EWUB
East West United Bank

PILLAR 3
Disclosure 2019

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1. Overview

1.1 Objective

This document sets out disclosures in respect of East-West United Bank S.A. (EWUB) required under European Union (EU) CRD IV legislation, consisting of the Capital Requirements Regulation (CRR) and the Capital Requirements Directive (CRD).

1.2 Background

The Basel III framework was adopted in 2010 and translated into regulation through the Capital Requirement Regulation (CRR), which became effective per 1 January 2014 and is binding for all EU member states. It introduced consistent capital adequacy standards and an associated supervisory framework in the EU based on the Basel rules.
The Basel framework establishes a more risk sensitive approach to capital management and is based on three pillars:

Pillar 1

Pillar 1 defines the regulatory minimum capital requirements by providing rules and regulations for the measurement of credit risk, market risk and operational risk. The capital requirements have to be covered by regulatory own funds.

Pillar 2

Pillar 2 addresses the bank's internal processes for assessing overall capital adequacy in relation to risks (Internal Capital Adequacy Assessment Process - ICAAP). Pillar 2 also introduces the Supervisory Review and Evaluation Process (SREP), where the supervisor assesses the ICAAP.

Pillar 3

Pillar 3 focuses on disclosure requirements, covering the key information required to assess the risk profile and capital adequacy of a credit institution. Pillar 3 aims to promote greater market discipline by enhancing transparency in information disclosure. Pillar 3 disclosures comprise of:

- Quantitative disclosures relating primarily to actual risk exposures
- Qualitative disclosures relating primarily to risk management practices

1.3 Local regulation

In November 2017 and January 2018, CSSF adopted the EBA guidelines on General disclosure and Liquidity Coverage Ratio (LCR) disclosure to complement the disclosure of risk management.

- CSSF Circular 17/673 referring to Guidelines on Disclosure requirements under part eight of Regulation (EU) of 14 December 2016 as amended on 9 June 2017
- CSSF Circular 18/676 referring to Guidelines on LCR Disclosure to Complement the disclosure of Liquidity Risk Management under Article 435 of Regulation (EU) No 575/2013 EBA/GL/2017/01 of 8 March 2017.

1.4 Basis and Frequency of Disclosures

This information has been prepared by East-West United Bank S.A. (EWUB) in accordance with the Pillar 3 requirements, and is intended to provide market participants with key information in respect to the risk exposures, risk assessment processes and capital adequacy of the Bank. Unless otherwise stated, all figures are as at December 31, 2019.

EWUB will publish required disclosures on an annual basis at a minimum and assess the need to publish some or all disclosures more frequently than annually in the light of the relevant characteristics of its activity.

1.5 Scope

EWUB is neither a G-SIIs, nor an O-SIIs or a significant entity in the local market and benefits from the possibility of disclosing a simplified version.

1.6 Verification and Location

These disclosures have been reviewed by the Authorized Management of the Bank and are available through the website Http://www.ewub.lu

2. Introduction

EWUB was incorporated in Luxembourg on June 12, 1974 as a société anonyme and its registered office is located at Villa Foch, 10 Blvd Joseph II, L-1840 Luxembourg.

EWUB is a credit institution subject to primary supervision and regulation by the Commission de Surveillance du Secteur Financier ('CSSF") and the Banque Centrale du Luxembourg ("BCL").

The Bank has been focusing its activities on investment opportunities on diversified European as well as Russian capital markets both for its own account and for the account of its customers. The Bank sees its future operations centring on the provision of private banking and asset management products and services.

3. Risk Governance

Through its normal operations the Bank is exposed to a number of risks, the most significant of which are Credit risk, Liquidity risk, Market risk, and Operational risk. Risks arising from the Bank's activities are closely monitored by senior management with the primary objective of minimizing risk exposures, safeguarding the assets of clients and shareholders, and retaining the clients' trust. Senior management identifies and analyses the risks of the Bank on a continuous basis in line with the evolution of its activities, determines the appropriate operating limits and reporting tools, and establishes a sound control environment to promote compliance with internal rules and limits as well as the relevant legal and regulatory requirements.

The management of the Bank maintains an independent Risk Management function whose mandate is to Measure, Monitor, Control, and report the risks that the Bank is exposed to.

The management of the Bank shall ensure that the Risk Management function remains proportionate to the scale, diversity and complexity of the activities of the Bank and has at its disposal the tools and resources necessary to perform its duties in an effective and efficient manner. A declaration to this fact is provided on an annual basis to CSSF.

To manage Risk, the Bank uses the three lines of defence risk governance model:

Line of defence	Primary responsibility	Description
First line of defence	Primarily accountable for risk management at an operational level	The first line of defence is any business or support unit that originates or directly controls risk, and is responsible for the implementation and execution of Risk policies and frameworks set by the second line of defence
Second line of defence	Primarily accountable for risk oversight	The second line of defence is provided by risk control functions who exercise independent challenge and oversight of the management of risk by the risk originating function. The

		principal risk control functions comprise of Risk Management, Compliance and Legal functions supported by Finance
Third line of defence	Primarily accountable for providing assurance over the Bank's systems, processes and controls	Internal Audit operates as the "third line of defence". The Internal Audit role is to provide an independent assessment of the design and effectiveness of internal controls over the risks to the Banks business performance. In carrying out this work, Internal Audit provides specific recommendation for improving governance, risk and control frameworks

3.1 Organisation and functioning of the Board and Management Committee

In Luxembourg, corporate governance is regulated by the CSSF circular number 12/552 as amended, providing the rules to observe in terms of central administration, internal governance and risk management.

3.1.1 Corporate governance and the Board

On 31 December 2019, the Board was composed of nine members. The Board has the broadest powers to perform all acts of administration and disposition in compliance with the corporate objective. All powers not expressly reserved by law or by the articles of association to general meeting of shareholders fall within the competence of the Board of Directors. The Board may also decide to delegate some power to special committees and shall establish members and responsibilities thereof. The members of such committees shall carry out their activities under the responsibility of the Board. It is the responsibility of the Board to establish the strategy, risk and capital management framework of the Bank in line with the applicable regulatory requirements.

Among other, the Board will:

- Define and approve the strategy
- Define the risk appetite statement and limits for the operations
- Regularly assess the strategy, management structure, organisation, internal control and independent control functions
- Maintain control over the financial and liquidity position of the Bank and over capital adequacy ratio and relevant short term and long term stable funding liquidity ratios within the limits established in the existing strategy
- Ensure that satisfactory control mechanisms in respect of accounting, management of funds, and the Bank's financial position in general are available as necessary
- Approve the remuneration policy

3.1.1.1 Boards' specialised committees

The Board has four specialized committees, i.e.:

Audit Committee	Risk Committee	Nomination and Remuneration Committee	Strategy Committee

Responsible for the integrity of internal processes and control framework, including those relating to risk controls and reporting. Reviews reports on control issues	Delegated responsibility for oversight and challenge of the current risk profile and future strategic direction relative to the Banks risk appetite, including the approval of Board risk limits and those proposed by the Credit Committee. The committee met 5 times in 2019.	Responsible for the identification, recommendation and ongoing review and assessment of the members of the management body. Approves remuneration and reviews remuneration principles and approach	Responsible for the strategic business decisions of the Bank, including the annual Business Plan and the challenge of business initiatives and investments.

The Authorized Management is responsible for identifying and analysing risks on a day-to-day basis in line with the evolution of the Bank's activities; defining relevant operating limits in line with the Risk Appetite Statement to ensure the Bank's safety and soundness; establishing and maintaining a sound control environment to ensure compliance with internal rules and limits, as well as the relevant legal and regulatory requirements, evaluating (based on own expert judgement) and approving the leading methodological choices and hypotheses and also the scenarios of the stress testing programme on a regular basis. The Authorized Management receives regular reports regarding the risk profile of the Bank and adherence to Risk Appetite as well as participate in both Board and Corporate governance and Operational committees.

The Board of Directors and the Authorized Management are evaluating the results of the Bank at least once a quarter.

Risk Management is an independent function whose objective is to measure, monitor, control, and report the risks the Bank is exposed to. The Risk Management Department is headed by a Chief Risk Officer. The Chief Risk Officer has direct access to both Authorized Management and the Board of Directors to bring matters of risk directly to their attention.

In order to ensure that risk taking is consistent with the internal standards of the Bank, any employee entering into a transaction for the Bank's account shall first ensure that such transaction complies with the Bank's Risk Appetite Statement and the relevant credit, market, operating, and all other limits, policies, and procedures approved by the competent approval authority.

3.1.2 Corporate governance and the Operational Committees

3.1.2.1 Management Committee

The daily management of the Bank is carried out by the Management Committee chaired by the CEO. On 31 December 2019, the Management Committee was composed of seven members. The Management Committee determines the split of its management tasks among its members. It modifies this split when deemed necessary while avoiding conflict of interest by overlapping of different tasks by one member.

3.1.2.2 Assets and Liabilities Committee ("ALCO")

Chaired by the CFO, ALCO aids in ensuring the efficient and effective enactment of the liquidity and funding strategy. The committee assesses the current asset and liability profile against market conditions, and the availability, stability and cost of funding. It also ensure the business model and activity is compliant with internal risk appetite and regulatory best practise, including appropriate level of capital and liquidity resources being available.

Additional operational committees' set-up in order to improve operational decision-making and involve senior officers and experts in the decision making process includes:

- *Credit Committee – Chaired by the CRO*
    - Delegated authority from the Board Risk Committee to assess credit risk and grant approval for credit risk sensitive transaction within the Board set risk appetite
- *Compliance Committee- Chaired by the CCO*
    - Delegated authority from the Audit Committee to assess compliance risk and grant approval of new client on-boarding
- *New Product Committee – Chaired by the COO*
    - Delegated authority from the Management Committee to assess and approve new product proposals
- *Investment Committee – Chaired by the Head of Private Banking*
    - Delegated authority from the Management Committee for supervising the Bank's Discretionary Portfolio Management investment activities

3.2 Risk Management Framework and Risk Profile

The Bank maintains a prudent approach to risk and believes that a strong risk management culture is essential to achieve its business objectives. This is achieved through a clearly defined risk management control framework and risk principles.

3.2.1 Risk appetite and supporting limits framework

Risk Appetite is the level and type of risk EWUB is willing and able to accept in pursuit of its strategic objectives as expressed in the Business Plan.
The scope of the Risk Appetite statement is to summarize the risk appetite of the Bank in order to:

- Maintain capital adequacy;
- Deliver stable earnings;
- Ensure proportionate use of risk capital;
- Maintain positioning of the business to pursue future development opportunities.

All quantitative and qualitative risk appetite statements and tolerance limits are reflected in the Risk Appetite statement and aligned with the Bank's key risk policies (and vice versa).

Risk limits are cascaded down from the Risk Appetite statement to consistently cover risks from the Board level limits down to more granular risk specific limits. The limits are set up to capture all key risk drivers across risk areas and change dynamically in line with the business environment. Risk reports, including capital liquidity and key regulatory metrics, are provided on a daily basis to the Authorized Management, applicable businesses and support units of the Bank to monitor adherence to the control framework.

3.2.2 Risk profile and strategy

The Bank's business model is primarily focused on client-oriented services and flow banking products in payments and asset management, investments in liquid cash products and holds a diversified and liquid portfolio of loans and bond.
Global Markets and Corporate Banking activities are the main drivers of both Regulatory and Internal Capital. Their joint Balance Sheet Approach, including bond- and loan portfolios, is the most capital-intensive business for the Bank. In addition, these business lines also incur most of the counterparty-, market- and interest rate risks.

Private Banking and Transaction Banking are more exposed to operational- and compliance risk, in view of their focus on payments & cash management services. Generally, these fee driven businesses consume less Regulatory and Internal Capital.

The Board's risk appetite in regards to capital utilisation is quantified with reference to the minimum capital requirements, taking into account potential stress events to ensure an appropriate surplus is maintained and regulatory compliance. The capital utilisation and the alignment with the business strategy and objectives is assessed through the annual business planning cycle, which also forms part of the annual ICAAP.

4 Capital Requirements

The measurement of the minimum capital requirement is based on the CRD IV (Capital Requirements Directives) package, entered into force in July 2013. The CRD IV package was transposed via CRR and introduced a supervisory framework in the EU that reflects the current Basel III rules on capital measurements and standards.

The table below presents an overview of the Minimum capital requirements and the Risk Weighted Assets (RWA) at year-end 2019 per risk type and method of calculation.
The minimum capital requirements as per Pillar 1 may be determined using a number of approaches where the Bank uses the Standardised approach across Credit and Market Risk and with a Basic Indicator approach for Operational Risk.

Table 1. Pillar 1 methodology per Risk category

Credit Risk	Standardised risk weightings are applied to credit risk exposures based on credit quality steps/product category
Market Risk	The Standardised Approach apply risk weights to the aggregate absolute value of all positions of the Bank
Operational Risk	Capital requirements are calculated as 15% of three year average income

The largest part of the RWA is related to Credit risk (90% of RWA in YE'19, in line with 83% in YE'18). The distribution of Minimum capital requirement is following the distribution of RWA.

Table 2. Overview of RWA and Minimum Capital Requirements

		RWA		Min capital requirements	
		2019	2018	2019	2018
1	Credit risk (excluding counterparty credit risk)	450,760,118	349,110,277	36,060,809	27,928,822
2	Of which: standardised approach (SA)	450,760,118	349,110,277	36,060,809	27,928,822
3	Of which: foundation internal ratings-based (F-IRB) approach				
4	Of which: supervisory slotting approach				
5	Of which: advanced internal ratings-based (A-IRB) approach				
6	Counterparty credit risk (CCR)				
7	Of which: standardised approach for counterparty credit risk				
8	Of which: IMM				
9	Of which: other CCR				
10	Credit valuation adjustment (CVA)	100,731	124,368	8,058	9,949
11	Equity positions under the simple risk weight approach and the internal model method during the five-year linear phase-in period				
12	Equity investments in funds – look-through approach				
13	Equity investments in funds – mandate-based approach				
14	Equity investments in funds – fall-back approach				
15	Settlement risk				
16	Securitisation exposures in banking book				

17	Of which: securitisation IRB approach (SEC-IRBA)				
18	Of which: securitisation external ratings-based approach (SEC-ERBA),including internal assessment approach (IAA)				
19	Of which: securitisation standardised approach (SEC-SA)				
20	Market risk	14,026,379	28,306,046	1,122,110	2,264,484
21	Of which: standardised approach (SA)	14,026,379	28,306,046	1,122,110	2,264,484
22	Of which: internal model approach (IMA)				
23	Capital charge for switch between trading book and banking book				
24	Operational risk	34,549,421	41,375,542	2,763,954	3,310,043
25	Pillar 3 disclosure requirements – updated framework 49				
26	Amounts below the thresholds for deduction (subject to 250% risk weight)				
27	Aggregate capital floor applied		-	-	
28	Floor adjustment (before application of transitional cap)		-	-	
29	Floor adjustment (after application of transitional cap)		-	-	
	Total (1 + 6 + 10 + 11 + 12 + 13 + 14 + 15 + 16 + 20 + 23 + 24 + 25 + 28)	**499,436,650**	**418,916,233**	**39,954,932**	**33,513,298**

The CSSF prescribes a Total Capital Requirement (TCR) to firms as part of its supervision of the banking sectors. EWUB has been issued with a TCR of 14.5% by the CSSF in 2019 and maintains capital that exceeds this requirement.

5 Own Funds

In accordance with its obligations under the European Directive on capital adequacy (CRD), the Bank is required to maintain sufficient own funds to cover the risks it is, or could be exposed to, while ensuring compliance with its commitments and continuity of its services. These own funds are determined and controlled according to the rules laid down by the CSSF 575/13 circular implementing the CRD based on their ability to absorb potential losses.

Own funds are calculated pursuant to Art. 72 CRR and at 31 December 2019, EWUB had regulatory own funds in the form of Common Equity Tier 1 for an amount of EUR 151,598,008with the composition below:

Table 3. Overview of Own Funds

Category [amount in EUR]	2019	2018
Tier 1		
Eligible Capital	80,600,000	80,600,000
Funds for general banking risk	26,821,615	26,821,615
Previous years retained earnings	39,430,512	36,830,591
Other deductions from Original Own Funds	-2,561,519	-2,758,519
Eligible Profit or Loss(-)	5,032,116.36	-
Accumulated other comprehensive income	2,275,284	-3,231,155
Total Tier 1 Own Funds	**151,598,008**	**138,262,532**
Tier 2		
Adjustments to Valuation differences in AFS		
Total Tier 2 Own Funds	0	0

Deductions from Tier 1 and Tier 2 Own Funds	**0**	**0**
Total Available Own Funds	0	0

6 Capital Adequacy Assessment

In accordance with circular 07/301 of the CSSF, the Bank has implemented an Internal Capital Adequacy Assessment Process (the "**ICAAP**"), in which the Internal Liquidity Adequacy Assessment Process ("ILAAP") has been incorporated. This process measures the risks to which the Bank is exposed to and monitors the adequacy of its capital and liquidity over the three-year projected period. The ICAAP process is also intended to demonstrate the appropriateness of its risk management practices, which are employed to manage all risks, related to achieving the banks business objectives. The ICAAP is reviewed at least annually as part of the business planning cycle or following any significant change to the business strategy and/or the risk profile of the Bank.

The solvency ratio of EWUB was at 30.4% as per 31 Dec 2019 and well above the minimum regulatory requirement of 14.5%.

Table 4. Capital Requirement and Solvency Ratio

Category	**2019**	**2018**
Credit Risk (Standardised Approach)	36,060,809	27,938,772
Central governments or central banks	815,906	162,830
Regional governments or local authorities		
Administrative bodies and non-commercial undertakings		
Multilateral Developments Banks		
International Organisations		
Institutions	1,421,049	2,486,035
Corporates	30,093,433	23,599,322
Retail	1,271	2,146
Secured by mortgages on immovable property	0	345,030
Exposures in default	3,280,338	890,634
Items belonging to regulatory high-risk categories		-
Covered bonds		-
Short-term claims on institutions and corporate		-
Collective investments undertakings (CIU)		-
Other items	448,812	452,775
Market Risk (Standardised Approach)	1,122,110	2,264,484
Market Risk	1,122,110	2,264,484
Operational Risk (Basic indicator approach)	2,763,954	3,310,043
Operational Risk	2,763,954	3,310,043
TOTAL CAPITAL REQUIREMENT	***39,946,874***	***33,513,299***
SOLVENCY RATIO	***30.35%***	***33.00%***

The Bank manages its capital, and the allocation of capital to its business lines, by reference to the need to maintain the minimum solvency ratio as per the applicable regulatory requirements, consisting of Pillar I and Pillar 2 capital requirements for each type of risk identified through the ICAAP. With the relatively small numbers of transactions, it is not considered as prudent to claim diversification benefits. Consequently, the Bank derives the overall internal capital requirement by a simple aggregation of the requirements for each type of risk it is exposed to.

6.1 Leverage Ratio

Management of exposure to leverage forms part of the Banks business planning process and the risk appetite framework and the Bank is committed to ensuring that full compliance with all relevant regulatory requirements is maintained.

As of 31 December 2019, the Bank's Leverage Ratio is 21% using the fully phased-in definition of Tier 1, which exceeds the regulatory minimum requirement of 3%.

Table 5. CRR Leverage Ratio – Disclosure Template

Category	2019	2018
SFTs: Exposure according to CRR 429 (5) and 429 (8)		
SFTs: Add-on for counterparty credit risk		
Derogation for SFTs: Add-on according to CRR 429b (4) and 222		
Counterparty credit risk of SFT agent transactions according to CRR 429b (6)		
(-) Exempted CCP leg of client-cleared SFT exposures		
Derivatives: Current replacement cost		
(-) Eligible cash variation margin received offset against derivatives market value		
(-) Exempted CCP leg of client-cleared trade exposures (replacement costs)		
Derivatives: Add-on Mark-to-Market Method		
(-) Exempted CCP leg of client-cleared trade exposures (potential future exposure)		
Derogation for derivatives: Original Exposure Method	2,108,361	2,221,974
(-) Exempted CCP leg of client-cleared trade exposures (Original Exposure Method)		
Capped notional amount of written credit derivatives		
(-) Eligible purchased credit derivatives offset against written credit derivatives		
Off-balance sheet items with a 10% CCF according to CRR 429 (10)		
Off-balance sheet items with a 20% CCF according to CRR 429 (10)		
Off-balance sheet items with a 50% CCF according to CRR 429 (10)	30,230,858	2,637,458
Off-balance sheet items with a 100% CCF according to CRR 429 (10)		
Other assets	682,829,456	604,579,046
Grossed-up assets for derivatives collateral provided		
(-) Receivables for cash variation margin provided in derivatives transactions		
(-) Exempted CCP leg of client-cleared trade exposures (initial margin)		
Adjustments for SFT sales accounting transactions		

(-) Fiduciary assets		
(-) Exemption of intragroup exposures (solo basis)		
(-) Exposures exempted according to CRR 429 (14)		
(-) Asset amount deducted - Tier 1 - fully phased-in definition	-2,506,399	-2,623,752
(-) Asset amount deducted - Tier 1 - transitional definition		
Total Leverage Ratio exposure - using a fully phased-in definition of Tier 1 capital	692,001,132	609,653,375
Total Leverage Ratio exposure - using a transitional definition of Tier 1 capital	716,311,935	612,277,128
Capital and regulatory adjustments		
Tier 1 capital - fully phased-in definition	151,598,008	138,262,532
Tier 1 capital - transitional definition	151,598,008	138,262,532
Leverage Ratio		
Leverage Ratio - using a fully phased-in definition of Tier 1	21%	23%
Leverage Ratio - using a transitional definition of Tier 1	21%	23%

7 Credit risk

Credit risk is defined as the exposure to the potential event that a borrower, counterparty or obligor will fail to meet its obligations in accordance with the agreed contractual terms. The credit risk exposure is managed through the Banks Credit Risk Framework, including the Credit Risk Appetite and supporting limits and control framework. The Board has the authority to set up the principles through the Risk Appetite Statement, on which decisions are made and to fix the rules relating to the granting, extension, or restructuring of a credit by the Bank (including, but not limited to, the general credit policy, country limits, and other strategic matters). The Credit Committee is responsible for the complying with these principles.

The Banks risk strategy aims to limit undue credit risk and credit risk concentration by monitoring potential concentration risk by rating, industry and geography.

The principal sources of credit risk exposure arise from the Banks investment activities in syndicated loans and securities. The Bank also assumes credit risk in its day-to-day operations in the form of deposits placements and other cash balances, whether with central bank or private institutions.

7.1 Credit Risk management

The control measures implemented by the Bank, in order to monitor and manage credit risk, focus on an analysis of the financial standing and reputation of the borrower, the existence and sufficiency of collateral pledged as security for the requested facility, and any other elements which may be relevant for the decision making process, accompanied by a periodic review of the creditworthiness of the borrower.
Credit risk related transactions are subject to approval by the Credit Committee which operates under the Board approved RAS. The RAS and supporting limits framework is in place to ensure the

overall credit quality of the Bank's exposure including rating, country and sector concentrations is maintained.

Table 6. Distribution of Credit Risk Exposure by Risk Weight Category

Net Exposure value by Risk Weight categories	**0%**	**20%**	**35%**	**50%**	**75%**	**100%**	**150%**
Central governments or central banks	210,138,673			14,789,147		2,804,257	
Corporates		13,561,496		35,226,474		328,465,743	18,260,924
Institutions		40,397,160		15,093,306		2,137,027	
Other items	2,469,828					5,610,149	
Retail					21,191		
Exposures in default						1,246	27,335,316
Secured by mortgages on immovable property							
Total	***212,608,501***	***53,958,656***	***0***	***65,108,927***	***21,191***	***339,018,421***	***45,596,240***
TOTAL AMOUNT ACROSS ALL RISK WEIGTH CATEGORIES 716,311,935							

The Bank's primary exposure is to low risk-weighted Central government and central banks and Corporates while keeping Retail and Mortgage exposure low in comparison with the total exposure size. Portfolio allocation is in line with the strategy of the Bank.

Table 7. Geographic distribution of the Credit Risk Exposure

Net Exposure value by Exposure class / Geographical zone	**Europe**	**Eastern Europe**	**Other Countries**	**Asia**	**America**
Central governments or central banks	219,749,612		7982464.104		0
Corporates	166,183,339		12,572,891		216,758,407
Institutions	37,140,325		938		20,486,229
Other items	8,079,977		0		0
Retail	16,083		5,108		0
Exposures in default	0		27336561.78		0
Secured by mortgages on immovable property	0		0		0
Total	431,169,336		47,897,963		237,244,636
TOTAL AMOUNT ACROSS ALL RISK WEIGTH CATEGORIES 716,311,935					

The Banks is primarily exposed to Credit risk in Europe and America.

Table 8. Distribution of loan and securities exposures by industry

Industry	**2019**		**2018**	
	M EUR	**%**	**M EUR**	**%**
Electronic and Electrical Equipment	58.9	12%	50.4	14%
Chemical	34.2	7%	13.7	4%
Telecommunication	33.6	7%	18.7	5%
Oil Exploration and Production	27.7	6%	24.5	7%
Food Manufacturers	27.5	5%	21.3	6%
Coal Producer	27.3	5%	5.6	2%
Health Care	27.2	5%	9.0	2%
Printing Paper and Packaging	25.4	5%	11.5	3%
Support Services	23.9	5%	17.1	5%
Government	23.1	5%	21.9	6%

Pharmaceuticals	20.6	4%	28.2	8%
Supranational	19.9	4%	0	0%
Metal	18.4	4%	18.2	5%
Banks	15.1	3%	20.1	6%
Gas Distribution	14.6	3%	7.4	2%
Cumulated other loan and bond facilities	104.0	21%	96.82	27%
Total	***501.3***	***100%***	***364.5***	***100%***

Distribution based on internal Risk Sector classification

The Banks loan and security exposure is well diversified across Industries with the largest portion limited to 20%. The largest industry share decreased only slightly from 14% in YE'18 to 12% in YE'19, confirming the Bank's efforts to manage concentration risk in terms of industry sectors.

Bond securities transactions for the Bank's investment portfolio are decided upon by the Credit Committee after delegation from the Board. A certain restricted delegated approval authority have been granted to the Risk Management function, taking into account the quality of the issuer, the maturity profile of the security, the currency of the security, the investment return, and any other elements which may be relevant for the decision making process.

As at 31 December 2019, the value of the securities portfolios was EUR 275,388,087, split across sovereign bonds (16%), bonds of financial institutions (5%), and corporate bonds (79%).

Table 9. Exposure split by rating of the securities portfolio

Rating categories per S&P rating	Net exposure as at 31 Dec 2019	Net exposure as at 31 Dec 2018
AAA	4,275,493	6,008,960
AA	34,588,220	11,621,073
A	30,590,818	48,590,421
BBB	150,521,755	142,501,364
BB	45,620,385	35,357,688
B	131,753	4,613,018
C and below	-	
Not rated	9,659,663	77
Total	***275,388,087***	***248,692,601***

Mapped against the S&P equivalent rating where relevant

The Bank has chosen the Standardized Approach to calculate own funds requirements for credit risk. For assessing the counterparty risk, the Bank continues to make use of external ratings from Standard & Poor's, Moody's, and Fitch for corporate counterparties and for financial institutions. Since 2015, the Bank has an internal rating system primarily used for internal reference purposes for credit decisions.

Table 10. Credit exposure split by capital allocation categories

Credit Risk (Standardised approach)	Amounts in EUR as per 31 Dec 2019		
	Gross Exposure Value	Net Exposure Value	Capital Requirement
Central governments or central banks	227,732,077	227,732,077	815,906

Corporates	397,139,720	395,514,637	30,094,613
Institutions	57,627,493	57,627,493	1,421,049
Other items	24,000,270	8,079,977	448,812
Retail	21,191	21,191	1,271
Exposures in default	37,155,413	27,336,562	3,280,338
Secured by mortgages on immovable property	0	0	0
Total	**743,676,163**	**716,311,935**	**36,061,990**

The difference between the credit risk Gross exposure value and the credit risk Net exposure value is the result of taking into account specific provisions. Based on the split of credit risk items, Corporates requires the most Capital with 83% of total Capital Requirement. Albeit the Bank is holding significant exposure with Central governments and central Banks (32% of total net exposure value), the Capital requirement is rather minimal, driven by the low risk-weights attached.

Table 11. Residual maturity breakdown of all the Credit Risk Exposures

Net Exposure value by Exposure class / Residual maturity	**<3 months**	**3-12 months**	**1-5 years**	**>5 years**
Central governments or central banks	184,965,683		12,400,169	30,366,225
Corporates	12,314,117	1,809,311	207,621,121	173,770,088
Exposures in default	1245.68		27,335,316	
Institutions	42,534,186		15,093,306	
Other Items	8,079,977			
Retail	11,378	9812.78		
Secured by mortgages on immovable property				
Total	***247,906,587***	***1,819,123***	***262,449,912***	***204,136,313***
TOTAL AMOUNT ACROSS ALL MATURITIES 716,311,935				

The exposures per residual maturities are showing a relative concentration around short-term exposures (>3 months) towards Central governments, central banks and other institutions (altogether 32% of total exposures), furthermore longer term exposures 1-5 years and >5 years towards Corporates (53% of total exposures).

In line with the IFRS 9 implementation, a financial instrument is in default when it becomes probable that the Bank will be unable to collect all amounts due (including principal and interest) according to the contractual terms of the financial instrument.

For the categorization of non-performing credit facilities the Bank uses the following approach:

- A credit facility which is more than 90 days past-due and/or;
- Credit facility with an Obligor, where the Obligor is assessed as unlikely to pay its obligation in full without realization of collateral.

Forborne exposures are credit facilities in respect of which forbearance measures have been extended. Forbearance measures consist of concessions towards an Obligor facing, or about to face, difficulties in meeting its financial commitments. Credit facilities are treated as forborne if a concession has been made, irrespective of whether any amount is past-due or of the classification of the exposure as having objective evidence for impairment or being defaulted.

The Bank had one forborne exposure at YE'19 of EUR 9.8m which includes the default exposure of EUR 9.4m as per Table 12 below and with the residual EUR 3.4m amount which was repaid in January 2019.

There has been no default during 2019, with the changes in defaulted loans and debt securities exposure driven by a decrease in provisions and sales of assets. This release has been approved by external auditors based on tangible evidence of recovery possible through sale of the assets.

Table 12. Changes in stock of defaulted loans and debt securities

Defaulted loans and debt securities – carrying value in EUR	2019	2018
Defaulted loans and debt securities at the end of previous reporting period	9,431,875	1,659,417
Loan and debt securities that have defaulted since last reporting period		-
Returned to non-defaulted status		-
Amounts written off		-
Decrease in provisions	15,346,433	7,774,231
Sales of assets	3,402,096	-
Other changes (sales of assets)	(845,088)	(1,773)
Defaulted loans and debt securities as end of the reporting period	***27,335,316***	***9,431,875***

The Bank considers that all non-performing exposures are also impaired and past due as the Bank applies provisions on an individual basis. Provisions are assessed and held in line with the IFRS 9 principles.

	Exposure	Specific Provision	General Provision
Past due more than 90 days /Impaired /Non-performing	37,154,167	9,818,851	-

The non-performing exposures are all related to legacy activity of bilateral lending and is not part of the Bank's current business model.

As the Bank is using the Standardized Approach for credit risk in accordance with Chapter 2, Title II, Part Three CRR, no further segregation is necessary for disclosure purposes.

The Bank is also required as part of CRR to assess and comply with the requirements for Country Specific Countercyclical Capital Buffer. As for 2019, the only applicable country exposure for the Bank was very limited with an overall Capital buffer rate of 0.40%.

Table 13. Institution Specific Countercyclical

Country Parameter Location	Country Specific Countercyclical Capital Buffer	Own funds requirements for relevant credit	Exposure value under the Standardised Approach	Capital buffer rate

		exposures – Credit risk		
Austria		12	150	-
Belgium		373,528	4,749,578	-
Cyprus		783	9,991	-
Czech Republic	1.5	32	400	-
Germany		804,102	15,537,002	-
Estonia		16	200	-
Spain		59	981	-
France	0.25	649,926	10,652,489	-
United Kingdom	1.0	2,348,458	32,259,081	-
Croatia		207,128	5,178,207	-
Hungary		384,438	9,610,940	-
Ireland	1.0	3,524,235	44,052,943	-
Luxembourg		4,403,469	264,037,295	-
Latvia		42	649	-
Malta		148	1,853	-
Netherlands		2,402,821	30,035,264	-
Romania		48	793	-
Slovenia		0	5,449,260	-
Slovakia	1.5	12	148	-
TOTAL		**15,099,257**	**421,577,223**	**60,352**
Institution-specific countercyclical capital buffer rate 2018				***0.40%***

8 Counterparty Credit Risk

The Bank is exposed to counterparty credit risk principally through derivatives contracts arising from its investment activities.

Counterparty credit risk is managed within the overall Credit Risk framework with risk assessment and exposure limits in line with the Risk Appetite and supporting limits framework. The exposure is evaluated by determining the potential size of the counterparty exposure, which may arise from the transactions together with an assessment of the creditworthiness of the obligor.
Risk mitigation techniques are used to reduce counterparty credit risk including the use of netting agreements, acceptance of collateral, application of haircuts and execution of transactions with central counterparties where applicable. At current the exposure is highly limited and related to FX forward activity.

Table 13. Credit Value Adjustment exposure

	SA-CVA RWA	Number of counterparties
Interest rate risk		
Foreign exchange risk	100,731	
Reference credit spread risk		
Equity risk		
Commodity risk		
Counterparty credit spread risk		
Total (sum of rows 1 to 6)	***100,731***	***3***
Total RWA for CVA at previous quarter-end		**18,304**
Total RWA for CVA at end of reporting period		**100,731**

9 Market Risk

Market risk is defined as the risk that the Bank's earnings or capital, or its ability to meet business objectives, will be adversely affected by changes in the level of volatility of market rates or prices such as interest rates, credit spreads, commodity prices, equity prices and foreign exchange rates.

Market Risk appetite is a component of the Banks overall risk appetite framework and is approved by the Board.

The key sources of market risk faced by the Bank are FX risk and interest rate risk. Market risk is managed in accordance with a variety of risk measures including sensitivity based measures, VaR, and stress testing.

9.1 Foreign Exchange risk

Foreign Exchange risk is the risk of losses arising from future movements in foreign exchange rates applicable to foreign currency assets, liabilities, rights and obligations. The Bank incur FX exposure from the deposit taking activity, FX investments, lending and security investments.

The instruments used for FX investment are all highly liquid flow instruments and limited to spot, forwards and swaps, and with currency exposure primarily in G10, and only limited exposure to EM currencies.

This risk is managed through the Risk Appetite and supporting limits framework set by the Board, including limits for intraday and overnight open currency positions. The Bank maintains low levels of treasury open currency positions at all times, with the VaR (10d, 99%) of EUR 0.2m as of year-end 2019.
The Bank has chosen the Standardised Approach to calculate own funds requirements for market risk. According to Art. 445 CRR, the capital requirement to cover Market Risk from FX fluctuations as of 31 December 2019 was EUR 1,122,110.

9.2 Trading Book

As a general principle, the extent of investing in securities within the CSSF defined investment and structural proprietary portfolios and proprietary trading portfolio, is restricted to the level that prudential own funds are available after deduction of the capital required to support the credit business and cover all the risks.

Given the current (nil) volume in the Trading book, the minimum capital requirement for market risk for the trading portfolio is null.

9.3 Interest Rate Risk

Interest rate risk is defined as the risk that changes in interest rates can negatively affect the Banks profitability, capital adequacy and the economic value of the Banks assets and liabilities.
The Bank's interest rate risk exposure arises from the normal cause of business activities including accepting deposits, placing funds with credit institutions and securities holdings.

The main drivers of the interest rate exposure, is the Banks securities investment portfolio accounted for as Hold to Maturity in line with the long-term investment strategy and the investments in syndicated loans.

In regards to Interest Rate Risk in the Banking Book (IRRBB), the Bank follows the current regulatory requirements such as EBA guidelines (2018/02), BCBS Standards (2016/04) and the CSSF Transposition 16/642.

9.3.1 Economic Value of Equity

As part of the Bank's assessment of interest rate risk exposure, the Bank calculates the Economic Value of Equity (EVE). The EVE measures the change in the market value of equity resulting from upward and/or downward interest rate shocks, taking into account changes in the positions. Under this method, the value of equity under alternative interest rate scenarios is compared with the value under a base scenario. This base interest rate scenario is the present value of the assets less the liabilities under the current or the forecast interest rate environment. The balance sheet is then revalued under the alternative interest rate scenarios and the difference between the value of equity under the base scenario and the alternative scenario is calculated. The aim of this analysis is to determine to which extent the interest rate risk is likely to result in a decline in the economic value of an institution by more than 20% (15%) of their own funds in line with the supervisory outlier test (EBA/GL/2018/02).

The Bank calculates EVE based on assumptions in line with regulatory requirements and apply a range of stress scenarios, in line with the current IRRBB regulation, with the most punitive being a ± 200 basis points parallel shift in interest rates based on the contractual cash flows. Negative interest rates are floored in line with EBA guidelines where a maturity-dependent post-shock interest rate floor should be applied for each currency starting with -100 bps for immediate maturities. This floor should increase by 5 bps per year, with 0% for maturities of 20 years+. If observed rates are lower than the current lower reference rate of -100 bps, the lower observed rate is used.

Table 14. EVE with -1% floor

Element	Overall Impact on IR move on the Equity [m EUR]	
	-200 bps	+200 bps
Total	***10.46***	***-8.56***

The result confirm that as of December 31th, 2019, a ± 200 basis point shift in interest rate would, in the worst case scenario, lead to an EVE impact equivalent 7% of the Banks own funds which is well below the regulatory threshold of 20%.

9.3.2 Net Interest Income

For the stressed Net Interest Income the Bank has applied a ± 200 basis points parallel shift in interest rates on the contractual cash flow. The results of this test can be observed below:

Table 15. Net Interest Income

Overall Impact on IR move on Earnings [m EUR]	
-200 bps	+200 bps
-2.0	***0.4***

The impact on Net Interest Income is driven primarily by the duration of the interest sensitive liabilities, mainly term deposits. Overall, the positive impact of an increase in interest rates from the Interest Income earned from the interest sensitive assets is offset by the increase of the interest expense paid on the interest sensitive liabilities (deposits).

10 Liquidity Risk

Liquidity risk is the current or prospective risk of loss arising from an institution's inability to meet its liabilities/obligations as and when they fall due without incurring unacceptable losses. The assessment of liquidity risk measures the need for available funding to meet obligations, and the availability of cash or collateral to fulfil these needs at the appropriate time by forecasting the various sources of funds available to the Bank under normal and stressed conditions.

Liquidity Risk is managed through the Banks Liquidity Risk Framework, including the Liquidity Risk Appetite and supporting limits and controls. The Board has the authority to set up the principles through the Risk Appetite Statement, on which decisions are made in regards to the funding composition and the liquidity position. The Asset and Liability Committee ("ALCO") is responsible for complying with these principles.

10.1 Liquidity Risk Management

The Bank follows a prudent policy in matching the maturity profile of its assets and liabilities and maintains a healthy liquidity buffer at all times.
The Banks Treasury function is responsible for the management of the liquidity buffer and funding, and manages this across the business areas on a daily basis.
The risk management function performs regular liquidity stress tests and assessment on the liquidity risk profile, and monitors the adherence to liquidity risk appetite and supporting limits.
The Bank utilises both regulatory metrics (Liquidity Coverage Ratio "LCR" and Net Stable Funding Ratio "NSFR") as well as internal metrics that assesses the asset and liability mismatch gap per currency under both normal and stressed conditions, to manage liquidity risk in line with risk appetite and supporting limits framework.

The regulatory metric LCR is intended to measure the amount of High Quality Liquid Assets ("HQLA") in proportion to the estimated new liquidity outflows within a 30-day time horizon. The Bank calculates LCR in significant foreign currencies in accordance with Art 415 (2) CRR with the corresponding 5% thresholds if the aggregate liabilities in a currency exceeds 5% of the institutions total liabilities in the reporting currency.

The NSFR is intended to ensure a stable funding profile in relation to the composition of assets and off-balance sheet activities, and is defined as the amount of available stable funding relative to the amount of required stable funding over a 12-month time horizon.

As of 31 December 2019, the Bank reports liquidity ratios (LCR and NSFR) are well above the minimum requirement imposed by CSSF, both on a short-term and long-term basis.

Table 16. Overview of LCR and NSFR

LCR [EUR]	2019	2018
Inflows	38,328,492	49,006,239
Outflows	268,170,133	182,493,431
Net Outflows (B)	229,841,640	133,487,192
HQLA (A)	275,172,349	210,287,479
LCR (A) / (B)	***120%***	***158%***

NSFR [EUR]	2019	2018
Available amount of stable funding (A)	523,330,568	480,366,863
Required amount of stable funding (B)	310,064,199	298,319,601
NSFR (A) / (B)	***169%***	***161%***

10.2 Asset encumbrance

Assets on the balance sheet are considered encumbered when they have been pledged or used to secure or collateralised a transaction that affect their transferability.
The Bank's encumbered assets are primarily in the form of initial margin requirements where assets are held with the central bank to facilitate transaction activities.
The Treasury function control the funding strategies for the Banks assets and monitor the asset encumbrance levels in line with the Banks strategic business plan and risk appetite.

Table 17. Disclosure on Assets Encumbrance

	Carrying amount of encumbered assets	Carrying amount of non-encumbered assets
Assets of the reporting institution	**7,414,553**	**655,838,112**
Loans on demand	3,590,764	218,851,927
Equity instruments		77.97
Debt securities		275,388,301
of which: covered bonds		0
of which: asset-backed securities		53,824
of which: issued by general governments		42,897,681
of which: issued by financial corporations		46,158,256
of which: issued by non-financial corporations		186,332,364

Loans and advances other than loans on demand		155,642,736
of which: mortgage loans		14,784,034
Other assets	3,823,789	5,955,071

	Fair value of encumbered collateral received or own debt securities issued	**Nominal of collateral received or own debt securities issued non available for encumbrance**
Collateral received by the reporting institution	-	-
Other collateral received	-	-
Total Assets, Collateral received and Own debt securities issued	***7,414,553***	**-**

	Matching liabilities, contingent liabilities or securities lent	**Assets, collateral received & own debt securities issued other than covered bonds and ABSs encumbered**
Carrying amount of selected financial liabilities	**1,077,688**	**3,590,764**
Derivatives	71,534	3,590,764
Deposits	1,006,155	0
Repurchase agreements	-	-
of which: central banks		
Collateralised deposits other than repurchase agreements		
of which: central banks	-	-
Debt securities issued		
of which: covered bonds issued		
of which: asset-backed securities issued		
Other sources of encumbrance	3,823,789	3,823,789
Nominal of loan commitments received		
Nominal of financial guarantees received		
Fair value of securities borrowed with non cash-collateral		
Other	3,823,789	3,823,789
Total sources of encumbrance	**4,901,478**	**7,414,553**

11 Non Financial Risks

Under the Non Financial Risk category, the Bank addresses Operational risk both from a Non-conduct and from Conduct Risk perspective. The latter is assessed separately from a capital perspective with focus on Compliance and Reputational risk for increased transparency. Legal risk is also embedded within this classification, all part of the Basel loss category "Clients, Products and Business Practises (CPBP).

In line with the Risk Appetite framework of the Bank, important risks within the Non Financial category shall be identified, assessed and mitigated by sufficient actions to acceptable levels.

EWUB aspires to compliance with applicable laws, rules and regulations and has no appetite for material non-compliance with any applicable laws, rules and regulations.

11.1 Operational Risk

Operational risk is the risk of losses resulting from inadequate or failed internal processes, people and systems, or from external events.

An enhanced operational risk management framework was set up in 2018 for identifying and measuring operational risk exposures, and further embedded across the Bank during 2019.

The management of operational risk exposure is a priority for the Bank and therefore extensive activity to mitigate the impact of operational risk is mandated.

The principal operational risks to which the Bank is exposed to include technology failures (including cyber-attacks), fraud, human error, regulatory breaches, and litigation.

Control improvements may be identified through Risk Control Self Assessments (RCSAs), Key Risk Indicators (KRIs), Risk Events and Scenario Analysis. The control improvements identified to be addressed with remedial actions are assigned an owner and target completion date, and the progress is tracked by the risk management department.
Operational Risk exposure is monitored through regular RCSAs, KRIs, Internal Events and tracking of remedial actions.

Operational Risk reporting is undertaken routinely to the Management Committee and Board Risk Committee with significant matters escalated to the Board.
Mitigation of operational risk is achieved through:

- Segregation of duties and elimination of conflicts of interest;
- Adapting appropriate operations and administrative systems to the Bank's activities;
- Maintaining an adequate internal control environment;
- Maintaining an effective Compliance function; and

- Maintaining an effective Risk Management function.

With respect to IT operational risk, the Bank's controls over data and access security and secrecy requirements have been confirmed by external audit as being more than adequate.

The Bank maintains a strong follow-up on operational incidents via the use of an incident database. This is used both in order to track the events through evidence gathering and authorization process, and to provide Management with statistical information on the nature and number of loss events and enable the lessons learned to be leveraged and help strengthen the control framework. The latter is also monitored against the RCSAs, and performed regularly across the Bank's units to enhance the control framework and ensure this is in line with current activity.

The Bank has chosen the Basic Indicator Approach to calculate own funds requirements for operational risk. According to this method, the capital requirement to cover the operational risks as of 31 December 2019 was EUR 2,763,954.

11.2 Compliance Risk

Compliance risk is exposure to legal penalties, financial forfeiture and the material loss an organization faces when it fails to act in accordance with industry laws and regulations, internal policies or prescribed best practices.
As recommended by CSSF Circular 12/552 the compliance function shall verify coherence and respect of processes and controls with the compliance policy and procedures on a regular basis and is in charge of the adaptation proposals, if required. To this end, the compliance function shall assess and control the compliance risk on a regular basis.

The management of compliance risk is one of the main priorities from the Bank, and the dedicated Compliance function under the leadership of the Chief Compliance Officer are responsible for organizing, coordinating and structuring of compliance-related controls (such as review of new account opening KYC files, regular sample controls on high-risk client profiles, etc.). The Bank, via the compliance function, also exercises its statutory responsibilities such as reporting suspicious transactions related to money laundering and the fight against terrorism financing and market abuse.

As part of the Compliance Risk, the Anti Money Laundering ("AML") and Sanction Risk are considered as paramount to the Bank. These risks include accepting a client or processing a transaction prohibited under EU and US sanctions or clear understanding of the nature and purpose of an account or transaction.

The key risks are mitigated by the KYC review and acceptance in Compliance Committee, and the KYT control solutions in place (Deployed, Safewatch, SWIFT screening, Compliance ex-ante restrictions on transaction and Profiling ex-post reviews).

The Bank is committed to complying with all applicable laws, rules, regulations and supervisory guidelines. The Bank has zero tolerance towards money laundering, fraudulent activities or facilitation of sanctioned activities. Furthermore, the Bank will not knowingly conduct business with individuals or entities it believes are engaging in in appropriate behaviour.

In line with the Basel classification, Compliance Risk is part of the Operational Risk. Therefore, the quantification follows the same methodology as the one mentioned under the Operational Risk section.

There is no Pillar 1 requirement for this risk.

11.3 Reputation Risk

Reputational risk, often called reputation risk, is a risk of loss resulting from damages to a firm's reputation, which could consist of the following items:

- Lost revenue;
- Increased operating, capital or regulatory costs;
- Diminution of shareholder value, consequent to an adverse or potentially criminal event even if the company is not found guilty.

Reputational risk is embedded in the risk assessment across the various aforementioned Risk factors and part of the risk taxonomy sub-risk classification for the main risk areas. This includes, but is not limited to, the recognition of client behaviours and the risk of outflows from customer current account and deposits, which is captured as part of liquidity risk, counterparty behaviour and market access that is considered as part of credit and market risk.

The Bank has no tolerance for inappropriate staff behaviour that may result in damage to its reputation or to the interest of its clients and all staff are expected to comply with all laws, regulations and codes of conduct that governs their activities.

In line with the Basel classification, Reputation Risk is part of the Operational Risk. Therefore, the quantification follows the same methodology as the one mentioned under the Operational Risk section.

There is no Pillar 1 requirement for this risk.

12 Remuneration Policy

12.1 General Conditions

The ***Remuneration Policy*** (hereafter "the Policy") is based on the following:

- The Law of April 5, 1993 on the financial sector as amended by the Law of July 23, 2015 transposing the CRD IV requirements into Luxembourg Law ("LFS");
- CSSF Circular 11/505 of March 11, 2011;
- The requirements of Directive 2013/36/EU of the European Parliament and of the Council dated 26 June 2013 on access to the activity of credit institution and the prudential supervision of credit institution and investment firms ("CRD IV");
- The requirements of Commission Delegated Regulation (EU) No 604/2014 of March 4, 2014 supplementing Directive 2013/36/EU of the European Parliament and of the Council with regard to regulatory technical standards with respect to qualitative and appropriate quantitative criteria to identify categories of staff whose professional activities have a material impact on an institution's risk profile, and any other applicable provisions, where applicable;
- The principles of bonus calculation and allocation currently adopted by East-West United Bank S.A. (hereafter "EWUB" or "the Bank").

The remuneration policy is consistent with and promotes sound and effective risk management and does not encourage excessive risk taking. The policy is in line with the business strategy, objectives, values and long-term interests of EWUB and incorporates measures to avoid conflicts of interests.

The policy was approved by the Board of Directors of EWUB and remains as a basis, on which rely the calculations, bonus payment to the employees having material impact on the risk profile of the Bank as well as the staff bonuses.

The following notions will be used for the remuneration policy:

- Valid value reached: KPI achievement considered at 75
- Target value reached: KPI achievement considered at 100
- Aggressive value reached: KPI achievement considered at 125

12.2 Scope

In the light of the Directive 2013/36/EU ("CRD IV") and of the Delegated regulation No 604/2014 supplementing the Directive 2013/36/EU, the category of employees/persons having material impact on the risk profile of the Bank (hereafter "Material Risk Takers" or "MRT") are identified and reassessed on a yearly basis during the annual performance process. Such identification can be repeated during the year upon the recruitment or the promotion of an employee to a position that could have a material impact on the risk profile of the bank based on the qualitative criteria defined by CRD IV. The currently identified MRT are the following:

- Members of the Management body: Board of Directors (hereafter the "Board");
- Members of the Authorized Management (two persons) who are in charge of the daily management of the Bank (included in category A as defined in paragraph 12.5.1):
  - First Managing Director/Authorized Manager is responsible for the risk-taking activities in the meaning of the CSSF Circular 12/552. He/she is responsible for the

development of the commercial aspects of the Bank's activities and the development of the business.
    - Second Managing Director is responsible for the administration and control functions in the meaning of the CSSF Circular 12/552. He/she is responsible for the implementation and effective operation of a system of internal control, and the respect of internal and external regulatory, compliance and statutory requirements.
- Members of the Management Committee (eight members including the two Authorized Managers) who have been granted decision power by the Authorized Management to perform day to day activities within their division and to act as an enlarged management body (included in category B as defined in paragraph 12.5.1):
    - Head of Corporate Banking (one person)
    - Head of Global Markets (one person)
    - Head of Transactional Banking (position vacant in 2019)
    - Head of Private Banking (one person)
    - Chief Operating Officer (one person)
    - Chief Risk Officer (one person)
- Staff members engaged in control functions include: Chief Compliance Officer (one person) and Chief Internal Auditor (one person) (all included in category C1 as defined in paragraph 12.5.1).
- Chief Legal Officer (one person - included in category C1 as defined in paragraph 12.5.1).
- Chief Information Officer (one person - included in category C1 as defined in paragraph 12.5.1).
- Chief Human Resources Officer (one person - included in category C1 as defined in paragraph 12.5.1).
- Chief Accounting Officer (one person – included in category C1 as defined in paragraph 12.5.1).
- Director in charge of Fixed Income (one person - included in category C1 as defined in paragraph 12.5.1)
- A Director in the Corporate Banking department (one person – included in Category C1 as defined in paragraph 12.5.1)
- Asset Manager in charge of Discretionary Portfolio Management (one person - included in category C1 as defined in paragraph 12.5.1)
- Head of Cash Management & Retail within the Transactional Banking division (one person – included in category C1 as defined in paragraph 12.5.1)
- Head of Sales & Trade Finance within the Transactional Banking division (one person – included in category C1 as defined in paragraph 12.5.1)

12.3 Proportionality principle

According to CSSF Circular 11/505, the criteria for exemption for Banks is as follows:

- Total non-consolidated Luxembourg balance sheet is less than EUR 5 billion; OR
- Capital requirements to cover risks are less than EUR 125 million.

EWUB meets both of the criteria required; in addition, the Bank is of mid-size with the total balance sheet bellow EUR 1 billion with streamlined product activities focused on the corporate lending activities, low complex private banking services with complementary treasury and custody services without specific complexity.

The structure and internal organization of the Bank have no particularities and follow straightforward governance principles corresponding to the size and low complexity of the activities. As such, the Bank is considered to be of low/moderate risk profile for the purpose of the remuneration requirements.

As EWUB meets these criteria, the following remuneration requirements are not required in the Policy:

- Bonus deferral period for payment;
- 50% portion of non-deferred variable compensation in shares (or similar);
- A retention period;
- Performance adjustments on the bonus;
- Set-up of a remuneration committee.

However, as a best practice, EWUB decided to set up a "Nomination and Remuneration Committee" (hereafter "NRC") which will discuss topics related to the performance appraisal of the MRT, their remuneration, as well as the general principles guiding the remuneration schemes of our Bank, as defined below. The NRC complies with article 95 of CRD IV.

12.4 Governance

The calculation of the bonus pool is monitored by the member of the Authorized Management responsible for the administration and control functions in the meaning of the CSSF Circular 12/552 (as further amended) and audited by the Internal Audit.

The control functions and human resources have also been involved in the design of the remuneration policy.

12.4.1 Nomination & Remuneration Committee

12.4.1.1 Composition of the Nomination & Remuneration Committee

The Nomination & Remuneration Committee has been set up by the Board of Directors in order to assist and advise the Board. The composition of the members of the Nomination & Remuneration Committee is approved by the Board of Directors and may include only non-executive members of the Board with a majority of independent directors. The Nomination & Remuneration Committee is held at least 4 times per calendar year.

12.4.1.2 Role of the Nomination & Remuneration Committee

The role of the Nomination & Remuneration Committee is as follows:

- Control the remuneration of the Independent Directors (as defined in the Directors' fees policy);
- Answer questions related to the remuneration statement at the general meeting;
- Be responsible for the preparation of recommendations (support and advice) to the control functions, in setting the overarching principles and parameters of the remuneration policy, to be approved by the Board;
- Prepare matters pertaining to the remuneration schemes of the Bank;
- Govern employee share and similar schemes;
- Agree to changes to senior executive incentive plans;
- Review and approve the list of Material Risk Takers ("MRT");

- Evaluate the remuneration of the Authorized Management and the other MRT as well as seeing that the remuneration schemes are appropriate;
- Prepare the recommendations to the Board regarding the remuneration of the Authorized Management, the MRT and all staff members;
- Oversee the performance and remuneration of the MRT, including their variable remuneration, to be approved by the Board;
- The NRC itself may be in charge of overseeing the central and independent review of the remuneration policies and practices;
- Devote specific attention to the assessment of the mechanisms adopted to ensure that the remuneration system properly takes into account all types of risks, liquidity and capital levels as well as ensuring that the overall remuneration policy is consistent with the long-term and prudent management of the Bank;
- Formally review a number of possible scenarios to test how the remuneration system will react to future external and internal events, and back test it as well.

12.4.2 The Board of Directors

The Policy is to be approved and periodically reviewed, at least once a year, by the Board of EWUB. The Board is responsible for:

- Ensuring that the Remuneration policy and practices are appropriately implemented and aligned with the Bank's overall corporate governance framework, corporate culture, risk appetite and related governance processes;
- Overseeing the remuneration of the members of the management body as well as of all staff members.

12.4.3 The Control Functions

The Control Functions have been involved in the design and the implementation of the remuneration policy. Moreover, they are alternatively overseeing its application.
EWUB has put in place a 360° appraisal process during which all employees within a business unit must ask feedback from at least two Control Functions so that they can provide their input on the impact of staff behaviour and the riskiness of the business undertaken.
Risk Management is responsible for assessing how the variable remuneration may affect the risk profile and culture of the Bank. It verifies that the variable remuneration schemes are in line with the Risk Appetite Statement of the Bank and do not promote excessive risk taking behaviors.
The Compliance function is responsible for assessing how the remuneration structure affects the Bank's compliance with legislation.
The Internal Audit is responsible for controlling:

- The list of employees/persons having a material impact on the risk profile of the Bank;
- That such employees/persons are duly evaluated every year;
- The bonus pool calculation;
- The correct execution of the decisions taken by the NRC and the Board on variable remuneration.

The implementation of the remuneration policy is subject to an annual review by central and independent audit for compliance with approved policy. The result of this review is available to the Board of Directors and remains at the disposal of the CSSF.

12.4.4 Human resources

Human resources function has been involved in the design of the remuneration policy.
It coordinates the monitoring of the consistent application of the policy and evaluates its operation. It also coordinates and monitors:

- The identification process of staff members having a material impact on the risk profile of the Bank;
- The performance assessment process of the employees of the Bank as defined in paragraph 12.5.4.10.

The HR department calculates the bonus pool and executes the payment of variable remuneration taken by the Management Committee, Authorized Management, the NRC and the Board.

12.5 Remuneration structure

Employees of EWUB benefit from a fixed remuneration (including fringe benefits) and a variable remuneration.
The fixed and the variable components are appropriately balanced. The fixed component represents a sufficiently high proportion of the total remuneration to allow the operation of a fully flexible policy on variable remuneration, including the possibility to pay no variable remuneration component.
Employees are required to undertake not to use personal hedging strategies or remuneration related insurance to undermine the risk alignment effects embedded in their remuneration arrangements. Variable remuneration is not paid through vehicles or methods that facilitate the non-compliance with CRD IV requirements.

Remuneration packages related to compensation for or buy-out from former contracts in previous employment must be aligned with the long-term strategy and interests of the Bank, this includes retention, deferral, performance and "claw back" arrangements.

12.5.1 Categorization of employees

For the purpose of the appropriate application of the remuneration strategy in line with the different level of the roles and responsibilities of employees, EWUB has defined five categories of employees that influence application of the remuneration principles as defined in paragraphs 12.5.4:

- A, B and C1: employees having a material impact on the risk profile of the Bank;
- C2 and D: the remaining employees.

12.5.2 Fixed remuneration

All employees of the Bank are entitled to:

- A monthly salary;
- Lunch vouchers;
- A complementary pension plan;
- A death & disability insurance;
- A travel insurance, and
- A complementary health insurance.

EWUB classifies these benefits as part of the fixed remuneration considering their application to the whole company.

12.5.2.1 Employees within the Collective Bargaining Agreement for the Banking Sector

Employees under the Collective Bargaining Agreement for the Banking sector will benefit from all the additional conditions granted by it. EWUB classifies these benefits as part of the fixed remuneration considering their specific and mandatory status.

12.5.2.2 Employees outside the Collective Bargaining Agreement for the Banking Sector

Employees outside the Collective Bargaining Agreement for the Banking sector will benefit from other fringe benefits such as leased car. EWUB classifies those as part of the fixed remuneration considering the defined rules regulating their application.

12.5.3 Complementary pension plan

The basis on which the pension amount is calculated includes the monthly gross salary, the car allowance (or the benefit in kind on the car used) and all other monthly allowances mentioned in the employment contract of an employee. In case of departure before the retirement age defined in our group insurance agreement, and under the condition that the employee has vested rights, any employee may withdraw the accumulated capital subject to the conditions laid down in the Law of June 8th, 1999.

12.5.4 Variable remuneration

12.5.4.1 Members of the Board of Directors

The Members of the Board are not compensated through a variable remuneration for their role as Directors.

12.5.4.2 Ratio of variable remuneration vs fixed remuneration

The variable component of the remuneration of all employees may not exceed the regulatory ceiling defined for their category. The fixed component taken into consideration for such ceiling is the one paid or granted during the year the performance is assessed and for which a variable remuneration may be granted.

The Bank has implemented a Short-Term Incentive (“STI”) program to be paid in the year following the performing year. The ratio variable remuneration paid or granted under the STI program vs fixed remuneration of the same performing year cannot exceed 100%.

The Bank has also implemented a 3-year Long-Term Incentive (“LTI”) program to be granted in three parts starting in the year following the performing year.

As a general principle, and as per the CRD IV and the financial sector legal requirements, the variable remuneration shall not exceed 100% of the fixed remuneration. On an exceptional basis, a higher maximum level of the ratio between the fixed and variable remuneration can be decided but will in no case exceed 200 % of the fixed remuneration. In such a case, and to comply with the CRD IV requirements, the Board will submit to the shareholders a detailed recommendation describing the reasons for, and the scope of, the approval sought (incl. the number of staff concerned, their functions and the expected impact on the requirement to maintain a sound capital base). The shareholders' decision will be taken at the General Meeting.

The procedure for increasing the ratio (including the quorum and voting thresholds) as described in CRD IV, the financial sector legal framework and the EBA Guidelines, which are strictly followed. Copies of both the recommendation of the Board to the shareholders and the shareholders' decision are provided to the regulator.

12.5.4.3 Variable remuneration linked to performance

The employees of the Bank may benefit from an annual bonus allocation. The period concerned by the performance bonuses is one financial year from January 1st to December 31st. The principles and the amount of variable remuneration depend on the financial results of the Bank, and on the individual performance of the employee taking into account quantitative and qualitative criteria.

12.5.4.4 Variable remuneration payment methods

The payment of a variable remuneration may be done in cash or in financial instruments provided that the employee is eligible for those instruments in strict application of the Luxembourg Law.

The STI variable remuneration is to be paid in cash or financial instruments in the year following the performing year.

The LTI variable remuneration is to be granted in financial instruments and will be blocked for a period of 3 years.

EWUB does not pay variable remuneration in instrument that would allow hedging or insurance against downside risk-alignment effects.

12.5.4.5 Guaranteed variable remuneration

Guaranteed variable remuneration is not authorized as it is not consistent with sound risk management and the pay-for-performance principle and is not part of prospective remuneration plan. Guaranteed variable remuneration may occur only when hiring new staff and where the Bank has a sound and strong capital base. When occurring, guaranteed variable is limited to the first year of employment.

12.5.4.6 Early termination and severance payment

Payments related to the early termination of a contract reflect performance achieved over time and do not reward failure or misconduct. Such payments could occur in the event defined in LTI rules.

A severance payments will not be awarded in case:

- Of obvious failure leading to the termination of an employment contract with immediate effect;
- An employment contract is terminated by an employee.

Severance payment may be granted in the event a Court declares a dismissal unfair.

12.5.4.7 Malus and "claw back"

Reductions in payouts of amounts previously awarded to MRT in financial instruments under the LTI program may be applied through malus.

Reductions in payouts of amounts previously awarded or earned either in cash or financial instruments under the STI program can be "clawed back" through legal proceedings.

The following reasons can trigger the above-mentioned reductions in case an employee:

- Participated in or was responsible for conduct which resulted in significant losses to the Bank;
- Failed to meet appropriate standards of fitness and propriety.

12.5.4.8 No vested right

The payment of a bonus under the STI program, even on a regular basis, does not constitute a benefit in kind or a vested right and remains at the discretion of the Bank.

12.5.4.9 Eligibility criteria for variable remuneration

The Bank has put in place several criteria defining the triggers and ways bonus may be paid, as well as the criteria that define employees' eligibility for consideration of the annual performance bonus allocation. The general "Bonus Trigger" criterion defines Bank's financial performance precondition allowing application of the bonus calculation described in the policy. The individual eligibility criteria defines individual employee's preconditions in order to be considered for the bonus as further defined in the policy.

12.5.4.9.1 Bonus Trigger

The Bank performance must reach at least the valid value (the "Bonus Trigger") in order to apply the standard process of bonus calculation defined in section 12.5.4.12 and present the results of such standard process to the NRC and the Board for their review and approval.

In case the Bonus Trigger is not reached, a specific decision of the Board is required to grant any form of variable remuneration.

12.5.4.9.2 Individual eligibility

EWUB has defined the following criteria restricting the potential eligibility of employees to a bonus payment:

- The employee must have joined the Bank no later than June 15 of the appraised financial year;
- For the employees joining the Bank between January 1 and June 15, the bonus allocation will be prorated;
- The Compound Individual Performance (as defined section 12.5.4.11) must be above 80%;
- The employee must still be under a valid working contract with the Bank and must not be in notice period upon the payment date of the allocated bonus, otherwise this is considered as not allocated.

12.5.4.10 EWUB Performance assessment

The Bank performance ratio is compared to the annual budget as approved by the Board of Directors, with the following items:

- Net operating income gross OPEX
- Cost/Income ratio
- Net income of the Bank

12.5.4.11 Individual performance assessment

A performance review will be conducted on an annual basis that will define the overall individual performance ratio (expressed in %).

The rating is determined by a range of quantitative and qualitative criteria.

12.5.4.11.1 Objectives definition and rating

Each qualitative and quantitative criterion is designed specifically and reflects the specificity of the department of the employee, his/her role and seniority. The appraisal may lead to one of four levels of achievements:

- Underperformed/fail, if the result is below 75 or the defined acceptable limit (KPI 0);
- Below target but acceptable (KPI between 75 and 99);
- On target, which can represent 100 of achievement, a specific deadline, a defined amount, etc.;
- Above target (KPI between 101 and 125).

Each objective and level is predefined in line with the long-term strategy and the objectives of the Bank. As a best practice, we request that their definition must be specific, measurable, achievable, relevant and time-bound (SMART).

The combined achievement of the qualitative and quantitative objectives defines the Individual Performance ("IP").

Objectives and level of achievements of the MRT are reviewed and approved by the Nomination and Remuneration Committee in order to ensure their compliance with the long-term strategy of the Bank.

12.5.4.11.2 Risk adjustment of performance and ratings

In order to take into account current risks, future risks, compliance and/or behavioural issues and generally any non-financial criteria that may not be part of KPI, the following bodies have authority to revise and adjust the performance assessment of any objective:

- Management committee and Authorized Management for the employees of categories C2 and D;
- Authorized management and Nomination and Remuneration Committee for the employees of categories B and C1;
- NRC and the Board for the Authorized management (category A);

Moreover, the above-mentioned bodies may also adjust:

- The performance assessment of any objective to take into account the cost of capital and liquidity requirements to reach such performance;
- The Individual Performance of any employee to take into account criteria of performance not covered by the KPI, such as compliance with internal rules, risk standards and procedures, as well as compliance with the bank's standards which govern relationships with clients and investors, as well as proper ethical behaviour.

12.5.4.11.3 Weight of the performances of the Bank, the Business unit and the employee

The weights of the qualitative and quantitative criteria are balanced with the ones for the performance of the Bank to reflect the individual impact on the latter and his/her responsibilities. The Compound Individual Performance ratio ("CIP") is based on the Individual Performance, the Bank Performance ratios and their weight.

12.5.4.12 Standard methodology of bonus allocation process

The total variable remuneration must not be of such size that it may affect the Bank's ability to maintain a sufficient capital base or, as needed, to reinforce the capital base. For that purpose, the Board may decide to review, decrease or cancel the total bonus pool.

EWUB has defined a range of variable remuneration per category of employee with a defined maximum amount of the eligible variable remuneration per category.

The maximum amount of the eligible variable remuneration is dependent on the level of impact on the results and performance of the Bank by each category.

The individual and the bank performances are considered to define the Compound Individual Bonus Indicator (“CIBI”) which is reviewed and potentially adjusted by the relevant approval bodies, especially in order to take into account all current and future risks, for each category as defined in article 12.5.4.11.2 defining the approval escalation process.

The sum of the adjusted Compound Individual Bonus Indicators (“CIBI”) of all employees will define the annual bonus pool for the financial year.

The Board may consider a substantial change of the annual bonus pool if subdued or negative financial performance of the Bank occurs, taking into account current remuneration.

12.5.4.13 Bonus pool under the STI program

In order to ensure that the total variable remuneration does not harm the financial stability, or the capital soundness, of the Bank and reflects well the financial results achieved, the bonus pool is presented to the NRC for control and to the Board for approval. Moreover, in the context of our multi-year performance assessment, the results and the performance of the Bank for the two previous years are also presented to the NRC and the Board.

12.5.4.14 Options granted under the LTI program

The maximum amount of options granted under the LTI program is calculated based on the rules defined in applicable LTI documentation.

In order to ensure that the variable remuneration under the LTI program does not harm the financial stability, or the capital soundness, of the Bank and reflects well the financial results achieved, the amount of options and the potential exit scenarios are presented to the NRC for control and to the Board for approval

12.5.4.15 Variable remuneration approval authorities

Applying the standard bonus calculation process (in compliance with the eligibility criteria defined in article 12.5.4.9.2), the Individual performance bonus is approved by hierarchical principles by Authorized Management, the Nomination & Remuneration Committee or the Board.

The Board of Directors approval is required for the total annual bonus

12.5.4.16 Specific and extraordinary cases

In case the Bonus Trigger mentioned in 12.5.4.9.1 is not reached and in order to prevent any further financial or non-financial damages on the performance or the stability of the Bank, the Board of Directors may grant a retention bonus on individual bases through a specific approval process supervised by Nomination and Remuneration Committee only under the specific circumstances defined in paragraph 12.5.4.9.1. Retention bonus may not, under any circumstance, be considered a guaranteed bonus, part of the fixed remuneration or a vested right.

12.5.4.17 Remuneration of employees having material impact on the risk profile of the Bank

Applicable calculation of the individual performance bonus complies with the requirements of CRD IV and is based on local practices in banking sector in Luxembourg.

12.5.4.18 Remuneration of control functions

Staff members engaged in control functions, as defined in paragraph 12.2, are compensated in accordance with the achievement of the objectives linked to their functions independent of the business area they control. The Board of Directors ensures the control of the calculation, allocation and payment of their compensation through the application of the remuneration rules defined in the policy.

12.6 Internal disclosure

The employees falling within the scope of the remuneration policy will be informed about any amendments with respect to the remuneration policy and will be informed in due time about the criteria which will be considered for the determination of the bonus payment.

12.7 Validity of the policy, modifications' and amendments' procedure.

The modifications and amendments to the Policy are subject of the decision of the Board of Directors.
In case of contradiction between the Policy, the Circular of CSSF 11/505, the CRD IV and Luxembourg's law, Luxembourg's law will be applied.

12.8 Quantitative information – year 2019

	Total remuneration allocated to employees
Total fixed remuneration	9.388.478€
Total variable remuneration	2.006.686€
Number of beneficiaries on 31/12/2019	101

	Total remuneration allocated to senior management and material risk takers
Total fixed remuneration	3.892.837€
Total variable remuneration	1.438.031€
Number of beneficiaries on 31/12/2019	18

One employee received a total remuneration between 1.000.000€ and 1.500.000€ 2019.