-** | **81,762,132** |
| ***Per region*** | | | | | | | |
| Asia | 43,930,810 | - | - | (507) | - | - | 43,930,303 |
| Europe (EU member countries) | 37,861,417 | - | - | (29,588) | - | - | 37,831,829 |
| **Total** | **81,792,227** | - | - | **(30,095)** | **-** | **-** | **81,762,132** |

## Notes to the financial statements (continued)
## As at 31 December 2022

### NOTE 6 - LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

| 31-Dec-21 | Gross carrying amount | | | Allowance for ECL | | | |
|---|---|---|---|---|---|---|---|
| **In EUR** | **Stage 1** | **Stage 2** | **Stage3** | **Stage1** | **Stage2** | **Stage3** | **Net exposure** |
| ***Per industry segment*** | | | | | | | |
| Financial services | 15,091,496 | - | - | (18) | - | - | 15,091,478 |
| Transportation | - | - | - | - | - | - | - |
| Construction | 32,073,955 | - | - | (63) | - | - | 32,073,892 |
| Wholesale trade | - | - | - | - | - | - | - |
| Building & Land | - | - | - | - | - | - | - |
| Manufacturing | 57,708,990 | - | - | (844) | - | - | 57,708,146 |
| **Total** | **104,874,441** | **-** | **-** | **(925)** | **-** | **-** | **104,873,516** |
| | | | | | | | |
| ***Per region*** | | | | | | | |
| Asia | 104,874,441 | - | - | (925) | - | - | 104,873,516 |
| Europe (EU member countries) | - | - | - | - | - | - | - |
| **Total** | **104,874,441** | **-** | **-** | **(925)** | - | **-** | **104,873,516** |

## NOTE 7 –DEBT INSTRUMENTS AT AMORTISED COST

| | 2022<br>EUR | 2021<br>EUR |
|---|---|---|
| Government securities (Gross amount) | 11,372,936 | 10,870,817 |
| *Less:* Allowance for impairment | (46) | (1,073) |
| **Total** | **11,372,890** | **10,869,744** |

The geographical distribution of debt instruments at amortised cost is as follows:

| | 2022<br>EUR | 2021<br>EUR |
|---|---|---|
| Asia | - | - |
| Europe (EU member countries) | - | - |
| Other | 11,372,890 | 10,869,744 |
| **Total** | **11,372,890** | **10,869,744** |

All debt securities are invested in government securities.

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

| | 2022<br>EUR | 2021<br>EUR |
|---|---|---|
| As at 1 January | 1,073 | 2,304 |
| ECL (release) / charge for the year | (1,053) | (1,415) |
| Foreign exchange (gain) loss | 26 | 184 |
| **As at 31 December** | **46** | **1,073** |

## 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:

| | 2022<br>EUR | 2021<br>EUR |
|---|---|---|
| As at 1 January | 1,418,740 | 1,722,644 |
| Remeasurement | 95,390 | 58,036 |
| Depreciation expense | (401,034) | (361,940) |
| **As at 31 December** | **1,113,096** | **1,418,740** |

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

| | 2022<br>EUR | 2021<br>EUR |
|---|---|---|
| As at 1 January | 1,434,451 | 1,732,793 |
| Accretion of interest | 15,045 | 18,132 |
| Remeasurement | 95,388 | 58,036 |
| Payments | (319,646) | (374,510) |
| **As at 31 December** | **1,225,238** | **1,434,451** |

The following are the amounts recognized in profit or loss:

| | 2022<br>EUR | 2021<br>EUR |
|---|---|---|
| Value adjustment in respect of right of use assets | 401,034 | 361,940 |
| Interest expense on lease liabilities | 15,045 | 18,132 |
| **Total amount recognized in profit or loss** | **416,079** | **380,072** |

The Bank had total cash outflows for leases of EUR 319,646 in 2022 compared to EUR 374,510 in 2021.

## NOTE 9 – PREPAYMENT AND ACCRUED INCOME

As at 31 December 2022, the following amounts are included in the prepayments and accrued income:

| | 2022<br>EUR | 2021<br>EUR |
|---|---:|---:|
| Prepayment | 90,812 | 50,812 |
| **Total** | **90,812** | **332,039** |

## NOTE 10 – RISK MANAGEMENT

Risk management is of fundamental importance to the business operation of the Bank. The major types of risk inherent in the business are credit risk, liquidity risk, interest rate risk and currency risk.

The Bank's risk management objectives are to maximise shareholders' value and to reduce volatility in earnings while maintaining risk exposures within acceptable limits. The Bank's work in the area of risk management is led by the Authorized Management member for risk management and is executed by the Risk Management Department led by the Chief Risk Officer. This functional structure can assess, identify and document the Bank's risk profile to ensure that the business units focus, control and systematically avoid potential risks in various business area. The following is a brief description of the Bank's approach in managing these risks.

### 10.1 Credit risk

*Credit risk management framework*

According to Circular CSSF 12/552 (as amended) and Circular CSSF 20/759 (hereinafter the "Circulars"), risk management is one of the internal control functions (together with internal audit and compliance).

The Bank has formulated a comprehensive set of credit risk management policies and procedures, and appropriate credit risk limits to manage and control credit risk that may arise. These policies, procedures and credit risk limits are regularly reviewed and updated to cope with the changes in market conditions and business strategies.

The Bank's organisational structure establishes a clear set of authority and responsibility for monitoring compliance with policies, procedures and limits. The Chief Risk Officer, who reports directly to the Authorized Management and has a direct access to the Board of Directors and CSSF, takes charge of the execution of credit.

Risk management and is also led by the Authorization Management member for risk management to be responsible for the control of credit risk exposures of the Bank in line with the credit risk management principles and requirements set by the Bank.

## Notes to the financial statements (continued)
## As at 31 December 2022

### NOTE 10 – RISK MANAGEMENT (CONTINUED)

Credit risk management is embedded within all business units of the Bank. The first line of defence against undesirable outcomes is the business function and the respective line managers. Department heads of their own business areas take the lead role with respect to implementing and maintaining appropriate credit risk controls. Risk Management Department, which is independent from the business units, is responsible for the management of credit risks and it is an ongoing process for identifying, measuring, monitoring and controlling credit risk to ensure effective checks and balances, as well as drafting, reviewing and updating credit risk management policies and procedures. It is also responsible for the maintenance of the Bank's internal rating system and it ensures that the system complies with the relevant regulatory requirements. The implementation of credit risk and internal control reviews are reported to Risk Management and Compliance Committee monthly. The Bank has Risk Management and Compliance Committee. The RMCC convenes on a monthly basis.

For loans and advances to customers, the Bank may require collateral from customers before advances are granted. The amount of advances permitted depends on the quality and value of collateral provided by the customer. Any subsequent change in value as well as quality of collateral is closely monitored in order to determine whether any corrective action is required.

Investments in debt instruments are governed by whether the issuers and the trade counterparties respectively have sound credit ratings.

The Bank has well-defined policies in place on the setting and approval of trading, credit and investment position limits in order to manage its credit risk exposure and concentration. The Bank's concentrations of risk are managed by client/counterparty, geographical region and industry sector. Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location. In order to avoid excessive concentrations of risk, the Bank's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly. As at the end of the reporting period, the Bank did not have a significant concentration of credit risk.

*Maximum exposure to credit risk*
Credit risk is the risk that the Bank will incur a loss because its customers or counterparties fail to discharge their contractual obligations. The Bank's maximum exposure to credit risk is reflected in the carrying amounts of financial assets in the balance sheet. For commitments to extend credit, undrawn credit lines and export/import letters of credit, the maximum exposure to credit risk is the amount of the commitment. As of 31/12/2022, the Bank has no commitment exposures. Credit risk is the single largest risk for the Bank's business; management therefore carefully manages its exposure to credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

| 2022 (In EUR) | Maximum exposure to credit risk* | Guarantee & collateral | Surplus collateral | Net Risk Exposure |
|---|---|---|---|---|
| Cash in hand, balances with central banks and post office banks | 3,679,802 | - | - | 3,679,802 |
| Loans and advances to credit institutions | 5,705,435 | - | - | 5,705,435 |
| Loans and advances to customers | 81,792,227 | 58,908,228 | (265,238) | 23,149,238 |
| Debt securities at amortised cost | 11,372,936 | - | - | 11,372,936 |
| Debt securities at FVOCI | - | - | - | |
| Loan commitments | - | - | - | |
| Total | 102,550,400 | 58,908,228 | (265,238) | 43,907,411 |

* *Amounts before deduction of the ECL provision.*

# Notes to the financial statements (continued)
# As at 31 December 2022

## NOTE 10 – RISK MANAGEMENT (CONTINUED)

<u>10.1 Credit risk (*continued*)</u>

| **2021** (In EUR) | **Maximum exposure to credit risk*** | **Guarantee & collateral** | **Surplus collateral** | **Net Risk Exposure** |
|---|---|---|---|---|
| Cash in hand, balances with central banks and post office banks | 31,009,301 | - | - | 31,009,301 |
| Loans and advances to credit institutions | 3,733,353 | - | - | 3,733,353 |
| Loans and advances to customers | 104,874,441 | 104,874,441 | - | - |
| Debt securities at amortised cost | 10,870,817 | - | - | 10,870,817 |
| Debt securities at FVOCI | - | - | - | - |
| Accrued interest income | - | - | - | - |
| Loan commitments | - | - | - | - |
| **Total** | **150,487,912** | **104,874,441** | **-** | **45,613,471** |

* *Amounts before deduction of the ECL provision.*

# Notes to the financial statements (continued)
# As at 31 December 2022

## NOTE 10 – RISK MANAGEMENT (CONTINUED)

10.1 Credit risk (*continued*)

The table below shows the credit quality and the maximum exposure to credit risk based on the Bank's external rating mapping for ECL calculation and year-end stage classification. The amounts presented are gross of allowance for ECL. The Altman-Z scoring model, as an internal rating system, has been developed and in implementation as of the end of 2022. Since the output is currently under analysis in order to ensure the suitability and effectiveness considering the Bank's client base, business model, volume and complexity, the scoring model has not been used for ECL calculation and credit origination purpose yet.

| **31 December 2022** | **12 month** | **Gross carrying amount** | | | | **ECL** | | | |
|---|---|---|---|---|---|---|---|---|---|
| *(in EUR)* | **PD Range** | **Stage 1** | **Stage 2** | **Stage 3** | **Total** | **Stage 1** | **Stage 2** | **Stage 3** | **Total** |
| **Loans and advances to Credit institutions** | | | | | | | | | |
| External rating mapping grade | | | | | | | | | |
| Performing | | | | | | | | | |
| AAA+-AAA- | 0.001%-0.002% | - | - | - | - | - | - | - | - |
| AA+-A- | 0.003%-0.047% | 997,729 | - | - | **997,729** | (1) | - | - | **(1)** |
| BBB+-B- | 0.082%-6.263% | 4,707,706 | - | - | **4,707,706** | (288) | - | - | **(288)** |
| CCC+-C | 9.950%-60.125% | - | - | - | - | - | - | - | - |
| Non-performing | | | | | | | | | |
| D | 100% | - | - | - | - | - | - | - | - |
| **Total** | | **5,705,435** | **-** | **-** | **5,705,435** | **(289)** | **-** | **-** | **(289)** |
| | | | | | | | | | |
| **Loans and advances to Customers** | | | | | | | | | |
| External rating mapping grade | | | | | | | | | |
| Performing | | | | | | | | | |
| AAA+-AAA- | 0.001%-0.002% | - | - | - | - | - | - | - | - |
| AA+-A- | 0.003%-0.047% | 33,244,758 | - | - | **33,244,758** | (799) | - | - | **(799)** |
| BBB+-B- | 0.082%-6.263% | 48,547,469 | - | - | **48,547,469** | (29,296) | - | - | **(29,296)** |
| CCC+-C | 9.950%-60.125% | - | - | - | - | - | - | - | - |
| Non-performing | | | | | | | | | |
| D | 100% | - | - | - | - | - | - | - | - |
| **Total** | | **81,792,227** | **-** | **-** | **81,792,227** | **(30,095)** | **-** | **-** | **(30,095)** |

## Notes to the financial statements (continued)
## As at 31 December 2022

### NOTE 10 – RISK MANAGEMENT (CONTINUED)

10.1 Credit risk (*continued*)

| **31 December 2022** *(in EUR)* | **12 month PD Range** | **Gross carrying amount** Stage 1 | **Stage 2** | **Stage 3** | **Total** | **ECL** Stage 1 | **Stage 2** | **Stage 3** | **Total** |
|---|---|---|---|---|---|---|---|---|---|
| **Debt securities at amortised cost** | | | | | | | | | |
| External rating grade | | | | | | | | | |
| Performing | | | | | | | | | |
| AAA+-AAA- | 0.001%-0.002% | 11,372,936 | - | - | **11,372,936** | (46) | - | - | **(46)** |
| AA+-A- | 0.003%-0.047% | - | - | - | **-** | - | - | - | **-** |
| BBB+-B- | 0.082%-6.263% | - | - | - | **-** | - | - | - | **-** |
| CCC+-C | 9.950%-60.125% | - | - | - | **-** | - | - | - | **-** |
| Non-performing | | | | | | | | | |
| D | 100% | - | - | - | **-** | - | - | - | **-** |
| **Total** | | **11,372,936** | **-** | **-** | **11,372,936** | **(46)** | **-** | **-** | **(46)** |

# Notes to the financial statements (continued)
# As at 31 December 2022

## NOTE 10 – RISK MANAGEMENT (CONTINUED)

10.1 Credit Risk (continued)

The table below shows the credit quality and the maximum exposure to credit risk based on the Bank's credit rating system and year-end stage classification. The amounts presented are gross of allowance for ECL.

| **31 December 2021** *(in EUR)* | **12 month PD Range** | **Gross carrying amount** Stage 1 | Stage 2 | Stage 3 | Total | **ECL** Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|---|---|---|---|---|
| **Loans and advances to Credit institutions** | | | | | | | | | |
| Internal rating grade | | | | | | | | | |
| Performing | | | | | | | | | |
| AAA | 0.001%-0.002% | - | - | - | - | | - | - | - |
| AA-A | 0.003%-0.046% | 3,733,353 | - | - | **3,733,353** | (10) | - | - | **(10)** |
| BBB-B | 0.081%-6.235% | - | - | - | - | - | - | - | - |
| CCC-C | 9.907%-60.080% | - | - | - | - | - | - | - | - |
| Non-performing | | - | - | - | - | - | - | - | - |
| D | 100% | - | - | - | - | - | - | - | - |
| **Total** | | **3,733,353** | - | - | **3,733,353** | **(10)** | **-** | **-** | **(10)** |

| **31 December 2021** *(in EUR)* | **12 month PD Range** | **Gross carrying amount** Stage 1 | Stage 2 | Stage 3 | Total | **ECL** Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|---|---|---|---|---|
| **Loans and advances to Customers** | | | | | | | | | |
| Internal rating grade | | | | | | | | | |
| Performing | | | | | | | | | |
| AAA | 0.001%-0.002% | - | - | - | - | - | - | - | - |
| AA-A | 0.003%-0.046% | - | - | - | - | - | - | - | - |
| BBB-B | 0.081%-6.235% | 104,874,441 | - | - | **104,874,441** | (925) | - | - | **(925)** |
| CCC-C | 9.907%-60.080% | - | - | - | - | - | - | - | - |
| Non-performing | | - | - | - | - | - | - | - | - |
| D | 100% | - | - | - | - | - | - | - | - |
| **Total** | | **104,874,441** | **-** | **-** | **104,874,441** | **(925)** | **-** | **-** | **(925)** |

## NOTE 10 – RISK MANAGEMENT (CONTINUED)

10.1 Credit risk (*continued*)

| **31 December 2021** | **12 month** | | **Gross carrying amount** | | | | **ECL** | | |
|---|---|---|---|---|---|---|---|---|---|
| *(in EUR)* | **PD Range** | **Stage 1** | **Stage 2** | **Stage 3** | **Total** | **Stage 1** | **Stage 2** | **Stage 3** | **Total** |
| **Debt securities at amortised cost** | | | | | | | | | |
| External rating grade | | | | | | | | | |
| Performing | | | | | | | | | |
| AAA+-AAA- | 0.001%-0.002% | 10,870,817 | - | - | **10,870,817** | (1,073) | - | - | **(1,073)** |
| AA+-A- | 0.003%-0.046% | - | - | - | **-** | - | - | - | **-** |
| BBB+-B- | 0.081%-6.235% | - | - | - | **-** | - | - | - | **-** |
| CCC+-C | 9.907%-60.080% | - | - | - | **-** | - | - | - | **-** |
| Non-performing | | | | | | | | | |
| D | 100% | - | - | - | **-** | - | - | - | **-** |
| **Total** | | **10,870,817** | **-** | **-** | **10,870,817** | **(1,073)** | **-** | **-** | **(1,073)** |

# Notes to the financial statements (continued)
# As at 31 December 2022

## NOTE 10 – RISK MANAGEMENT (CONTINUED)

10.1 Credit Risk (continued)

The tables below present an analysis of financial assets at amortised cost by gross exposure and impairment allowance by stage allocation as at 31 December 2022 and 2021. The Bank does not hold any material purchased or originated credit-impaired assets as at year-end.

| **31 December 2022** | **Gross exposure** | | | | **Impairment allowance** | | | | **Net** |
|---|---|---|---|---|---|---|---|---|---|
| *(in EUR)* | **Stage 1** | **Stage 2** | **Stage 3** | **Total** | **Stage 1** | **Stage 2** | **Stage 3** | **Total** | **Exposure** |
| Cash in hand, balances with central banks and post office banks (Note 4) | 3,679,802 | - | - | **3,679,802** | - | - | - | - | **3,679,802** |
| Loans and advances to credit institutions (Note 5) | 5,705,435 | - | - | **5,705,435** | (289) | - | - | **(289)** | **5,705,146** |
| Loans and advances to customers (Note 6) | 81,792,227 | - | - | **81,792,227** | (30,095) | - | - | **(30,095)** | **81,762,132** |
| Debt securities at amortised cost (Note 7) | 11,372,936 | - | - | **11,372,936** | (46) | - | - | **(46)** | **11,372,890** |
| Loan commitments (Note 16) | - | - | - | - | - | - | - | - | - |
| **Total** | **102,550,400** | **-** | **-** | **102,550,400** | **(30,430)** | **-** | **-** | **(30,430)** | **102,519,970** |

| **31 December 2021** | **Gross exposure** | | | | **Impairment allowance** | | | | **Net** |
|---|---|---|---|---|---|---|---|---|---|
| *(in EUR)* | **Stage 1** | **Stage 2** | **Stage 3** | **Total** | **Stage 1** | **Stage 2** | **Stage 3** | **Total** | **Exposure** |
| Cash in hand, balances with central banks and post office banks (Note 4) | 31,009,301 | - | - | **31,009,301** | - | - | - | - | **31,009,301** |
| Loans and advances to credit institutions (Note 5) | 3,733,353 | - | - | **3,733,353** | (10) | - | - | **(10)** | **3,733,343** |
| Loans and advances to customers (Note 6) | 104,874,441 | - | - | **104,874,441** | (925) | - | - | **(925)** | **104,873,516** |
| Debt securities at amortised cost (Note 7) | 10,870,817 | - | - | **10,870,817** | (1,073) | - | - | **(1,073)** | **10,869,744** |
| Loan commitments (Note 16) | - | - | - | - | - | - | - | - | - |
| **Total** | **150,769,139** | **-** | **-** | **150,769,139** | **(2,008)** | **-** | **-** | **(2,008)** | **150,767,131** |

# Notes to the financial statements (continued)
# As at 31 December 2022

## NOTE 10 – RISK MANAGEMENT (CONTINUED)

10.1 Credit Risk (continued)

A reconciliation of changes in gross carrying amount and corresponding ECL allowances by stage is as follows:

| **31 December 2022** | **Stage 1** | | **Stage 2** | | **Stage 3** | | **Total** | |
|---|---|---|---|---|---|---|---|---|
| *(in EUR)* | **Gross carrying amount** | **ECL** | **Gross carrying amount** | **ECL** | **Gross carrying amount** | **ECL** | **Gross carrying amount** | **ECL** |
| **Loans and advances to credit institutions** | | | | | | | | |
| 1 January 2022 | 3,733,353 | (10) | - | - | - | - | 3,733,353 | (10) |
| New assets originated or purchased | 4,843,104 | (288) | - | - | - | - | 4,843,104 | (288) |
| Payments and assets derecognised | (2,729,568) | 9 | - | - | - | - | (2,729,568) | 9 |
| Foreign exchange adjustments | (141,454) | - | - | - | - | - | (141,454) | - |
| At 31 December 2022 | **5,705,435** | **(289)** | **-** | **-** | **-** | **-** | **5,705,435** | **(289)** |
| | | | | | | | | |
| **Loans and advances to customers** | | | | | | | | |
| 1 January 2022 | 104,874,441 | (925) | - | - | - | - | 104,874,441 | (925) |
| New assets originated or purchased | 82,932,186 | (30,095) | - | - | - | - | 82,932,186 | (30,925) |
| Payments and assets derecognised | (108,966,737) | 925 | - | - | - | - | (108,966,737) | 925 |
| Foreign exchange adjustments | 2,952,337 | - | - | - | - | - | 2,952,337 | - |
| At 31 December 2022 | **81,792,227** | **(30,095)** | **-** | **-** | **-** | **-** | **81,792,227** | **(30,095)** |

**NOTE 10 – RISK MANAGEMENT (CONTINUED)**

10.1 Credit Risk (continued)

| **31 December 2022** | **Stage 1** | | **Stage 2** | | **Stage 3** | | **Total** | |
|---|---|---|---|---|---|---|---|---|
| *(in EUR)* | **Gross carrying amount** | **ECL** | **Gross carrying amount** | **ECL** | **Gross carrying amount** | **ECL** | **Gross carrying amount** | **ECL** |
| **Debt securities at amortised cost** | | | | | | | | |
| 1 January 2022 | 10,870,817 | (1,073) | - | - | - | - | 10,870,817 | (1,073) |
| New assets originated or purchased | - | - | - | - | - | - | - | - |
| Payments and assets derecognised | - | - | - | - | - | - | - | - |
| Changes to assumptions* | - | 1,053 | - | - | - | - | - | 1,053 |
| Foreign exchange adjustments | 502,119 | (26) | - | - | - | - | 502,119 | (26) |
| At 31 December 2022 | **11,372,936** | **(46)** | - | - | - | - | **11,372,936** | **(46)** |

*Represents changes to estimates and model assumptions.

**NOTE 10 – RISK MANAGEMENT (CONTINUED)**

10.1 Credit Risk (continued)

| **31 December 2021** | **Stage 1** | | **Stage 2** | | **Stage 3** | | **Total** | |
|---|---|---|---|---|---|---|---|---|
| *(in EUR)* | **Gross carrying amount** | **ECL** | **Gross carrying amount** | **ECL** | **Gross carrying amount** | **ECL** | **Gross carrying amount** | **ECL** |
| **Loans and advances to credit institutions** | | | | | | | | |
| 1 January 2021 | 2,604,785 | (21) | - | - | - | - | 2,604,785 | (21) |
| Movements of the period[3] | 1,128,568 | 11 | - | - | - | - | 1,133,498 | 11 |
| At 31 December 2021 | **3,733,353** | **(10)** | **-** | **-** | **-** | **-** | **3,738,283** | **(10)** |
| **Loans and advances to customers** | | | | | | | | |
| 1 January 2021 | 3,000,000 | (125) | - | - | - | - | 3,000,000 | (125) |
| Movements of the period[4] | 101,874,441 | (800) | - | - | - | - | 101,625,541 | (800) |
| At 31 December 2021 | **104,874,441** | **(925)** | - | - | - | - | **104,625,541** | **(925)** |
| **Debt securities at amortised cost** | | | | | | | | |
| 1 January 2021 | 22,296,108 | (2,304) | - | - | - | - | 22,296,108 | (2,304) |
| Movements of the period [5] | (11,425,291) | 1,231 | - | - | - | - | (11,462,548) | 1,231 |
| At 31 December 2021 | **10,870,817** | **(1,073)** | - | - | - | - | **10,833,560** | **(1,073)** |

[3] Composed of deposit, money market transactions with credit institutions: the increase of net amount is due to growth on money market deals done with credit institutions.
[4] Composed of loans to customers: the increase of the loans and advances results from the net movement of new loans disbursed and one loan fully repaid by customers.
[5] Composed of bond investment: the decrease of the amount is caused by two bonds matured in 2021.

**NOTE 10 – RISK MANAGEMENT (CONTINUED)**

10.1 Credit Risk (continued)

The table below summarises the Bank's guarantee/collateral by stage for loans and advances to customers:

| 31 December 2022<br>In EUR | Gross carrying amount | Guarantee/Collateral | Surplus collateral | Net exposure |
|---|---|---|---|---|
| **Stage 1** | 81,792,227 | 58,908,228 | (265,238) | 23,149,238 |
| **Stage 2** | - | - | - | - |
| **Stage 3** | - | - | - | - |
| **Total** | **81,792,227** | **58,908,228** | **(265,238)** | **23,149,238** |

As of 31 December 2022, all loans and advances to customers are classified as stage 1.

The total income statement allowance for ECL for the year for loans and advances to customers was of EUR 29,162 (2021: EUR 701).

The value re-adjustments in respect of transferable securities held as financial fixed assets, participating interests and shares in affiliated undertakings amounting to EUR 46 (2021 : EUR 1,073) not disclosed in the above movement.

10.2 Liquidity Risk

In light of the CSSF Circular 09/403, the Bank has established a sound liquidity risk management framework. The Board of Directors has set a vigorous liquidity risk management standard including Liquidity risk tolerance, risk indicators system and limits management. Complying with the liquidity supervision requirements of the CSSF and BCL is the first priority for the General Management of the Bank.

## NOTE 10 – RISK MANAGEMENT (CONTINUED)

10.2 Liquidity Risk (continued)

The liquidity risk management objectives of the Bank are to manage the liquidity of the Bank pursuant to the principle of prudence based on changes in the economic and financial situation as well as changes in the market. It will coordinate the relation between profitability and liquidity and ensure compliance with various liquidity regulatory indicators.

Liquidity risk management also aims at maintaining appropriate high-quality liquidity assets through the management of asset and liability portfolios to keep stable funding sources and satisfy the Bank's liquidity demand under daily operation and stress scenarios. Specifically including:

- Establish and maintain a good asset-liability structure, and control the long-term structural liquidity risk;
- When necessary, combine the adjustment of business plan, fund transfer pricing and instructive control to exert comprehensive risk control over various asset and liability businesses as well as at the consolidated level.

The liquidity risk management framework relies on different principles:

- The principle of security: The Bank optimize the liquidity asset portfolio, and ensure adequate funds to respond to asset growth and payment of mature debts under normal business scenarios or stress scenarios;
- The principle of prudence: The Bank performs a complete identification of various liquidity risk sources prudentially assess the conversion and transmission between liquidity risk and other risks, including but not limited to credit risk, market risk, operational risk and reputational risk. The Bank regularly assesses and demonstrates the rationality of various liquidity risk measurement methods, models, parameters and hypotheses. In addition, the Bank performs regular comprehensive audit inspection over policies and procedures pertaining to liquidity risk measurement, monitoring and control, in order to ensure their suitability and effectiveness;
- The principle of diversification: The Bank established a moderately diversified liability portfolio to reduce the dependence on liabilities with significant fluctuation and prevent the liquidity risk arising out of excessive concentration of single customer;
- The principle of comprehensiveness: The liquidity risk management strategies, policies and procedures cover various on and off balance sheet activities in all currencies. It relates to business departments that have a material impact on liquidity risk.

Based on the liquidity risk management policy, the Bank has developed the liquidity risk monitoring procedure. The liquidity risk metric LCR is monitored on daily basis. The Bank sets an internal tolerance threshold of 110%. When the liquidity coverage ratio falls below internal trigger and hit the limitation of tolerance, the authorized management will be informed and immediate action will be taken to bring it above internal trigger.

## Notes to the financial statements (continued)
## As at 31 December 2022

### NOTE 10 – RISK MANAGEMENT (CONTINUED)

10.2 Liquidity Risk (continued)

The liquidity stress testing framework is adapted to the liquidity risks profile and include market, idiosyncratic scenarios. The testing is formed on quarterly basis. The assumptions and the stress testing scenarios are reviewed annually. Furthermore, the Bank also monitor the liquidity risk metrics NSFR on quarterly basis and perform assets and liability maturity analysis and document the internal assessment of liquidity risk practices in the ILAAP report.

The Bank regularly assess the current and expected liquidity requirements and to ensure that it maintains reserves of cash, readily realisable marketable securities and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The table below summarises the maturity profile of the Bank's financial assets and the undiscounted cash flows of its financial liabilities as at 31 December.

Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Bank expects that many customers will not request repayment on the earliest date it could be required to pay and the table does not reflect the expected cash flows indicated by its deposit retention history.

| **2022 In EUR** | **Less than 3 months** | **3 - 12 months** | **1 - 5 years** | **Total** |
|---|---|---|---|---|
| Cash in hand, balance with central banks and post office banks | 3,679,802 | - | - | 3,679,802 |
| Loans and advances to credit institutions | 5,705,146 | - | - | 5,705,146 |
| Loans and advances to customers | 21,068,123 | 28,284,487 | 38,252,023 | 87,604,633 |
| Debt instruments at amortised cost | - | 11,372,936 | - | 11,372,936 |
| Debt instruments at FVOCI | - | - | - | - |
| **Total undiscounted financial assets** | **30,453,071** | **39,657,423** | **38,252,023** | **108,362,517** |
| Amounts owed to credit institutions | 3,370,346 | 48,318,750 | 35,818,872 | 87,507,967 |
| Amounts owed to customers | - | - | - | - |
| Debts evidenced by certificates | - | - | - | - |
| Other liabilities | 106,657 | 298,657 | 924,374 | 1,329,688 |
| **Total undiscounted financial liabilities** | **3,477,003** | **48,617,406** | **36,743,246** | **88,837,655** |
| **Net liquidity position** | **26,974,773** | **(8,959,983)** | **1,508,777** | 19,242,434 |

**NOTE 10 – RISK MANAGEMENT (CONTINUED)**

10.2 Liquidity Risk (continued)

| **2021<br>In EUR** | **Less than 3 months** | **3 - 12 months** | **1 - 5 years** | **Total** |
|---|---|---|---|---|
| Cash in hand, balance with central banks and post office banks | 31,009,301 | - | - | 31,009,301 |
| Loans and advances to credit institutions | 3,733,353 | - | - | 3,733,353 |
| Loans and advances to customers | 87,316,063 | 17,558,378 | - | 104,624,616 |
| Debt instruments at amortised cost | - | - | 10,870,817 | 10,870,817 |
| Debt instruments at FVOCI | - | - | - | - |
| **Total undiscounted financial assets** | **122,058,717** | **17,558,378** | **10,870,817** | **150,487,912** |
| | | | | |
| Amounts owed to credit institutions | 89,479,207 | - | 46,568,531 | 136,047,738 |
| Amounts owed to customers | - | - | - | - |
| Debts evidenced by certificates | - | - | - | - |
| Other liabilities | 567,586 | 277,001 | 1,095,976 | 1,940,563 |
| **Total undiscounted financial liabilities** | **90,046,793** | **277,001** | **47,664,507** | **137,988,301** |
| **Net liquidity position** | **32,011,924** | **17,281,377** | **(36,793,690)** | **12,499,611** |

10.3 Market Risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates and foreign exchange rates. The Bank's risk management strategy for its Banking book is different for each of the categories of market risk.

Market risk limits are set and continuously reviewed by the market risk team of the Bank's independent Risk Management and Compliance Department. As a part of its established market risk management process, the market risk team also monitors early signs of possible changes in market conditions such as: anticipated and actual changes to interest rates and economic and geopolitical factors driving currency movements.

Market risk limits are ultimately approved by the Board. At an operational level, market risk is primarily managed by the Bank's treasury department, which is responsible for ensuring that the Banks exposures are in compliance with market risk limits approved by the Board and to take adequate actions when necessary.

The Bank's risk management strategies in relation to market risks are explained under the corresponding subheadings on the following pages.

# Notes to the financial statements (continued)
# As at 31 December 2022

## NOTE 10 – RISK MANAGEMENT (CONTINUED)

<u>10.3 Market Risk (continued)</u>

*10.3.1 Interest rate risk*

The following table provides an analysis of the Bank's interest rate risk exposure on non-trading financial assets and liabilities. The Bank's assets and liabilities are included at carrying amount and categorised by the earlier of contractual repricing or maturity dates.

| **31 December 2022**<br>**In EUR** | Carrying amount | Less than 3 months | 3 to 12 months | 1 to 5 years | Over 5 years | Non-interest bearing |
|---|---|---|---|---|---|---|
| **Assets** | **102,550,400** | **67,145,247** | **32,396,528** | **3,008,625** | **-** | **-** |
| **Cash in hand, balance with central banks and post office banks (Note 4)** | 3,679,802 | 3,679,802 | - | - | - | - |
| **Loans and advances to credit institutions (Note 5)** | 5,705,435 | 5,705,435 | - | - | - | - |
| **Loans and advances to customers (Note 6)** | 81,792,227 | 57,760,010 | 21,023,592 | 3,008,625 | - | - |
| **Debt instruments at amortised cost (Note 7)** | 11,372,936 | - | 11,372,936 | - | - | - |
| | | | | | | |
| **Liabilities** | **88,837,967** | **3,370,346** | **48,318,749** | **35,818,872** | **-** | **1,329,688** |
| **Amounts owed to credit institutions** | 87,507,967 | 3,370,346 | 48,318,749 | 35,818,872 | - | - |
| **Other Liabilities** | 1,329,688 | - | - | - | - | 1,329,688 |
| | | | | | | |
| **Total interest sensitivity gap** | 13,712,745 | 63,774,902 | (15,922,221) | (32,810,247) | - | (1,329,688) |

## Notes to the financial statements (continued)
## As at 31 December 2022

### NOTE 10 – RISK MANAGEMENT (CONTINUED)

10.3 Market Risk (continued)

10.3.1 Interest rate risk

| **31 December 2021** *In EUR* | Carrying amount | Less than 3 months | 3 to 12 months | 1 to 5 years | Over 5 years | Non-interest bearing |
|---|---|---|---|---|---|---|
| **Assets** | **150,487,912** | **122,058,717** | **17,558,378** | **10,870,817** | **-** | **-** |
| Cash in hand, balance with central banks and post office banks (Note 4) | 31,009,301 | 31,009,301 | - | - | - | - |
| Loans and advances to credit institutions (Note 5) | 3,733,353 | 3,733,353 | - | - | - | - |
| Loans and advances to customers (Note 6) | 104,874,441 | 87,316,063 | 17,558,378 | - | - | - |
| Debt instruments at amortised cost (Note 7) | 10,870,817 | - | - | 10,870,817 | - | - |
| | | | | | | |
| **Liabilities** | **137,988,301** | **89,479,207** | **-** | **46,568,531** | **-** | **1,940,563** |
| Amounts owed to credit institutions | 136,047,738 | 89,479,207 | - | 46,568,531 | - | - |
| Other Liabilities | 1,940,563 | - | - | - | - | 1,940,563 |
| | | | | | | |
| **Total interest sensitivity gap** | **12,499,611** | **32,579,510** | **17,558,378** | **(35,697,714)** | **-** | **(1,940,563)** |

**NOTE 10 – RISK MANAGEMENT (CONTINUED)**

10.3 Market Risk (continued)

*10.3.1 Interest rate risk (continued)*

*Interest rate sensitivity analysis*

The Bank's profit and loss sensitivity to changes in interest rates is a measure of the sensitivities of its asset and liability mismatches to longer-term interest rate changes. The sensitivities include assumptions for product maturities and renewals along with certain customer behaviours (including prepayments and redemptions). The Bank calculates these measures as the change in the present value of its asset and liability portfolios, including off-balance sheet instruments, resulting from an immediate and sustained interest rate shocks.

The following table demonstrates the sensitivity to a reasonably possible parallel changes in interest rates (all other variables being constant) of the Bank’s income statement by currency for those currencies where the Bank has a material exposure:

| *2022*<br>*In EUR* | **Effect on profit or loss from parallel 200bps down** | **Effect on profit or loss from parallel 200bps up** |
|---|---|---|
| **Currency of borrowing/advance** | | |
| USD | (10,904) | 36,463 |
| EUR | (1,296,431) | 624,488 |
| | | |
| *2021*<br>*In EUR* | | |
| **Currency of borrowing/advance** | | |
| USD | (814,682) | 435,990 |
| EUR | (664,294) | 957,496 |

## NOTE 10 – RISK MANAGEMENT (CONTINUED)

10.3 Market Risk (continued)

*10.3.1 Interest rate risk (continued)*

*IBOR reform*

IBOR reform is organized by CEB HO. The Bank puts in place and operates the system developed by CEB HO.

IBOR reform exposes the Bank to various risks, which the project is managing and monitoring closely. These risks include but are not limited to the following:

- Conduct risk arising from discussions with clients and market counterparties due to the amendments required to existing contracts necessary to effect IBOR reform
- Financial risk to the Bank and its clients that markets are disrupted due to IBOR reform giving rise to financial losses
- Pricing risk from the potential lack of market information if liquidity in IBORs reduces and RFRs are illiquid and unobservable
- Operational risk arising from changes to the Bank's IT systems and processes, also the risk of payments being disrupted if an IBOR ceases to be available

The Bank has started the transition work process and is confident to complete such transition before 30 June 2023. The transition work includes but not limited to establish new terms and conditions in relation to the interest rate, contact clients to sign necessary legal documents.

The table below shows the Bank's exposure at the year-end to significant IBORs subject to reform that have yet to transition to RFRs. These exposures will remain outstanding until the IBOR ceases and will therefore transition in future, e.g., the table excludes exposures to IBOR that will expire before transition is required.

| *31 December 2022*<br>*In EUR* | **Non-derivative financial assets carrying value** | **Non-derivative financial liabilities carrying value** |
|---|---|---|
| EURIBOR (3 months) | 2,387,080 | - |

## Notes to the financial statements (continued)
## As at 31 December 2022

### NOTE 10 – RISK MANAGEMENT (CONTINUED)

10.3 Market Risk (continued)

10.3.2 Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Bank's exposure to currency risk primarily stems from holding of monetary assets and liabilities denominated in foreign currencies other than Euro. As most of the Bank's monetary assets and liabilities are denominated in Euro, United States dollars, Hong Kong dollars, and Renminbi, management is aware of the likely increase in volatility in these currencies and takes a balanced view when considering the management of currency risk.

As at the end of the reporting period, the Bank's exposure to currency risk arising from recognised assets and liabilities denominated in a currency other than the functional currency of the entity to which they relate is shown in the table below:

| | 2022 | | | 2021 | | |
|---|---|---|---|---|---|---|
| *In EUR* | **In USD** | **In HKD** | **In CNY** | **In USD** | **In HKD** | **In CNY** |
| **Assets** | | | | | | |
| Cash in hand, balance with central banks and post office banks | - | - | - | - | - | - |
| Loans and advances to credit institutions | 5,037,207 | - | - | 348,556 | - | - |
| Loans and advances to customers | 34,771,402 | - | - | 55,105,151 | - | - |
| Debt instruments at amortised cost | 11,372,936 | - | - | 10,832,487 | - | - |
| Debt instruments at FVOCI | | - | - | - | - | - |
| | 51,181,545 | - | - | 66,286,194 | - | - |
| **Liabilities** | | | | | | |
| Amounts owed to credit institutions | 49,492,702 | - | - | 66,018,559 | - | - |
| Amounts owed to customers | - | - | - | - | - | - |
| Debts evidenced by certificates | - | - | - | - | - | - |
| Bonds issued | - | - | - | - | - | - |
| Other liabilities | - | - | - | - | - | - |
| | 49,492,702 | - | - | 66,018,559 | - | - |
| **Net exposure arising from recognised assets and liabilities** | 1,688,842 | - | - | 267,635 | - | - |

# Notes to the financial statements (continued)
# As at 31 December 2022

## NOTE 10 – RISK MANAGEMENT (CONTINUED)

10.3 Market Risk (continued)

10.3.2 Currency risk (*continued*)

The tables below indicate a sensitivity analysis of exchange rate changes of the currencies to which the Bank had significant exposure. The analysis calculates the effect of a reasonably possible movement in the currency rates against Euro, with all other variables held constant, on profit before tax and equity. A negative amount in the table reflects a potential net reduction in profit before tax or equity, while a positive amount reflects a potential net increase. Such analysis does not take into account the correlation effect of changes in different foreign currencies, any further actions that may have been or could be taken by management after the financial reporting date to mitigate the effect of exchange differences, nor any consequential changes in the foreign currency positions.

| | **Effect on profit before tax from a rate decrease of 10%** | | **Effect on profit before tax from a rate increase of 10%** | |
|---|---|---|---|---|
| **Currency** | **As at 31 December 2022** | **As at 31 December 2021** | **As at 31 December 2022** | **As at 31 December 2021** |
| USD | 187,644 | 86,272 | (153,527) | (3,249) |

## NOTE 11–OTHER LIABILITIES

As at 31 December 2022 the following amounts are included in the other liabilities:

| | **2022** | **2021** |
|---|---|---|
| | **EUR** | **EUR** |
| Lease liability | 1,225,238 | 1,434,451 |
| Consulting fee payable | 32,076 | 150,782 |
| Audit fee payable | 72,374 | 68,183 |
| Other Payables | - | 287,147 |
| **Total** | **1,329,688** | **1,940,563** |

## NOTE 12– ACCRUALS AND DEFERRED INCOME

As at 31 December 2022 the following amounts are included in the accruals and deferred income:

| | **2022** | **2021** |
|---|---|---|
| | **EUR** | **EUR** |
| Accrued interest expense | - | - |
| **Total** | **-** | **-** |

*As indicated in Note 2, as at 31 December 2022 and 31 December 2021, the Bank reclassified accrued interest income to Amounts owed to credit institutions.

## NOTE 13 – PROVISIONS

13.1. Provisions for taxation

| | 2022 EUR | 2021 EUR |
|---|---|---|
| NWT provision | - | - |
| **Total** | **-** | **-** |

As the Bank has a loss carried forward position for the year ended 31 December 2022 the Bank is not liable to Corporate Income Tax or Municipal Business Tax for the year-end 2022.

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.

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 2022, 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".

13.3. Other provisions

As at 31 December 2022 other provisions may be presented as follows:

| | 2022 EUR | 2021 EUR |
|---|---|---|
| Bonus & welfare provisions | 279,248 | 420,014 |
| FRL and FGDL provision | 1,500 | 1,500 |
| **Total** | **280,748** | **421,514** |

Notes to the financial statements (continued)
As at 31 December 2022

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

| | Subscribed capital | Loss brought forward | Profit / (Loss) for the financial year | Total |
|---|---|---|---|---|
| **Balance as at 31 December 2021** | 20,000,000 | (6,518,871) | 107,713 | 13,588,842 |
| Allocation of the result from previous year | - | 107,713 | (107,713) | - |
| Profit for the financial year 2021 | - | - | 1,055,302 | 1,055,302 |
| **Balance As at 31 December 2022** | **20,000,000** | **(6,411,158)** | **1,055,302** | **14,644,144** |

14.1 Subscribed capital

As at 31 December 2022 and 2021, 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 2022, the aggregate amount of the Bank's assets denominated in foreign currencies, translated into EUR is equivalent to EUR 51,181,499. (2021: EUR 66,460,007)

As at 31 December 2022, the aggregate amount of the Bank's liabilities denominated in foreign currencies, translated into EUR, is equivalent to EUR 51,181,499. (2021: EUR 69,109,584)

**NOTE 16– COMMITMENTS**

16.1. Contingent liabilities

The Bank has no contingent liabilities as at 31 December 2022. (2021:Nil).

16.2. Commitments

The Bank has no credit commitments as at 31 December 2022. (2021:Nil).

## NOTE 17 - FAIR VALUES OF FINANCIAL INSTRUMENTS

***Fair value of financial instruments not measured at fair value***

Set out below is a comparison, by class, of the carrying amounts and fair values of the Bank's financial instruments that are not carried at fair value in the financial statements. This table does not include the fair values of non-financial assets and non-financial liabilities.

| 31 December 2022 | **Carrying amount** | **Fair value** | | | |
|---|---|---|---|---|---|
| In EUR | | **Level 1** | **Level 2** | **Level 3** | **Total** |
| **Financial assets** | | | | | |
| Loans and advances to customers | 81,762,132 | - | - | 81,250,542 | 81,250,542 |
| Debt instruments at amortised cost | 11,372,890 | 10,957,279 | - | - | 10,957,279 |
| **Total financial assets** | **93,018,046** | **10,957,279** | **-** | 81,250,542 | 92,207,821 |

| 31 December 2021 | **Carrying amount** | **Fair value** | | | |
|---|---|---|---|---|---|
| In EUR | | **Level 1** | **Level 2** | **Level 3** | **Total** |
| **Financial assets** | | | | | |
| Loans and advances to customers | 104,873,516 | - | - | 104,873,516 | 104,873,516 |
| Debt instruments at amortised cost | 10,869,744 | 10,735,837 | - | - | 10,735,837 |
| **Total financial assets** | **115,743,260** | **10,735,837** | **-** | **104,624,616** | **115,609,353** |

This table excludes financial assets and financial liabilities for which fair value approximates carrying amount.

The Bank has determined that for financial assets and financial liabilities that (a) have a short-term maturity, (b) are liquid and (c) are floating rate instruments, their carrying amounts (which are net of impairment where applicable) are a reasonable approximation of their fair value. Such instruments include: cash and balances with central banks; loans and advances and amounts owed to credit institutions.

***Valuation methodologies of financial instruments not measured at fair value***

Below are the methodologies and assumptions used to determine fair values for the above financial instruments which are not recorded and measured at fair value in the Bank's financial statements. These fair values were calculated for disclosure purposes only. The below methodologies and assumptions relate only to the instruments in the above tables and, as such, may differ from the techniques and assumptions explained in Note 2.11.

## Notes to the financial statements (continued)
## As at 31 December 2022

### NOTE 17 - FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

*Loans and advances to customers*

The Bank's loans and advances to customers that either have a short-term maturity or are floating rate instruments are considered to have their carrying amounts (which are net of impairment where applicable) being reasonable approximations of their fair value. For the small portion which are medium-term loans with fix rate instruments, the fair values of loans and receivables are estimated using a discounted cash flow model.

*Debt securities issued by listed institutions*

These securities include long-term bonds with fixed rate interest payments. These instruments are generally highly liquid and traded in active markets resulting in a Level 1 classification.

### NOTE 18 – STAFF COSTS

18.1. Staff numbers

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

| | 2022 | 2021 |
|---|---|---|
| | EUR | EUR |
| Management | 1.2 | 1.5 |
| Employees | 4.6 | 4.3 |
| **Total** | **5.8** | **5.8** |

4 persons from the Management and 12 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 2022, 1 employee is fully employed by the Bank.

18.2. 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):

| | 2022 | 2021 |
|---|---|---|
| | EUR | EUR |
| Board of Directors and managerial body | 739,863 | 596,419 |
| **Total** | **739,863** | **596,419** |

During the period ended at 31 December 2022, 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.

**NOTE 19 – OTHER ADMINISTRATIVE EXPENSES**

19.1. Other administrative expenses

Other administrative expenses consist of:

| | 2022<br>EUR | 2021<br>EUR |
|---|---|---|
| Amortization | 212,964 | 212,230 |
| IT costs | 219,202 | 178,317 |
| Supervision fees | 131,996 | 142,052 |
| Audit and advisory fees | 137,191 | 269,332 |
| Other | 173,116 | 197,106 |
| **Total** | **874,469** | **999,038** |

As of 31 December 2022, the IT and other expenses contain shared costs with the Branch for a total amount of EUR 333,302 (2021: EUR 317,763).

19.2. Remuneration of the independent auditor

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

| | 2022<br>EUR | 2021<br>EUR |
|---|---|---|
| Statutory audit of the annual accounts | 103,808 | 124,605 |
| Other advisory services | 19,791 | 36,325 |
| **Total** | **121,791** | **160,930** |

**NOTE 20 – COMMISSIONS RECEIVABLE**

Commission receivables amounting to EUR 3,059,537 (2021: 2,369,625) 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 2020. The commissions recorded in the year ended 31 December 2022 relates to upfront fees and management fees earned upon the origination of 22 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 2022, the following balances with related parties are included on the asset side of the balance sheet:

| | 2022<br>EUR | 2021<br>EUR |
|---|---|---|
| Loans and advances to credit institutions | 4,707,706 | - |
| Right-of-use assets (note 8) | 1,113,096 | 1,418,740 |
| **Total** | **5,820,802** | **1,418,740** |

**Notes to the financial statements (continued)**
**As at 31 December 2022**

## NOTE 21 – BALANCE AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

21.2. Liabilities

As at 31 December 2022, the following balances with related parties are included on the liabilities side of the balance sheet:

| | 2022<br>EUR | 2021<br>EUR |
|---|---|---|
| Amounts owed to credit institutions | 87,507,967 | 136,047,738 |
| Lease liability (note 11) | 1,225,238 | 1,434,451 |
| **Total** | **88,733,205** | **137 482 189** |

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:

| | 2022<br>EUR | 2021<br>EUR |
|---|---|---|
| *China Everbright Bank Co. Ltd, Luxembourg Branch (Entity under common control):* | | |
| Commissions receivable (note 20) | 3,059,537 | 2,369,625 |
| Interest receivable and similar income | 242,273 | - |
| Interest payable and similar charges | 225,504 | 34,958 |

## NOTE 22 – RETURN ON ASSETS ("ROA")

The Bank's return on assets is as follows:

| | 2022<br>EUR | 2021<br>EUR |
|---|---|---|
| Total assets | 103,762,547 | 151,998,657 |
| Profit/Loss for the period | 1,055,302 | 107,713 |
| **Return On Assets** | **1.02%** | **0.07%** |

## NOTE 23 – SUBSEQUENT EVENTS

No events have occurred subsequent to 31 December 2022 that would require adjustment or additional disclosure in the financial statements.