

OCTOBER 2018

China Construction Bank London – Tax Strategy

This document sets out the tax strategy which applies jointly to China Construction Bank (London) Limited and CCBL Funding PLC (together referred to as “CCBL” or “the Subsidiary”) and China Construction Bank Corporation London Branch (“CCBC LB” or “the Branch”), known collectively as “CCB London”. CCBL Funding PLC, a subsidiary of CCBL, a dormant entity for part of 2018, which has been placed into liquidation.

Our approach to risk management and governance arrangements:

Tax risk is any event which may result in an unnecessary expense related to tax or any event which may be challenged by HMRC if they consider that CCB London is not acting in accordance with the UK Tax legislation and Banking Code.

Tax risk also includes the risk that our tax reporting returns or liabilities are inaccurate or incomplete, potentially leading to under or over collection or payment of tax, exposing us to tax authority sanctions as well as potential damage to our reputation.

CCB London is subject to the following principal taxes:

- corporation tax on the profits of our business;
- employer social security contributions on employment costs; and
- value added tax (or its equivalent) on relevant services.

CCB London also facilitates the withholding and payment of income tax and social security contributions from employee remuneration.

CCB London manages tax risk within our Joint Risk Management framework:

- CCBL’s Board and CCBC LB’s Management Committee (ManCo) are accountable for risk management and ensure that an effective Joint Risk Management Framework (RMF) is in place, which encompasses tax risk.
- Tax strategy and compliance is part of the finance function and the responsibility of CCB London’s Chief Financial Officer.
- CCB London operates an industry standard “three lines of defence” risk management model. CCB London’s first line of defence for the majority of our tax risk is the Finance function, which owns and assesses tax risk via an annual risk and control self-assessment. The HR function is responsible for all Payroll, expatriate personnel’s tax affairs and other employee related taxes within CCB London.
- CCB London has further strengthened its Tax expertise in 2018 with the recruitment of a tax specialist within the Finance function.

- The Finance function also uses, where appropriate, specialist tax advisors to ensure CCB London's compliance with UK tax laws and the Banking Code and to ensure that all tax returns, reports and payments are accurate and complete to the best of our knowledge and filed on a timely basis.
- Where tax risk resides in other operating functions across the business, similar risk and control self-assessments are conducted and where key risks are identified, controls are implemented and processes put in place to mitigate those risks.
- CCB London's risk and compliance functions are the second lines of defence, providing oversight and challenge, with any material issues being reported through CCB London's governance committee structure.
- CCB London's tax processes and risk governance arrangements are periodically subject to internal audit, which is the third line of defence, with audit reports provided directly to the Audit & Risk Committee and ManCo.

Risk appetite – the level of risk CCB London is willing to accept:

CCB London does not have any appetite for breaching tax laws or allowing customers to use its services to evade tax. CCB London has a prudent risk appetite and low risk tolerance for tax risk, both in respect of one off transactions and in a business as usual context. Our business model and operating structure is straightforward and not subject to significant judgement in the application of tax laws. The ongoing tax risk approach is based on principles of reasonable care and materiality. Any tax planning implemented will be based on commercial drivers and rationale in accordance with UK tax laws and the Banking Code.

CCB London's attitude to tax planning:

CCB London undertakes tax planning only to the extent it supports its commercial objectives. CCB London adopts a conservative approach in its tax planning, pursuing only those initiatives that it is prepared to fully disclose to the tax authorities and complying fully with the relevant local tax obligations in each jurisdiction in which it does business.

To the extent the expected tax result of any initiatives are inconsistent with the commercial objectives, or appear disproportional to the economic result, these initiatives are not pursued.

CCB London follows the spirit as well as the letter of the law. CCB London does not countenance tax evasion, either on its own account or in respect to its employees, customers or counterparties.

CCB London firmly believes in safeguarding our reputation and our relationships with clients, shareholders and tax authorities alike.

CCB London seeks specialist external tax advice in certain situations, for example:

- in respect of large, one off transactions to ensure that CCB London does not suffer any unforeseen or unreasonable tax outcomes;
- in areas where we may have insufficient internal tax expertise; and

- as a second opinion in cases where we believe there is uncertainty with respect to the application of tax law, although we may also approach HMRC directly, to seek clarity or obtain clearance.

Our approach to dealings with HMRC:

CCB London's objective is to build a stable, transparent and professional working relationship with HMRC and other tax authorities.

CCB London believes in fostering trust and co-operation in our relationships with tax authorities by maintaining and maintains an open relationship in its dealing with HMRC and seeks to work in 'partnership' with HMRC in relation to its tax dealings:

- In the event of any inadvertent error(s) arising, full disclosure, where required by law, will be made to HMRC;
- CCB London will disclose any relevant planning it undertakes to HMRC in line with the legal disclosure requirements and criteria set out by HMRC;
- The e-mail protocol has been agreed with HMRC to define communication routes; and
- CCB London will continue to meet and cooperate with HMRC to facilitate a mutually beneficial relationship.