The Board decided to cease all new business from December 2019. Activities noted as being undertaken by the Bank have been integrated into the Branch's business activities. Any reference or interpretation to ongoing activities conducted by the Bank should be read as being undertaken by the Branch in the future.

China Construction Bank (London) Limited

Pillar 3 Disclosures at 31 December 2019

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The Board decided to cease all new business from December 2019. Activities noted as being undertaken by the Bank have been integrated into the Branch's business activities. Any reference or interpretation to ongoing activities conducted by the Bank should be read as being undertaken by the Branch in the future.

1. Overview

1.1. Background

China Construction Bank (London) Limited (herein referred to as either the "Bank" or "CCBL") is a full-service bank offering corporate, treasury and trade finance services in the UK. The Bank is a wholly owned subsidiary of China Construction Bank Corporation (domiciled in Beijing, China) and is authorised by the Prudential Regulatory Authority (PRA) and regulated by the Financial Conduct Authority (FCA) and the Prudential Regulatory Authority. It has a passport to operate within the 30 countries of the EEA/EU.

The Bank is incorporated in England and Wales as a private company with limited liability and was registered under number 06455352.

Following the launch of China Construction Bank Corporation London Branch ("the Branch") in February 2015, the Bank has seen a significant proportion of its business move to the Branch, notably in corporate banking and increasingly in Treasury activities. The Bank and the Branch operate a Joint Booking Policy, under which there is a clear distinction between the activities carried out in each entity. In particular, the Bank undertakes corporate banking business with non-Chinese clients which do not have a large financing requirement. Given the Board of Directors' intention to liquidate the Bank once the transfer of the assets have been transferred to the Branch, the Board of Directors has concluded that the Bank is no longer a going concern. All transfers will be completed in accordance with the Business Transfer Agreement between the Bank and the Branch. Therefore the Board decided to cease all new business in the Bank and ceased to operate the Joint Booking Policy during December 2019.

The Bank also engaged in treasury activities such as foreign exchange, interest rate, trade financing and foreign exchange derivatives and bond investments with relevant market participants and to enable the Branch to manage its market risk.

Corporate banking
Syndicated loans are provided for general funding requirements to banks, non-bank FIs and corporate entities. Bilateral and direct loans to customers are to support working capital financing, capital expenditure and trading activities.

Treasury
Treasury's principal activities during the year focused primarily on customer facilitation business in FX derivatives products and in addition Treasury manages interest rate risk, foreign exchange and liquidity risk, including management of a portfolio of high quality liquid assets aimed at meeting liquidity requirements. Treasury trades within predetermined limits.

Investment Banking
Investment banking business during the year was wholly focused on activities for which the Bank earned revenues via transfer pricing arrangements and did not act as principal. A large proportion of this activity was carried out between its UK investor client base and CCB International Holdings Limited and its subsidiaries (CCB International -CCBI) based in Hong Kong, which is the investment banking hub for the China Construction Bank Corporation (CCBC). These activities included arranging sales of primary equity and bond issues led by CCBI and other managers, arranging client trips to China and CCBI analyst visits to the UK and referral of clients to CCBI for investment banking services or to CCB Custodial Services for custody services. Given the intention to effectively cease trading with an intention to liquidate the Bank in 2020, the Board of Directors concluded there was no merit in maintaining an investment banking team on an ongoing basis. The Branch does not have the requisite regulatory permissions to conduct investment banking activities and there is no intention to apply for licences in the near future. Therefore the investment banking division was terminated in January 2020 as part of the imminent closure of the Bank.

The Board decided to cease all new business from December 2019. Activities noted as being undertaken by the Bank have been integrated into the Branch's business activities. Any reference or interpretation to ongoing activities conducted by the Bank should be read as being undertaken by the Branch in the future.

1.2. Regulatory framework for disclosures

The Bank remains supervised in the UK by the Prudential Regulatory Authority ('PRA'), which receives information on the capital adequacy of, and sets capital requirements for, the Bank as a whole.

The Bank calculated capital for prudential regulatory reporting purposes throughout 2019 using the Basel III framework of the Basel Committee on Banking Supervision ('BCBS') as implemented by the EU in the amended Capital Requirements Directive and Regulation, collectively known as CRD IV, and in the PRA's rulebook for the UK banking industry.

The Basel Committee's framework is structured around three 'pillars': Pillar 1 minimum capital requirements and Pillar 2 supervisory review process are complemented by Pillar 3 market discipline. The aim of Pillar 3 is to produce disclosures that allow market participants to assess the scope of application by banks of the Basel Committee's framework and the rules in their jurisdiction, their capital condition, risk exposures and risk management processes, and hence their capital adequacy.

Pillar 3 requires all material risks to be disclosed, enabling a comprehensive view of a bank's risk profile.

The PRA's final rules adopted national discretions in order to accelerate significantly the transition timetable to full 'end point' CRD IV compliance.

Since its authorisation as a licensed financial institution, CCBL has adopted the Standardised Approach for credit and market risk and the Basic Indicator Approach for operational risk under the Capital Requirements Directive and Capital Requirements Regulation.

1.3. Pillar 3 Disclosures

The Bank's Pillar 3 Disclosures 2019 comprise information required under Pillar 3, both quantitative and qualitative. They are made in accordance with Part 8 of the Capital Requirements Regulation within CRD IV.

We publish Pillar 3 disclosures annually on the website, www.uk.ccb.com.

1.4. Regulatory Developments

The following discusses regulatory developments for the period ended 31 December 2019, which would have an impact for future regulatory reporting and compliance, however with the pending intention to liquidate the Bank once the transfer of the assets have been transferred to the Branch, we do not anticipate that these changes will have an impact on the Bank and its risk weighted assets and capital requirements.

Basel Committee

In December 2018, the Basel Committee ('Basel') published the revisions to the Basel III framework (sometimes referred to as 'Basel IV'). Some of the key aspects noted in the final package which affects the Bank includes:

- widespread changes to the risk weights under the standardised approach to credit risk;
- the replacement of the operational risk approaches with a single methodology;
- an amended set of rules for the credit valuation adjustment ('CVA') capital framework; and
- changes to the exposure measure for the leverage ratio.

The Bank evaluated the final package through participation in the PRA/Bank of England Basel 3 survey in 2019. The package contains a significant number of national discretions and Basel has committed to re-calibrate the market risk elements of the final framework, with revisions including the following key changes

- a simplified standardised approach for use by banks that have small or non-complex trading portfolios;
- clarifications on the scope of exposures that are subject to market risk capital requirements;
- refined standardised approach treatments of foreign exchange risk;
- revised standardised approach risk weights applicable to general interest rate risk, foreign exchange and certain exposures subject to credit spread risk;

The remaining outstanding element is the revision of the calibration of the CVA framework, which Basel consulted on in November 2019. In all instances, the final standards will have to be transposed into the relevant local law before coming into effect. These revisions come into effect on 1 January 2022 and will be phased in over five years. The European Commission will issue independent legislations to implement these requirements in EU.

Financial Stability Board
The FSB published consultations on other outstanding issues related to its resolution framework. These need to be incorporated into the relevant local law before coming into effect.

European Union
In June 2019, the EU enacted the final rules amending the Capital Requirements Regulation, known as the CRR 2. This was the EU's implementation of the Financial Stability Board's ('FSB') requirements for Total Loss Absorbing Capacity ('TLAC'), known in Europe as the Minimum Requirement for Own Funds and Eligible Liabilities ('MREL').

The CRR 2 will also implement the first tranche of changes to the EU's legislation to reflect the Basel III Reforms, including the FRTB, revisions to the standardised approach for measuring counterparty risk and the new leverage ratio rules. The CRR 2 rules will follow a phased implementation with significant elements entering into force in 2021, in advance of Basel's timeline. Banks would be expected to comply fully with MREL requirements by 1 January 2024, and with an intermediate target by 1 January 2022. In the UK, only the parts of the CRR 2 that are in force at the end of the Brexit implementation period will be transposed into UK law. As a result, any elements that are scheduled to enter into force after the end of the implementation period will need to be implemented separately by the UK.

Bank of England
In July 2019, the Bank of England published its Resolvability Assessment Framework, which requires firms to develop capabilities to address eight identified barriers to resolvability. Banks are required to assess their resolvability in accordance with the Bank of England's criteria, submit this assessment by October 2020 and publish a summary by June 2021. The Bank of England's will disclose its assessment of each firm's resolvability. The deadline for full compliance with the Resolvability Assessment Framework is 1 January 2022.

Prudential Regulatory Authority
In April 2019, the PRA issued statements setting out its expectations of how firms should manage the financial risks from climate change, focusing on governance, risk management, scenario analysis and disclosure areas. In particular, there is a requirement that the risk associated with climate change should be assessed and captured in firms' Pillar 2 assessments. The PRA also announced in December 2019 that the effects of climate change will be included in its 2021 stress test and are currently consulting on the form it might take.

1.5. Review

These disclosures have been approved by the Board, but have not been subject to external audit although the underlying positions they are based on have been with the post close audit adjustments not incorporated into these disclosures as they had an immaterial impact on all the key regulatory ratios**.** The Board, having taken into account the size and complexity of the Bank's operations, believe that an unaudited annual disclosure is appropriate. The Board further considers that the risk management arrangements of CCBL provide assurance that the risk management systems put in place are adequate with regards to the Bank's risk profile and strategy.

Table 1: Key metrics

Risk	Notes	RWAs ($000)	Capital Required ($000)[1]
Credit Risk		376,814	30,145
Counterparty Credit Risk (including CVA)		137	13
Market Risk		40,556	3,244
Operational Risk		107,834	8,627
At 31 December 2019		**525,341**	**42,029**
Common Equity Tier 1 ratio (%)			100%
Tier 1 Capital ratio (%)			100%

Pillar 3 disclosures are required to be published as soon as practicable after publishing the annual financial statements. More frequent disclosures may be made where considered necessary.

CCBL's accounting year end is 31st December and CCBL's Pillar 3 disclosures have been aligned with its financial reporting.

The Pillar 3 disclosures together with the Annual Report and Accounts are the main documents in which the Bank makes its public disclosures and the Board approves both of these documents.

2. Risk Management Objectives and Policies

2.1 Strategies and Processes to Manage Risks

In addition to credit, liquidity, market, operational and legal risks, CCBL considers Conduct, Reputational and Strategic Risks as key risks. These principal risks are reviewed and reassessed at least annually as a part of the Internal Capital Adequacy Assessment Process ('ICAAP') and the Internal Liquidity Adequacy Assessment Process ('ILAAP'). The ICAAP and ILAAP analyse capital and liquidity with reference to severe stressed scenarios in order to assess their adequacy. As the business assets, the liabilities, and the staff of the Bank will be distributed or sold to the Branch in 2020 and given the intention to effectively cease trading to liquidate the Bank in 2020, the Bank did not prepare ICAAP and ILAAP for the period ended 31 December 2019.

The Board has adopted a "Three Lines of Defence" model. The first line of defence consists of the business staff that are responsible for adhering to agreed business mandates as well as firm wide policies. The second line of defence is the oversight provided by control functions such as Risk and Compliance who set and monitor adherence to policies and define work practices. The third line of defence is the independent internal audit process overseen by the Board Audit & Risk Committee which has oversight of and undertakes reviews of the overall risk management and compliance practices within CCBL. The Audit and Risk Committee meets quarterly, and more frequently if necessary.

[1] 'Capital required', here and in all tables where the term is used, represents the Pillar 1 capital charge at 8% of RWAs.

CCBL's risk management is built on a formal governance framework and a process of ongoing identification, measurement and monitoring of risk. It relies on individual responsibility and collective oversight. Ultimate responsibility for risk governance lies with the Board of Directors who are responsible for determining risk strategy and setting risk appetite.

The risk appetite of CCBL reflects the level of risks it is willing to take with its economic capital to achieve its organisational objectives, business plans, and stakeholder expectations. This is accomplished by utilising the skills, resources and technology available to it and is inclusive of defined tolerances for loss or negative events that can be reasonably quantified.

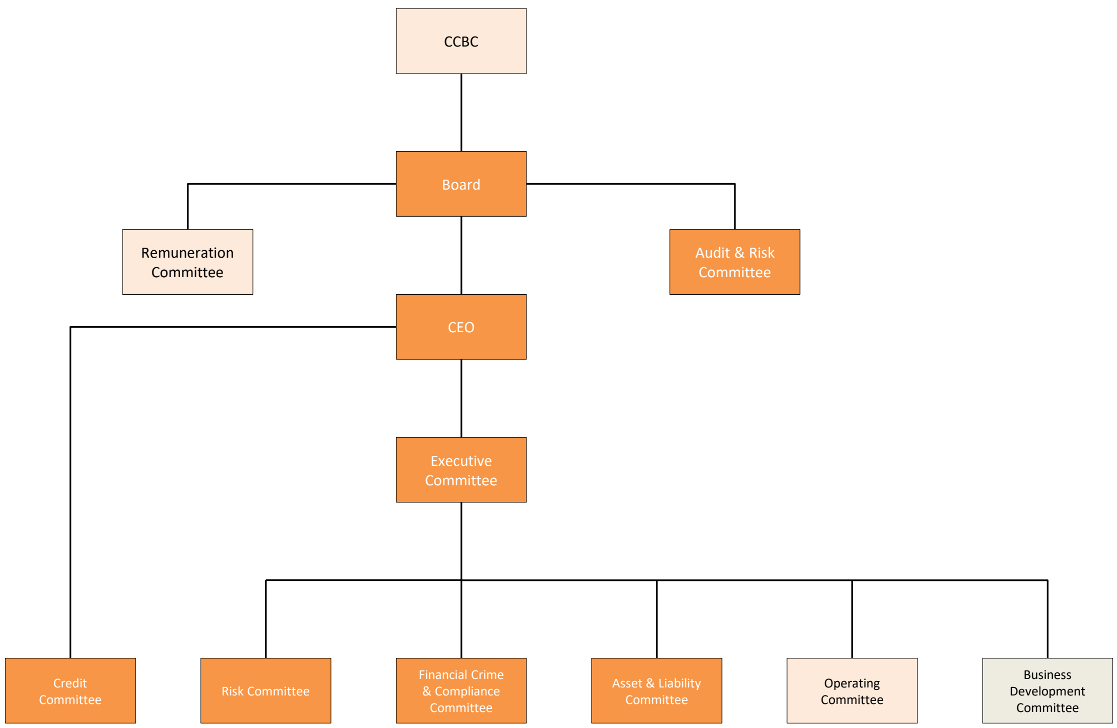
The risk appetite objectives of CCBL may be summarised as follows:

- To protect the ongoing franchise of the business;
- To minimise risks (credit, market, liquidity, operational and legal, conduct, reputational and strategic) through a thorough understanding of potential counterparties' business;
- To optimise risk and return through appropriate pricing;
- To ensure regulatory and legal compliance.

2.2 Structure and Organisation of Governance

This section sets out the arrangements for the governance of the Bank's Risk Management & Compliance Framework, including key committees, management structure and reporting lines.

In CCBL the Board is responsible for the overall functioning of the risk management & compliance framework. Oversight of the framework and its implementation are delegated by the Board to the CEO. The CEO is supported in his responsibilities by ExCo, its sub-committees and by the Credit Committee. These committees meet regularly and on an ad hoc basis as required. Although responsibility ultimately rests with the CEO, he is authorised to delegate elements of his authority to these committees and to the Heads of Departments.



2.2.1 The Board

The Board is responsible for strategic direction and overall control of the Bank. The Board is responsible for establishing a clearly defined governance and risk management structure, as well as monitoring and assessing overall effectiveness of these. The Board also considers Branch business as it has responsibility for staffing. The Board has created a risk framework within the Bank's strategic objectives in accordance with CCB Group delegated authorities and UK compliance and legal authorities and has delegated risk approval powers to the Bank's CEO within that framework. The CEO can further delegate these powers and responsibilities as he sees fit. The Board is responsible for providing effective oversight of senior management. The nature of each Director's directorships is kept under review through a process of directorship declarations received at least annually. Board members' continuing professional development is co-ordinated by the Chairman.

Diversity: The Bank is committed to creating a diverse and inclusive workplace. It arranges annual diversity training and works with recruitment agencies that are committed to diversity.

2.2.2 Board Audit & Risk Committee

The Audit & Risk Committee monitors the integrity of the financial statements of the Bank, monitors the Bank's accounting and financial reporting systems, provides oversight of the Bank's internal and external auditors and risk and compliance functions, thereby assisting the Board in providing an independent review of the effectiveness of processes and internal control systems of the Bank. It is advised of decisions about the product range as described above. Such reviews will be reported to the full CCBL Board, and in appropriate circumstances will be discussed by the Board for final approval. The committee also informs the Board of any suspected abnormality which comes to its attention.

2.2.3 Board Remuneration Committee (RemCo)

The Remuneration Committee agrees the performance management and reward practices of CCBL within Group policy guidelines and those of the FCA/PRA. CCBL reward policies are set with continual recognition of the signals they give staff on the management of current and potential future risk. The Committee agrees appropriate levels of staff remuneration including bonus payments with particular focus on material risk takers. Where a non-Group Director vacancy is identified, the Remuneration Committee will be involved in the recruitment process to ensure that any role definition is appropriate and any appointed individual has the skills, experience and knowledge to undertake the defined role.

2.2.4 Executive Committee (ExCo)

The risk-related responsibilities of the ExCo include monitoring the risk profile of the Bank, and regulatory and legal developments. Major proposed changes to risk powers, policies and the product range are approved by ExCo before submission to the Board Audit and Risk Committee and/or Board for final approval.

2.2.5 Risk Committee (RiskCo)

The RiskCo is granted authority by ExCo to oversee the implementation of the risk management framework as agreed by ExCo and the Board, to be responsible for the market risk and operational risk aspects of the framework in each entity and to monitor the market, credit and operational risk profiles in CCBL. The RiskCo establishes the market, operational and legal risk policies, and sets and monitors market risk limits and monitor credit risk limits set by the Credit Committee. RiskCo ensures that these policies are in accordance with statutory and local regulatory requirements, and with the delegated authority from the Board and HO. RiskCo monitors legal developments and their impact on CCBL. The RiskCo regularly reviews the Joint Risk Matrix and separate SORAs and ensures that the activities of CCBL are consistent with these. The RiskCo reviews CCBL's progress in dealing with audit points raised both internally and externally. The RiskCo has oversight of the implementation of the framework by the First and Second Line functions.

The RiskCo is chaired by the CRO. The CFO, the DCEO for Operations & IT, the Head of Compliance, the Head of Legal, the Head of Risk, the Head of Credit and the Market Risk Manager are voting members. The Head of Internal Audit, the DCEO Treasury, DCEO Corporate Banking, Head of Operations and the Operational Risk Manager regularly attend the meeting on a non-voting basis. Members of the business lines may attend from time-to-time on a non-voting basis.

Decisions by the RiskCo must be ratified by ExCo and any material issues raised at meetings are escalated to ExCo and to Audit & Risk Committee by the Chairman.

2.2.6 Credit Committee

The Credit Committee has been delegated authority by the CEO to approve and oversee credit risks within the terms of the Parent Company Delegation of Authority and CCBL Board Authority. It also approves individual credit limits and concentration limits and operates an "early alert" procedure to detect any potential weakening of counterparty credit quality. It regularly reviews the quality of the credits in the credit portfolio and the adequacy of provisions.

Credit Committee is chaired by the CRO. The CFO, the DCEO for Operations & IT, Head of Risk and Head of Credit Risk. Members of Finance and the business lines may attend on a non-voting basis.

2.2.7 Financial Crime & Compliance Committee (FinComCo)

The FinComCo is granted authority by ExCo to oversee the implementation of the compliance framework as agreed by ExCo and the Board, to be responsible for the compliance aspects of the framework and to monitor the financial crime, compliance and conduct risk profiles in CCBL. The FinComCo establishes the financial crime, conduct risk and compliance policies. FinComCo ensures that these policies are in accordance with statutory and local regulatory requirements, and with the delegated authority from the Board and HO. FinComCo monitors regulatory developments and their impact on CCBL. The FinComCo regularly reviews the financial crime, compliance, data protection and conduct risk sections of the Joint Risk Matrix and separate SORAs and ensure that the activities of CCBL are consistent with these.

The FinComCo is chaired by the CEO. The CRO, the DCEO for Operations & IT, the Head of Compliance, the MLRO, the Head of Legal, the DCEO Treasury and the DCEO Corporate Banking are voting members. Members of the business lines may attend from time-to-time on a non-voting basis.

2.2.8 Asset and Liability Committee (ALCo)

The ALCO is granted authority by ExCo to be responsible for balance sheet and capital management and the liquidity, tax and accounting risk frameworks, and to monitor funding, liquidity risk, capital adequacy and capital and balance sheet composition in CCBL. The ALCO monitors the financial information for CCBL. The ALCO establishes the liquidity risk policy and approves and monitors various liquidity and capital limits and guidelines in accordance with statutory and local regulatory requirements and in accordance with the delegated authority from the Board and HO and with the CCBL SORA. The ALCO regularly reviews the liquidity and accounting risk sections of the Joint Risk Matrix and separate SORAs and ensures that the activities of CCBL are consistent with these. ALCO also reviews in detail the Capital Funding Plan and Capital Contingency Plan.

ALCO is chaired by the CFO. The CRO, the DCEO for Operations & IT and the DCEOs for Treasury and Corporate Banking & Financial Institutions are voting members. Members of Risk, Finance and the business lines may attend on a non-voting basis.

Decisions by the ALCO must be ratified by ExCo and any material issues raised at meetings are escalated to ExCo and to Audit & Risk Committee by the Chairman.

2.2.9 Risk Department

The Risk Department is responsible for:

i. Developing and reviewing credit, market and operational risk policies and procedures;
ii. Monitoring and reporting market, credit and operational risk;
iii. Supporting the Credit Committee, Risk Committee, Asset and Liability Committee and Executive Committee, the Board Audit and Risk Committee and the Board Remuneration Committee with respect to these risks; and
iv. Reviewing and commenting on credit and market risk proposals.

2.2.10 Finance Department

The Finance Department is responsible for:

i. Developing and reviewing liquidity, tax and accounting risk policies and procedures;
ii. Establishing effective systems and procedures to measure and report independently the liquidity, tax and accounting risks;
iii. Supporting the ALCO and, where appropriate, ExCo, the Board Audit & Risk Committee and the Board with respect to Finance and UK Regulatory reporting matters; and
iv. Providing regular management information on the liquidity and capital adequacy of the Bank to senior management and the business units.

2.2.11 Compliance Department

The Compliance Department is responsible for:

i. Independently identifying and assessing the sources of compliance risks across all activities of the Bank;
ii. Supporting the FinComCo and, where appropriate, ExCo, the Board Audit & Risk Committee and the Board, the policies, standards and methodologies forming the compliance framework, incorporating the framework for the management of conduct risk, client risk, compliance risk and data protection, and ensuring that the framework is regularly reviewed and consistent with all applicable legal and regulatory (both Chinese and UK) requirements;
iii. Establishing effective systems and procedures to monitor the compliance risks across the Bank; and
iv. Promoting a good compliance culture.

The Board decided to cease all new business from December 2019. Activities noted as being undertaken by the Bank have been integrated into the Branch's business activities. Any reference or interpretation to ongoing activities conducted by the Bank should be read as being undertaken by the Branch in the future.

3. Capital Resources

Capital adequacy and the use of regulatory capital are monitored daily. Minimum capital requirements are referred to as Pillar 1 requirements. These requirements apply to the credit, market and operational risk generated by the Bank. Regulatory capital adequacy is measured through risk-based ratios i.e. CET1, Tier 1 and Total Capital ratios:

- CET 1: ordinary share capital, and retained earnings less impairments and other capital deductions, divided by total risk-weighted assets.
- Tier 1: CET 1 less capital deductions, divided by total risk-weighted assets.
- Total capital adequacy: Tier 1 plus other items such as the general allowance for credit impairments divided by total risk-weighted assets, if applicable.

Total risk-weighted assets are determined by multiplying the capital requirements for market risk and operational risk by the reciprocal of the minimum capital ratio and adding the resulting figures to the sum of risk-weighted assets for credit risk and counterparty risk. Included in the overall credit risk-weighted assets is both the on- and off-balance sheet exposures risk weighted according to the relative credit risk of the counterparty, and capital requirements for concentration risk calculated under the CRR requirements.

Under CRD IV, the minimum CET1, Tier 1 capital and Total capital adequacy ratios are supplemented by capital buffers. The Banks total regulatory capital qualifies as Tier 1 capital, which is the total of the issued share capital, retained earnings and the available for sale reserve.

(a) Capital

The Bank's capital instruments are comprised entirely of fully paid up share capital, which is treated as Common Equity Tier 1 capital under the Transitional CRR rules and will continue to be classified as Common Equity Tier 1 Post-Transitional CRR rules.

The Bank's authorised share capital is comprised of two share classes of shares denominated in US Dollars (USD) and Renminbi. USD shares of $200,000,000 (2018: $200,000,000) divided into 200,000,000 (2018: 200,000,000) ordinary shares of $1 (2018: $1) and Renminbi (RMB) shares of RMB 1,500,000,000 (2018: RMB 1,500,000,000) divided into 1,500,000,000 (2018:1,500,000,000) ordinary shares of RMB1 (2018:RMB1) were authorised, allotted and fully paid by China Construction bank Corporation. As at 31 December 2019 the issued and fully paid up share capital amounted to $446,598,989 (2018: $446,598,989).

(b) Fair value through other comprehensive income (FVOCI) reserve

The FVOCI reserve includes the cumulative net change in the fair value of debt securities, excluding impairment losses, until the investment is derecognised or impaired.

(c) Own Funds / Total Regulatory Capital:

Table 2 Own funds/ Total Regulatory Capital

As at 31 December US$'000	**2019**
Capital instruments eligible as CET1 Capital	446,599
Retained earnings	77,374
Accumulated other comprehensive income	1,887
Less: Value adjustments due to the requirements for prudent valuation	(207)
Less: Other intangible assets before deduction of deferred tax liabilities	(263)
IFRS 9 transitional adjustments to CET1 Capital	512
Common Equity Tier 1 Capital	**525,902**
Common Equity Tier 1 Capital before IFRS 9 transitional arrangements	**525,390**

The bank complied with its regulatory capital requirements throughout the year.

The Board decided to cease all new business from December 2019. Activities noted as being undertaken by the Bank have been integrated into the Branch's business activities. Any reference or interpretation to ongoing activities conducted by the Bank should be read as being undertaken by the Branch in the future.

3.2 Capital Buffers

CRD IV introduced a cyclical buffer in line with Basel III, in the form of an institution- specific countercyclical capital buffer requirement ('CCyB'). The purpose of the CCyB is to ensure that banks maintain a sufficient capital base, accumulated during periods of credit growth, to absorb losses in stressed periods. The UK Financial Policy Committee (FPC) is responsible for setting the UK CCyB rate (for credit exposures located in the UK), and November 2018, the FPC set the UK CCyB to 1%. In December 2019, the UK's Financial Policy Committee ('FPC') issued the latest Financial Stability Report. In the report, the FPC announced that it will increase the UK's countercyclical buffer from 1% to 2% on 16 December 2020, in order to give the UK more flexibility in times of future stress. The FPC advised that with effect from 11 March 2020 this rate will be reduced to 0%.

CRD IV as implemented in the UK includes a transitional period, during which the FPC is responsible for deciding whether CCyB rates set by EEA States should be recognised and for taking certain decisions about third country (non EEA) rates, including whether a higher rate should be set for the purposes of UK institutions calculating their CCyBs.

As at 31 December 2019, the FPC has recognised the following CCyB rates.

Table 3 Countercyclical capital buffers

Country	Current CCyB rate	Implementation date	Pending CCyB rate	Implementation date
United States	0.00%	24 Oct 2016		
Hong Kong	2.00%	14 Oct 2019	1.00%	16 Mar 2020
Lithuania	1.00%	30 Jun 2019	0.00%	1 Apr 2020
France	0.25%	1 Jul 2019	0.00%	18 Mar 2020
Bulgaria	0.50%	1 Oct 2019	0.50%	1 Apr 2020
Denmark	1.00%	30 Sep 2019	0.00%	1 Jul 2020
Iceland	1.75%	15 May 2019	0.00%	18 Mar 2020
Czech Republic	1.25%	1 Jan 2019	0.50%	1 Jul 2020
Ireland	1.00%	5 Jul 2019	0.00%	1 Apr 2020
Slovakia	1.50%	1 Aug 2019	1.00%	1 Aug 2020
Sweden	2.50%	19 Sep 2019	0.00%	16 Mar 2020
Norway	2.50%	30 Dec 2019	1.00%	31 Mar 2020
Luxembourg	0.00%	1 Jan 2016	0.25% 0.50%	1 Jan 2020 1 Jan 2021

Each institution's specific countercyclical capital buffer rate is a weighted average of the countercyclical capital buffers that apply in the jurisdictions where the relevant credit exposures are located. Currently the Bank's CCyB rate, calculated based on exposures as at 31 December 2019 is 0.9%.

4. Credit and Counterparty Risk

CCBL identifies five types of credit risk in its business:

- *Default risk*: the risk that an individual counterparty, borrower or issuer defaults on its contractual obligations to CCBL;
- *Group risk*: the risk that one or more members of the CCBC Group defaults on their contractual obligations to CCBL;
- *Settlement risk*: exposure to a counterparty resulting from the failure to settle transactions due to the default of that counterparty;
- *Concentration risk*: the risk of credit losses being larger as a result of large exposures to individual counterparties/borrowers/issuers or to a number of them in the same group or business sector; and
- *Country Risk:* the risk of large exposures to individual counterparties/borrowers/issuers or to a number of them in, or materially exposed to, the same country.

Credit risk arises across CCBL's businesses, from corporate lending, through FX and interest rate derivative transactions and to balances held in Nostro accounts.

Oversight of the credit risk framework is performed by the Credit Committee which approves all credit limits, including country and sector limits within the delegated authority set by the Board. 'Counterparty' refers to any party on whom CCBL takes credit risk.

4.1 Credit risk minimum capital requirement

The BCBS framework applies different approaches of increasing sophistication to the calculation of Pillar 1 credit risk capital requirements. The most basic level, the standardised approach, requires banks to use external credit ratings to determine the risk weightings applied to rated counterparties. Other counterparties are grouped into broad categories and standardised risk weightings are applied to these categories.

For Counterparty credit risk, BCBS defines different approaches and CCBL uses the mark-to-market method to calculate exposure values.

CCBL has adopted the standardised approach (as explained above) for calculating credit risk capital requirements. Under the standardised approach, the amount of capital set aside for each transaction is given by the following equation: Credit Risk Requirement = 8% x Risk Weighted Assets.

The following table shows exposure values associated with each credit quality step for credit exposures in accordance with the PRA's credit quality assessment scale under the Standardised Approach as at 31/12/2019.

Table 4 Credit quality of exposures by exposure classes and instruments

	External Credit Risk	Credit Quality Step	Risk Weight	Exposure 31/12/2019
				$000
Central governments or central banks	AAA to AA-	1	0%	150,719
	A+ to A-	2	20%	54,985
Institutions with residual maturity less than 3 months	AAA to AA-	1	20%	366
	A+ to A-	2	20%	6,695
Institutions with residual maturity greater than 3 months	A+ to A-	2	50%	15,824
Corporates	BBB	3	100%	4
	Unrated		100%	152,056

Other	Unrated		100%	204,570
Total Exposure				**585,219**

The following tables show the credit exposures as at 31/12/2019 by Geography; Industry Sector; and Residual Maturity of the exposure.

Table 5 Geographical breakdown of exposures

		31-Dec-19 $000
Peoples Republic of China	Institutions	19,878
	Central governments or central banks	54,985
Australia	Institutions	121
Europe	Institutions	365
	Corporates	104,903
UK	Institutions	2,302
	Corporates	47,157
	Other	204,570
USA	Central governments or central banks	150,719
	Institutions	219
TOTAL		**585,219**

Table 6 Concentration of exposures by industry or counterparty types

		31-Dec-19 $000
Central governments or central banks	Liquidity buffer-eligible investments	205,704
Institutions	Banking	22,885
Corporates	Financial Services	4,997
	Manufacturing	99,907
	Other services	37,221
	Transport and Storage	9,935
Other Items		204,570
TOTAL		**585,219**

Table 7 Residual maturity of Exposure

		31-Dec-19 $000
3 months	Central governments or central banks	150,719
	Corporates	14,532
	Institutions	7,061
	Other	30
Between 3 months & 1 year	Corporates	10,101
	Institutions	15,824
	Other	7,235
Between 1 year and 3 years	Corporates	114,838
Between 3 years and 5 years	Corporates	12,589
Greater than 5 years	Central governments or central banks	54,985
Undated	Other	197,305
TOTAL		**585,219**

4.2 External Credit Assessment Institutions (ECAI)

The following ECAI's have been nominated to calculate credit risk capital requirements for all exposure classes and are recognised under the Capital Requirements Regulations 2006 for purposes of the standardised approach:

- Standard and Poor's;
- Moody's Investor Service; and
- Fitch.

Where multiple ECAIs provide credit ratings, the worst rating of the best two ratings is applied. Where available, the long term senior unsecured rating is applied except where subordinated ratings are used whilst the issue rating is used for bonds and the issuer rating is used in other instances.

4.3 Monitoring Credit and Counterparty Risk

The following are monitored on a daily basis:

- Counterparty credit exposures and limits;
- Country risk exposures.

4.4 Mitigating Credit Risk

Mitigation of credit risk is a key aspect of effective risk management. CCBL manages its credit risks by:

- Avoiding concentrations of risk by limiting exposures to individual counterparties/borrowers and groups, and diversifying exposure across different counterparties;
- Limiting exposures to individual countries and industry sectors, and diversifying exposure across different countries and sectors;
- Ensuring robust initial and ongoing credit analysis of counterparties, groups and countries by both the First and Second Line of Defence, including setting, and regularly reviewing, internal ratings;
- Settling transactions through assured payment systems or on a delivery-versus-payment basis;
- Setting limits on tenors of transactions with counterparties;
- Ensuring robust documentation of transactions and, where possible, utilising netting, collateral or security agreements, setting appropriate covenants or obtaining CCBC Group or third party guarantees to reduce the risk of loss;
- Monitoring the quality/value of collateral or security taken; and
- Maintaining clear credit policies and procedures.

Collateral Risk Management
The most common method of mitigating credit risk is to take collateral and is considered a key aspect of effective credit risk management. Derivative transactions with market counterparties and other trading facilities are supported by charges over financial instruments, principally in the form of cash and cash equivalents. Treasury trading activities, such as collateralised OTC derivatives include daily valuations in support of margining arrangements.

5. Counterparty Credit Risk for Derivative Transactions

Counterparty credit risk ("CCR") is the risk that the counterparty to a derivative transaction could default before the final settlement of the transaction's cash flows. The Bank measures the exposure value on counterparty credit exposures under the CCR mark to market method. This exposure value is derived by adding the gross positive fair value of the contract (replacement cost) to the contracts potential future credit exposure, which is derived by applying a multiple based on the contracts residual maturity to the notional value of the contract.

The following table shows the counterparty risk and its relevant capital components as at 31/12/2019

Table 8 Counterparty credit risk exposure

	31 December 2019 ($000's)	
	Gross positive fair value	Counterparty Risk Capital Component
Forward Foreign Exchange contracts	568	13
	568	13

6. Market Risk

CCBL identifies the following as key types of market risk in its business:

- *FX risk:* Exposure to changes in FX spot rates
- *FX volatility risk:* Exposure to changes in FX implied volatilities
- *Interest rate risk:* Exposure to changes in benchmark interest rates
- *Funding gap risk:* Exposure to changes in funding spreads versus market benchmark

CCBL is exposed to market risk as a result of transacting customer orders in treasury FX and interest rate products, mismatches between interest rates and tenors on corporate banking and money-market lending assets and their funding, including bond holdings and repo transactions as well as from operational requirements. Oversight of the market risk management framework is performed by the Risk Committee, which approves all market risk limits within the delegated authority set by the Board.

6.1 Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in interest rates. At the balance sheet date the Bank's sensitivity analysis to 100bps increase/decrease to projected net interest income was:

	100bps increase in interest rate curve $000	100bps decrease interest rate curve $000
Sensitivity of projected net interest income As at 31 December 2019	(4,842)	4,842

Sensitivity of reported equity to interest rate

movements		
As at 31 December 2019	(4,842)	4,842

Interest rate movements affect reported equity in the following ways: (i) retained earnings arising from increases or decreases in net interest income and the fair value changes reported in the statement of comprehensive income and (ii) fair value reserves arising from increases or decreases in fair values of debt securities reported directly in equity.

6.2 Foreign Exchange Risk

The Bank makes loans and takes deposits in a number of currencies. The table below shows the impact of a one cent increase or decrease in the value of the Dollar against other currencies to which the Bank is exposed:

Change in value of the dollar compared with Sterling, RMB and Euros	1 cent Increase $000	1 cent Decrease $000
Sensitivity of foreign exchange		
As at 31 December 2019	(1,102)	1,102

Foreign Exchange risk is the risk that movements in the various currencies could materially impact the financial results. The Bank makes loans and takes deposits in a number of currencies in addition to foreign exchange trading which is also a key business function. The Bank manages its currency risk by putting limits on the firm-wide FX exposure, as well as limits for the trading book. CCBL has approved a Trading Book Policy Statement. As at 31st December 2019, FX Trading is the only permitted trading activity.

6.3 Monitoring Market Risk

The following are monitored on a daily basis:

- Mark-to-market profit and loss;
- Value at Risk (calculated on a one day horizon with a 99% confidence interval);
- Sensitivity to adverse moves in interest rates, foreign exchange rates and funding rates.

6.4 Mitigating Market Risk

CCBL manages its market risk by:

- Centralised responsibility for managing all market risks in Treasury Department;
- Matching as closely as possible the interest rate terms on corporate banking and money-market lending assets with their funding;
- Matching transactions with clients as closely as possible with offsetting transactions;
- Using hedging instruments such as FX and interest rate derivatives to reduce net sensitivity to market risk factors;
- Setting limits on notional positions and on sensitivities to individual market risk factors e.g. DV01 limits; FX exposure limits;
- Setting maturity and gap mismatch limits;
- Setting limits on portfolio risk measures such as value-at-risk and stress tests;
- Monitoring the results of regular stress tests;
- Ongoing assessment of market conditions; and
- Maintaining clear market risk policies and procedures.

The Board decided to cease all new business from December 2019. Activities noted as being undertaken by the Bank have been integrated into the Branch's business activities. Any reference or interpretation to ongoing activities conducted by the Bank should be read as being undertaken by the Branch in the future.

7. Liquidity Risk

CCBL identifies the following material sources of liquidity risk in its business:

- *Non-marketable assets*: holding assets that are not easily marketable and funding these assets with funding of a shorter tenor;
- *Reliance on CCBC Group funding sources*: concentration of sources of funding on other CCBC Group companies, exposing CCBL to the liquidity risk of the wider CCBC Group;
- *Intra-day liquidity risk*: differences in the timing of cash inflows and outflows during the day, or disruptions to incoming payments, leading to large intra-day funding requirements;
- *Off-balance sheet liquidity risk*: market movements leading to large collateral calls under collateral arrangements; draw-downs on committed facilities;
- *Marketable assets risk*: holding assets that are considered to be liquid but may not be liquid when required in the amounts expected or as quickly as expected.

CCBL is exposed to liquidity risk as a result of mismatches between expected cash inflows from corporate banking transactions and money-market lending, and the expected cash outflows on funding, and from unexpected drawdowns of committed facilities, holdings of marketable assets which may not be liquidated quickly enough to meet cash outflows on their funding, intra-day liquidity requirements from clearing activities and collateral calls on treasury FX and interest rate transactions which may not be matched by the ability to call collateral on the other side of the trade.

Oversight of the liquidity risk management arrangements is performed by Asset & Liability Committee, which approves all liquidity risk metrics within the delegated authority set by the Board.

The Bank ensures that it complies with the Liquidity Coverage Ratio (LCR) regulatory liquidity requirement set by the PRA at all times, which reflects the regulator's assessment of a 30 day combined liquidity stress. The Bank also holds sufficient high quality liquid assets ("liquid asset buffer" or "LAB") to meet net cash outflows, post management actions, for the Bank's survival horizon of 91 days as modelled under the Bank's internal stress test (which represents an internal view of a severe combined idiosyncratic and market-wide liquidity stress).

The Bank's liquidity risk appetite is formally set at the Board level and reviewed on an annual basis, ensuring consistency with the Bank's strategy, resource availability and business requirements, while taking into account regulatory requirements. The liquidity risk appetite sets internal limits to ensure that banks maintains a LAB surplus above the regulatory and internal stress requirements, described above.

7.2 Monitoring Liquidity Risk

The following are monitored on a daily basis:

- Wholesale Survival Days;
- Net Stable Funding Ratio;
- Surplus Liquidity Buffer over regulatory requirement;
- Mix of sources of funding.

7.3 Mitigating Liquidity Risk

CCBL manages its liquidity risk by:

- Managing mismatches between expected cash inflows on non-marketable assets and the expected cash outflows on their funding within limits set on liquidity risk metrics;
- Agreeing direct funding support from other CCBC Group companies, including committed overdraft facilities with certain CCBC Group companies;
- Entering agreements to allow CCBL to extend the tenor of deposits from CCBC Group by up to 3 months if required;
- Maintaining a portfolio of unencumbered marketable assets which can be liquidated to provide same-day or next-day funds in CCBL's main currencies;
- Maintaining a Contingency Funding Plan, reviewed regularly by the Asset & Liability Committee, laying out management actions and roles and responsibilities in the event of CCBL facing a liquidity issue;
- Monitoring CCBL's liquidity situation and assessing liquidity conditions in its funding markets, and escalating any adverse developments; and
- Maintaining clear liquidity risk management policies and procedures.

8. Operational Risk

The BCBS framework allows firms to calculate their operational risk capital requirement under the basic indicator approach, the standardised approach or the advanced measurement approach. CCBL currently uses the basic indicator approach in determining our operational risk capital requirement.

Operational Risk is the risk of an economic loss, a disruption to business, an adverse impact on business or on client relationships or of legal action arising from inadequate or failed internal processes, people and systems, or from external events. This includes legal risk but excludes strategic and reputational risk. Within this broad classification, the Bank identifies a number of key categories of operational risk in its business:

- Fraud risks: losses resulting from fraudulent activity or transactions, carried out either internally or externally (may involve cybercrime);
- Systems risks: failure of computer or communication systems, risk of unauthorised access to systems (may involve cybercrime); failure of systems to meet business requirements;
- Data risks: corruption or loss of data, incorrect data entry, failure to protect data adequately, including client data and particularly personal data, and misusing client information (may include cybercrime);
- Booking & Processing risks: errors in executing trades or client orders; errors in processing payments or settlements; failure to book transactions or the details of products fully or accurately;
- Collateral risks: failure to call collateral in a timely way, failure to value collateral correctly;
- Tax risks: failure to structure transactions or arrange business or transfer pricing to ensure appropriate tax treatment; changes to tax rules leading to additional tax charges; failure to determine tax liabilities correctly; failure to deduct tax from source correctly; failure to report tax matters accurately including FATCA/CRS requirements; failure to meet required standards when structuring transactions which may lead to an accusation of facilitating tax avoidance or evasion;
- Legal risks: risk of transactions not proceeding as expected due to documentation issues or issues with enforceability/interpretation in the relevant legal jurisdiction; losses from litigation, actual or threatened; impact of legal changes; failure to meet legal obligations;
- Financial Crime risks: failure to carry out KYC checks adequately; failure to manage bribery & corruption risks adequately; failure to abide by applicable sanctions rules;
- Compliance risks: failure to meet UK or Chinese statutory or regulatory requirements applicable to CCB London's activities; failure to arrange for adequate training to ensure awareness amongst staff of the laws and regulations applying to CCBL London's activities; impact of change in regulatory rules; failure to report regulatory returns and other matters accurately or in a timely manner; failure to protect whistle-blowers;

- Valuation risks: incorrect valuation of transactions in financials accounts due to inaccurate market data;
- Accounting risks: incorrect financial statements due to inappropriate accounting treatment or inadequate disclosure;
- Model risks: incorrect valuation of transactions in financials accounts due to inaccurate valuation models; incorrect reporting of risks due to inaccurate risk models; incorrect regulatory capital or liquidity reporting due to incorrect regulatory models;
- Insurance risks: failure to arrange for adequate or appropriate insurance cover for the Bank's activities;
- Project risks: poor implementation of significant projects, new products or system changes;
- Outsourcing risks: loss of expertise; performance of the supplier; failure to monitor the supplier adequately; compliance of the supplier to regulatory or legal requirements; ability of the supplier to provide business continuity; failure of the supplier to protect CCB London's data adequately;
- Health & Safety risks: employee and visitor safety, inability to access offices; and
- Staff risks: key man risk; lack of succession planning; remuneration risk; staff knowledge and competency; lack of adequate staffing;

Operational risk arises in all of CCB London's business and corporate activities. It is CCB London's policy to mitigate as far as possible operational risks, though senior management recognise that some operational risks cannot be fully eliminated. Where operational risks cannot be effectively mitigated, CCB London manages its business to keep losses from operational risks within the agreed level of risk appetite through controls on, for example, volumes or keeping business strictly back-to-back. Senior management will consider purchasing insurance to cover risks that cannot be sufficiently mitigated. Oversight of the operational risk management framework is performed by the Risk Committee.

8.2 Mitigating Operational Risk

CCBL manages its operational risk by each business unit and supporting function being required to:

- Carry out a Risk and Control Self-Assessment (RCSA) to identify, document and quantify the operational risks arising in their activities, identify the controls needed to mitigate those operational risks, assess the effectiveness of those controls and identify actions to be taken to improve the effectiveness, where necessary;
- Communicate these risks and mitigating actions to the Risk Management Department;
- Implement the actions identified to improve the controls;
- Identify operational risk events occurring in their area and report these to the Risk Management Department, and, where appropriate, identify and implement actions to remedy any control failures;
- Maintain and enact written departmental procedures and operational manuals, including end-to-end process maps, defining and documenting, for all products, the business processes and controls in the function; and
- Ensuring that the operational risks in the function arising from any new business or products is identified as part of the NPA process.

Operational risk losses in 2019 were $650 (2018: $1,370).

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9. Capital adequacy

In assessing the adequacy of its capital, the Bank considers its risk appetite, the risk types to which the Bank is exposed and the appropriate management strategies for each of the Bank's material risks. In addition to capital adequacy quarterly reporting to the PRA and FCA, an internal capital adequacy assessment is performed daily in order to assess the Bank's capital adequacy and to determine the levels of capital required going forward to support the current and future risks of the Bank. Capital adequacy reports are produced by the Finance Department and reviewed, monthly, by ALCo and Senior Management. Minimum capital requirements are referred to as Pillar 1 requirements apply to the credit, market and operational risk generated by the Bank. Regulatory capital adequacy is measured through three risk-based ratios i.e. CET1, Tier 1 and Total Capital ratios. Under CRD IV, the minimum CET1, Tier 1 capital and Total capital adequacy ratios are supplemented by capital buffers.

The amount and composition of the Bank's capital requirements is determined by assessing the minimum capital requirements under Pillar 1 of the Capital Requirements Directive (CRD), the applicable approach for risk assessment being the Standardised Approach for credit risks and the Basic Indicator Approach for operational risk and the ICG of the Bank.

The Risk department is responsible for ensuring that the Bank's current and expected future risks are reflected in the Internal Capital Adequacy Assessment Process (ICAAP) document which is approved, at least, annually by the Board. The Finance and Risk departments are jointly responsible for ensuring that sufficient capital is maintained to provide the Bank with adequate headroom to cover expected risks of current and potential business activities and stress testing scenarios.

CCBL's assessment of its credit risks versus capital resources would have been set out in its Internal Capital Adequacy Assessment Process (ICAAP). As the business assets, the liabilities, and the staff of the Bank will be distributed or sold to the Branch in 2020 and given the intention to effectively cease trading to liquidate the Bank in 2020, no ICAAP was prepared for CCBL for the period ended 31 December 2019.

The following table shows the Bank's Pillar 1 capital requirement by asset class:

Table 9 Pillar 1 capital requirement by asset class

Credit Risk - Standardised Approach		**31 December 2019**
(USD000s)	**Exposure Value**	**Capital Requirement**
Central governments or Central Banks	205,704	879
Institutions	22,885	746
Of which; Counterparty Risk Capital Component	*690*	*11*
Corporates	152,060	12,165
Other items	204,570	16,366
Capital Component for Credit Risk	**585,219**	**30,156**
Operational risk – Basic Indicator Approach		8,627
Foreign exchange PRR		3,244
Interest PRR		-
Credit Valuation Adjustment		2
Concentration Risk		-
Total Pillar 1 capital requirement		**42,029**
Total capital resources after capital deductions		525,902
Excess capital resources over Pillar1 capital requirement		**483,873**

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9.2 Asset Encumbrance

As an integral aspect of its business, the Group engages in activities that result in certain assets being encumbered.

An asset is defined as encumbered if it has been pledged as collateral against an existing liability or used to secure, collateralise or credit enhance a transaction, which impacts its transferability and free use, and, as a result, is no longer available to the group to secure funding, satisfy collateral needs or be sold to reduce funding requirements. An asset is therefore categorised as unencumbered if it has not been pledged as collateral against an existing liability or used to secure, collateralise or credit enhance a transaction.

9.2.2 Asset Encumbrance at 31 December 2019

As at year-end 31 December 2019, $641, 000 of CCBL's assets were encumbered (margin or collateral posted with counterparties), which primarily related to the Bank's derivative activities. The collateral posted comprised entirely of cash placings. In addition, as at year-end 31 December 2019, CCBL received a total of $650,000 of collateral entirely comprised of cash and cash equivalents.

The following is the disclosure of on-balance sheet encumbered and unencumbered assets and off-balance sheet collateral as at 31 December 2019.

Table 10 Asset Encumbrances - Assets

Assets

	Carrying amount encumbered assets $000	Fair value of encumbered assets $000	Carrying amount unencumbered assets $000	Fair value of unencumbered assets $000
Assets of the reporting institution	**641**	**641**	**556,672**	**556,672**
Loans on demand	641	641	19,752	19,752
Debt Securities	-	-	205,727	205,727
Other loans and advances	-	-	124,532	124,532
Other assets	-	-	206,661	206,661

Table 11 Asset Encumbrances – Collateral received

	Fair value of encumbered collateral received or own debt securities issued $000	Fair value of collateral received or own debt securities issued available for encumbrance $000
Collateral received by the reporting institution	**-**	**650**
Loans on demand	-	650

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Table 12 Sources of encumbrances

Sources of encumbrances

	Matching liabilities, contingent liabilities or securities lent $000	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered $000
Carrying amount of selected financial liabilities	**855**	**641**
Derivatives	855	641
of which: Over-The-Counter	855	641

9.3 Leverage Ratio

The leverage ratio was introduced as a non-risk based capital requirement to complement the risk-based capital requirements.

The ratio is generally based on the accounting value as the relevant exposure measure for assets. Specific regulatory exposure measures apply to derivatives and off-balance sheet exposures must be added to determine the total leverage exposure.

The amended Article 429 of the CRR specifies the methodology that banks are required to adopt for calculating the leverage ratio, as per the EU's latest Delegated Act no. 2015/62 of 10 October 2014. The publication of the ratio is mandatory under the CRR disclosure requirements.

The leverage ratio is defined as the Tier 1 capital divided by the exposure measure, i.e. balance sheet and off-balance-sheet assets after certain restatements of derivatives, intragroup transactions, items deducted from the numerator, and off-balance-sheet items. At 31 December 2019, CCBL's leverage ratio as per Table 14, using the transitional definition, that is before taking into account effects of fully phased in transitional arrangements, was 84%.

CCBL aims to ensure that the leverage ratio always remains above the prescribed regulatory minimum, by actively monitoring and managing the quantity of capital and exposures within the Bank. The risk of excessive leverage is managed as part of the risk appetite framework and monitored using a leverage ratio metric within the Bank's regulatory reporting process.

Table 13 below is a reconciliation of the Total Leverage Ratio Exposure as per Table 14 to the total asset exposure as per the financial statements.

Table 13 Summary reconciliation of accounting assets and leverage ratio exposures

	$000
Total assets as per published financial statements	**558,481**
Adjustments for	
- Derivative Financial Instruments	563
- Credit risk management techniques	(15,176)
- IFRS 9 transitional adjustments	(470)
- Financial statements audit adjustments	(1,102)
- Adjustments for off-balance sheet items	86,697
Total Leverage Ratio exposure	**628,993**

The Board decided to cease all new business from December 2019. Activities noted as being undertaken by the Bank have been integrated into the Branch's business activities. Any reference or interpretation to ongoing activities conducted by the Bank should be read as being undertaken by the Branch in the future.

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Table 14 Leverage ratio common disclosure

	$000
Exposure Values	
Total Derivative exposures	**1,131**
- Derivatives: Current replacement cost	363
- Eligible cash variation margin received	(363)
- Derivatives: Add-on under the mark-to-market method	1,131
Total Off-balance sheet items	**86,697**
Total On-balance sheet items (excluding derivatives but including collateral)	**541,206**
- On-balance sheet items	541,206
- (Asset amounts deducted in determining tier 1 capital)	(41)
Capital and Total Exposure measure	
Total Leverage Ratio exposure	**628,993**
Tier 1 capital	525,902
Leverage Ratio (%)	84%

10.Impairments and Provisions

In the first instance, the Relationship Manager is responsible for monitoring loan covenants and identifying overdue or non-performing loans for his/her customers. The Risk Department is responsible as second line of defence for reviewing the asset classification recommended by the relationship managers and submitting them for classifying the loans and notifying to the credit appropriate committees for approval and Head Office. The credit committees also recommends courses of action following the Early Alert Process which is discussed below.

10.2 Definition of Impaired

CCBL recognises impairment if objective evidence of a risk problem exists as a result of one or more events that occur after the initial recognition of the asset and those events have an impact on the estimated future cash flows of the financial asset that can be reliably estimated. Objective evidence that a financial asset is impaired includes observable data that comes to the attention of the holder of the asset as a result of the following events:

- Significant financial difficulty of the issuer or obligor;
- A breach of contract, such as default or delinquency in interest or principal payments;
- The lender, for economic or legal reasons relating to the borrower's financial difficulty, grants the borrower a concession to weaken the original terms of the transaction;
- Weakening of security taken against a counterparty transaction;
- It becoming probable that the borrower will enter bankruptcy or financial reorganization;
- The disappearance of an active market for the financial asset because of financial difficulties; or
- A measurable decrease in the estimated future cash flows because of observable data including:
  a. adverse changes in the payments status of borrowers; or
  b. national or local economic conditions.

10.3 Definition of Past Due

Past due refers to amounts that are unsettled on the scheduled or expected date and refers to all payment types including principal, interest and fee payments and failed collateral calls.

10.4 Impairment Reporting

Asset Classification is done in real time as well as on quarterly intervals. If there is enough evidence to downgrade the asset classification, the Relationship Manager must immediately do so in the Bank's systems which would be reviewed by the Risk department and agreed by the Credit Committee. An asset's classification in turn determines its stage in IFRS9 related ECL provisions. ECL provision for all assets is reviewed at least on a quarterly basis.

10.5 Provisioning Process

An account is considered non-performing (or non-accrual) if:

- There is a question as to the obligor's ability or willingness to pay interest or principal. Relationship Manager, or a member of Risk Department, or a member of the Credit Committee can recommend that an account be placed on non-performing status to the Credit Committee;
- Principal and / or interest remains unpaid for ninety days after its due date or more; or
- The account is classified Substandard or Doubtful or Loss through the Account Classification Process (see definitions below).

At each balance sheet date each financial asset or portfolio of loans is measured at amortised cost or at fair value through other comprehensive income, whereas debt securities and loan commitments are assessed for impairment. Loss allowances are forward looking, based on 12 month expected credit losses where there has not been a significant increase in credit risk, otherwise allowances are based on lifetime expected losses.

Expected credit losses are a probability weighted estimate of credit losses. The assessment of credit risk, and the estimation of ECL, are unbiased and probability-weighted, and incorporate all available information which is relevant to the assessment including information about past events, current conditions and reasonable and supportable forecasts of future events and economic conditions at the reporting date. In addition, the estimation of ECL should take into account the time value of money. In general, the Bank calculates ECL using three main components: a probability of default ('PD'); a loss given default ('LGD'); and the exposure at default ('EAD').

The 12-month ECL is calculated by multiplying the 12-month PD, LGD and EAD. Lifetime ECL is calculated using the lifetime PD instead. The 12-month and lifetime PDs represent the probability of default occurring over the next 12 months and the remaining maturity of the instrument respectively. The EAD represents the expected balance at default, taking into account the repayment of principal and interest from the balance sheet date to the default event together with any expected drawdowns of committed facilities. The LGD represents expected losses on the EAD given the event of default, taking into account, among other attributes, the mitigating effect of collateral value at the time it is expected to be realised and the time value of money. Expected credit loss is measured from the time of initial recognition of the financial asset. The maximum period considered when measuring ECL (be it 12-month or lifetime ECL) is the maximum contractual period over which the Bank is exposed to credit risk or to the expected date of the next credit renewal. Under IFRS 9 there is no need to wait for an impairment trigger event to happen before impairing a financial asset. There is a three-stage model instead, where:

- Stage 1 – incorporates financial instruments that have not deteriorated significantly in credit quality since initial recognition. For these items, 12-month expected credit losses are recognised and interest revenue is calculated on the gross carrying amount of the asset (i.e. without reduction for expected credit losses).

- Stage 2 - financial instruments that have deteriorated significantly in credit quality since initial recognition but that do not have objective evidence of a credit loss event. For these items, lifetime expected credit losses are recognised but interest income is still calculated on the gross carrying amount of the asset. The assessment compares the risk of default occurring at the reporting date compared to that at initial recognition, taking into account reasonable and supportable information, including information about past events, current conditions and future economic conditions. The assessment is unbiased, probability-weighted, and to the extent relevant, uses forward-looking information consistent with that used in the measurement of ECL.
- Stage 3 - which incorporates financial assets that have objective evidence of impairment at the reporting date. For these items, lifetime expected credit losses are recognised and interest revenue is calculated on the net carrying amount (i.e. reduced for expected credit losses). Individual discounted cash flow calculations continue to be performed. However, the net realisable value of security is adjusted for expected future changes in market and the losses reflecting cash flows under different scenarios are probability-weighted to determine the ECL rather than using the best estimate of cash flows

On restructuring a financial asset without causing de-recognition of the original asset the revised cash flows are used in re-estimating the credit loss. Where restructuring causes de-recognition of the original financial asset, the fair value of the replacement asset is used as the closing cash flow of the original asset.

The costs of loss allowances on assets held are presented as impairments in the income statement.

Impaired loans and receivables are written off, when the Bank concludes that there is no longer any realistic prospect of recovery of part or all of the loan. For loans that are individually assessed for impairment, the timing of write off is determined on a case-by case basis. Such loans are reviewed regularly and write off will be prompted by bankruptcy, insolvency, renegotiation and similar events.
Any accrued and unpaid interest/commission on a non-performing exposure is not recognized as income.

Once an account is put on non-performing status, it is classified at Substandard or lower (see definitions below). It can be restored to performing status only after all outstanding payments of principal and interest have been received in cash or a suitable restructuring/rescheduling agreement has been signed and the obligor has fulfilled all its obligations under the revised agreement. This is accompanied by evidence of a relative improvement in the Obligor's condition and debt service capacity and clear commitment to repay. An important factor is a reasonable period of demonstrated payment performance in accordance with the modified terms.

Under the Asset Classification process, the Relationship Managers and Risk Department, have the ongoing responsibility to identify signs of weakness or other signs of deterioration in each credit. The recommendations are presented to the Credit Committee and approved there. The Asset Classification Process may lead to placing the account in any of the following categories:

- Pass
- Special-mention;
- Substandard;
- Doubtful; or
- Loss

Pass: The obligor is able to perform the contract, and there is not enough reason to doubt that the obligor / counterparty cannot pay principal and interest of credit assets in full amount as scheduled. It should have all of the following characteristics:

- Loan repayments current or not more than 30 days in arrears.
- Financial condition of the borrower is sound;
- Adequate credit documentation to support borrowings;

Collateral for the loan is unimpaired;

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Special-mention: A counterparty is placed in Special Mention category when that counterparty is considered to be experiencing difficulties that may threaten its ability to fulfil its credit obligations to the Bank. Any of the following characteristics may be present:

- Any facility with amounts overdue for payment by more than 30 days, where the late payment has not been sanctioned or the due date has not been extended by the appropriate authority;
- Any Counterparty where market intelligence (e.g. press comment, research report) suggests a seriously deteriorating position;
- Any Counterparty where financial information indicates a seriously deteriorating position in working capital, cash flow, or profitability

Substandard: When a counterparty / obligor is facing problems in remaining solvent and is unable to pay principal and interest in full by solely relying on normal operating income. Certain loss may occur even if any guarantee available is executed. A substandard account would have any one or more of the following characteristics:

- Any facility with amounts overdue for payment by more than 90 days;
- Any action brought on by a third party that would jeopardise the viability of the borrower (e.g. appointment of a receiver or administrator, freeze on assets);
- Any action by the borrower that would indicate a serious problem (e.g. declaration of a standstill, appointment of investigating accountants);

Doubtful: Facilities classified doubtful have the weakness/es inherent in one classified 'Substandard' with the added characteristic that the weaknesses make collection or repayment in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. Doubtful accounts can be identified as:

- Any facility with amounts overdue for payment by more than 180 days;
- Any facility where a breach of covenant or warranty has occurred that is not remedied, or waived by the appropriate authority, within a period of three months;
- Any facility where there is a shortfall in security cover that is not remedied, or waived by the appropriate delegated authority, within a period of three months;

Loss: an asset is classified Loss when;

- A counterparty is placed in the loss category when the credit exposure is considered to be uncollectible once all efforts, such as realisation of collateral and institution of legal proceedings, have been exhausted; or
- Assets in this category are expected to be written off in the short-term since the likelihood of future economic benefits resulting from such assets is remote.

The Bank uses its existing asset classification process to determine the stages for impairment provisioning as per the mapping table given below.

<table>
<tr><th>Impairment Stage</th><th>Impairment Stage</th></tr>
<tr><td>Pass</td><td>Stage 1</td></tr>
<tr><td>Special-Mentioned</td><td>Stage 2</td></tr>
<tr><td>Sub-Standard</td><td rowspan="3">Stage 3</td></tr>
<tr><td>Doubtful</td></tr>
<tr><td>Loss</td></tr>
</table>

The Board decided to cease all new business from December 2019. Activities noted as being undertaken by the Bank have been integrated into the Branch's business activities. Any reference or interpretation to ongoing activities conducted by the Bank should be read as being undertaken by the Branch in the future.

11. Remuneration

11.2 Overview

The terms of the Prudential Regulatory Authority (PRA) guidance on remuneration apply to all aspects of remuneration which could have a bearing on effective risk management in the Bank including salary, long-term incentive plans, pensions and severance arrangements. The Bank's reward structure reflects the requirements of the PRA and addresses these issues in a manner tailored to the needs of the business. These disclosures contain remuneration awards made by CCBL for the employees deemed Material Risk Takers ("MRTs") (including non-executives and leavers) in respect of the 2019 performance year and provide a summary of the Bank's decision-making policies.

11.3 Material Risk Takers

Identification of MRTs, historically referred to as "Code Staff", is based on definition provided under the European Banking Authority (EBA) regulatory technical standards EU Regulation No 604/2014 – i.e. employees who are assessed as having a material impact on the Bank's risk profile and is a combination of qualitative and quantitative criteria.

- Qualitative criteria is role-based for employees who are assessed as having a material impact on the firm's risk profile
- Quantitative criteria includes employees with total compensation of €500,000 or more in the previous financial year, individuals who are in the top 0.3% earning employees in the previous financial year and individuals whose total remuneration in the previous financial year was higher than that of the lowest paid MRT in the same category.

Roles classified as MRTs include:

- Members of committees managing risk
- Individuals with management responsibility reporting directly to the head of a "material" business unit or to the respective heads of risk, compliance and internal audit
- Other designated roles

11.4 Quantitative Information

At the end of 2019, the Bank had identified 19 employees as MRTs (2018: 18) who were eligible for variable pay in respect of their services during 2019.

The aggregate remuneration broken down by base pay and variable pay including senior management and members of staff whose actions have a material impact on the risk profile of the Bank are as follows

As at 31 December US$'000	2019
Number of relevant employees	19
Base Pay	4,233
Variable Pay	383
Total	**4,616**

The European Capital Requirements Regulation (CRR) requires the disclosures of the total remuneration over EUR 1million paid to MRTs by band (Euros). The Bank did not have any MRTs receiving total remuneration of over EUR 1 million.

11.5The Decision Making Process and the Link between Pay and Performance

The financial reward offered by the Bank comprises three components: base pay, variable pay and non-contractual benefits. Variable pay includes non-contractual and discretionary overtime and may also include annual discretionary bonus awards. Benefits consist of a standard non contractual benefits package.

11.6 Key Performance Indicators

The Bank's overall performance is evaluated against key performance indicators ('KPI's) set by the Head Office of China Construction Bank Corporation and communicated to the Board Remuneration Committee of CCBL.

11.7 The Remuneration Committee and the Remuneration Policy

The Board Remuneration Committee ("RemCo") is appointed by the Board of CCBL (the 'Board') and comprises the Non-Executive Chairman of the Board and two Independent Non-Executive Directors of the Bank.

RemCo is authorised by the Board of the Bank to ensure the implementation of effective remuneration governance and related risk management practice within CCBL, and determine and adopt a remuneration policy which is in line with the Remuneration Code and taking into account individual performance (comprising financial and non-financial measures), the overall performance of the employee's business unit and the overall performance of CCB London. RemCo reviews its implementation at least annually for compliance with regulatory requirements. As a means of developing the Bank's human resources, RemCo annually reviews its remuneration policies, structures and practices, to ensure the principles behind the reward strategy and the elements of the strategy itself, are effective. During 2019, the Committee met and considered the following principal matters:

- Risk Performance and KPI Performance of the Bank
- SMCR Update and Implications for REMCO
- Proposed changes to Regulatory Guidelines for Remuneration
- Peer Group, Market and Bonus Pay Data Comparisons
- Performance Ratings, Base Salary and Bonus Remuneration proposals
- Update of RemCo Terms of Reference, Joint Reward Policy, Training & Competency Policy
- Progress with implementing the HR Strategy
- Mid-Year performance reviews & proposed improvement to the Performance process
- Competitor Benchmarking & Market salary movement for 2019 pay round including gender pay gap review

11.8 Deferred Remuneration

The Bank is classified as a "Proportionality Level Three" firm and has decided to dis-apply the deferral rule (SYSC19A.3.49R) under the "remuneration principles proportionality rule".

11.9 Variable Components

The variable pay (discretionary bonus) is based upon a combination of assessments of performance against the following:

- The performance of the Bank;
- The performance of departments;
- The performance of employees in the context of the annual objectives of their role; and
- External compensation benchmarks

In addition, RemCo also takes into account the risk profile of the Bank and considers all improvements and any deterioration to CCBL's risk profile when assessing variable pay.

The Bank may award employees with annual discretionary bonuses. Where a bonus is paid, the amount is wholly at the discretion of the Bank and payments made will be non –pensionable awards that are subject to tax and National Insurance. The annual cash discretionary bonus allocation for senior executives and all other staff whose base pay exceeds a certain threshold or their roles and responsibilities have a material impact on the Bank's risk profile needs to be agreed by both CCB Head Office and the Board Remuneration Committee. The intention of the Bank's bonus scheme is to motivate employees by providing a fair return for additional effort or exceptional performance, as well as to attract and retain talented staff.

11.10 Severance Payments

The Bank made severance payments of $75,000 during the year of 2019.

The Board decided to cease all new business from December 2019. Activities noted as being undertaken by the Bank have been integrated into the Branch's business activities. Any reference or interpretation to ongoing activities conducted by the Bank should be read as being undertaken by the Branch in the future.

Glossary of Terms

ALCO	Asset & Liability Committee
Branch	CCBC London Branch
CCBC	China Construction Bank Corporation
CCBI	China Construction Bank International (Holdings) Limited and its subsidiaries
CCBL	China Construction Bank (London) Limited
CCB London	CCBL and the Branch as combined entities
CCP	Capital Contingency Plan
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CFP	Contingency Funding Plan
CRO	Chief Risk Officer
CRR	Capital Requirements Regulation
DCEO	Deputy Chief Executive Officer
EEA	European Economic Area
ExCo	Executive Committee
FCA	Financial Conduct Authority
FinComCo	Financial Crime & Compliance Committee
FX	Foreign Exchange
HO	Head Office
ICAAP	Internal Capital Adequacy Assessment Process
ICG	Individual Capital Guidance
ILAAP	Internal Liquidity Adequacy Assessment Process
ILG	Individual Liquidity Guidance
MI	Management Information
MLRO	Money Laundering Reporting Officer
NPA	New Product Approval
OpCo	Operating Committee

PBoC	People's Bank of China
PRA	Prudential Regulation Authority
PRC	People's Republic of China
RCSA	Risk Control Self-assessment
RiskCo	Risk Committee
RMB	Renminbi
SMCR	Senior Managers and Certification Regime
SORA	Statement of Risk Appetite