

Banque de Patrimoines Privés

Pillar 3 Disclosure Report 2016

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INDEX OF ABBREVIATIONS

BIA	Basic Indicator Approach
CEBS	Committee of European Banking Supervisors
CET1	Common Equity Tier 1 ratio
CRD IV	The Capital Requirements Directive IV
CRR	The Capital Requirements Regulation
CSSF	Commission de Surveillance du Secteur Financier
EBA	European Banking Authority
HQLA	High Quality Liquid Assets
IAS	International Accounting Standards
ICAAP	Internal Capital Adequacy Assessment Process
ILAAP	Internal Liquidity Adequacy Assessment Process
KYC	Know Your Customer
LCR	Liquidity Coverage Ratio
LTi	Long Term Incentive
NSFR	Net Stable Funding Ratio
RAS	Risk Appetite Statement
RCSA	Risk and Control Self-Assessment
SREP	Supervisory Review and Evaluation Process
VAR	Value-at-Risk

1. OVERVIEW

1.1. Purpose

This document presents the Pillar 3 disclosure report of Banque de Patrimoines Privés (“BPP” or “the Bank”) as well as for Banque de Patrimoines Privés, Portugal Branch (“BPP PT” or “the Branch”). The Bank is a wholly owned subsidiary of Credit Andorra (hereinafter “the Parent Company”).

The purpose of this report is to provide information on the implementation of the Basel III framework and risk assessment processes in accordance with the Pillar 3 requirements in accordance with part XIX “Disclosure by Credit Institutions” of the Commission de Surveillance du Secteur Financier (“CSSF”) circular 06/273 as amended, and Circular CSSF 15/618 transposing EBA guidelines on “Pillar 3 disclosures”. In particular, Circular 06/273 sets out the requirements related to the own funds adequacy in the financial sector by transposing into Luxembourg Law directives 2006/48/EC and 2006/49/EC of the European Parliament and the Council derived from the recommendations of the Basel Committee (Basel III).

The disclosures presented in this document are complimentary to other work undertaken by the Bank in its assessment of capital requirements under the Internal Capital Adequacy Assessment Process (“ICAAP”) and to the 2016 Annual Report.

1.2. Regulatory framework

The Basel framework has established a more risk sensitive approach to capital management and this is comprised of three pillars. Doing so enables the market to have a greater scope of visibility to its constituents.

1.2.1. Pillar 1

This is the **Minimum Capital Requirement** related to credit, market and operational risks that the Bank incurs. This further extends beyond solvency requirements and also covers the Bank’s liquidity requirements.

1.2.2. Pillar 2

Pillar 2 lays out the requirements for **Supervisory Review and Evaluation Process** (“SREP”) and the settling of individual capital requirements of the Bank, taking into consideration the Bank’s own assessment of capital requirements. Doing so allows supervisors to evaluate the Bank’s assessment of its own risks and determine whether the assessment seems reasonable.

1.2.3. Pillar 3

The aim of Pillar 3 is **Market Discipline** which aims to produce disclosure which allows market participants to assess the capital position, risk exposure and risk management processes. This includes all material risks thus enabling a comprehensive view of the Bank’s risk profile. The purpose here is to



have greater transparency in Bank's financial reporting thus enabling market place participants to better strengthen the risk management environment.

The Pillar 3 disclosure will comprise of both quantitative disclosures relating primarily to actual risk exposures and qualitative disclosures relating to risk management practices.

A further qualitative disclosure has been applied by presenting a summary of the Bank's Remuneration Policy as per CRR Article 50.

1.3. Frequency and location of disclosure

This document is prepared and updated at least annually and more frequently if deemed necessary. Unless stated otherwise, all figures are as of 30 December 2016.

The report will be published on the Bank's website (www.banquedepatrimoinesprives.com) and will not be subject to external audit, except to the extent that any disclosures are equivalent to those made under accounting requirements. The disclosures presented in this report do not constitute any form of audited financial statement.

These disclosures have been reviewed and verified by the Authorized Management.

1.4. Materiality

CRR Article 432(1) provides that a firm may omit one or more of the required disclosures if the information provided by such disclosures is not regarded as material. Information is considered to be material if its omission or misstatement could change or influence the assessment or decision of a user relying on it for the purpose of making economic decisions.

1.5. Proprietary or confidential information

CRR Article 432(2) provides that an Institution may omit one or more items of information included in the disclosures listed in Titles II and III if those items include information which is regarded as proprietary or confidential in accordance with the second and third subparagraphs, except for the disclosures laid down in Articles 437 and 450.

Information shall be considered as proprietary to a firm if disclosing it publicly would undermine its competitive position and may include information on products or systems which, if shared with competitors, would render the firm's investments therein less valuable. Information is regarded as confidential if there are obligations to customers or other counterparty relationships binding the firm to confidentiality.

Where information has been omitted from these disclosures in accordance with either CRR Article 432(1) or Article 432(2), this has been stated in the relevant section.

2. COMPANY OVERVIEW AND ACTIVITIES

Banque de Patrimoines Privés was incorporated in Luxembourg on 1 July 2010 as a limited company under Luxembourg Law. Since 9 April 2011, the Bank is a wholly-owned subsidiary of Crédit Andorrà S.A. (hereafter “the Group”). The Bank has its registered office at 30 Boulevard Royal, Luxembourg and is authorized and regulated by the CSSF and as such is subject to minimum regulatory capital requirements.

The Bank’s objective is to propose custom-made solutions for their customers avoid to create any investment vehicle types or to settle down to the Grand Duchy via domiciled companies. The Bank’s services include the preparation and the constitution of companies and investment funds, their domiciliation, with possibility for administrative and accounting management, as well as the missions of the depositary bank which ensue from it. On the other hand, in the dynamics of the Group, the Bank also proposes private banking services to customers. The general strategy for the Bank in Luxembourg is to be a preferential service provider for institutional and private customers.

The Bank is aiming to strengthen its position by focusing on its three main activities, namely Private Banking, the Depositary Bank and Corporate and Fund Services.

On March 1, 2016, Banque de Patrimoines Privés, Portugal Branch initiated its operations. Located in the city of Lisbon, the Branch offers the same products as the Bank for local clients. Its activities are closely monitored and reviewed by the Bank and reported accordingly to the local regulator.

3. GOVERNANCE

The Bank has set-up an internal organisation in accordance with the 3 lines of defence principles, with clear segregation of duties and independence of the three control functions: Internal Audit, Compliance and Risk Management. The Internal Control departments are independent of each other, report directly to the Authorised Management and have direct access to the Board of Directors. In despite of this independence, the internal control departments need to work together and be involved in common controls, each of them within a defined framework.

3.1. Board of Directors

The Board has the ultimate responsibility for limiting and monitoring the Bank’s risk exposure as well as for setting targets for the capital ratios and risk appetite.

- Responsible for creating and delivering value by governing the Bank’s business while meeting the interest of shareholders and other stakeholders
- Establish, document and communicate the internal capital planning, management and adequacy in relation to the Bank’s risk profile.
- Establish the framework to actively promote an internal risk culture among the various operational departments.
- Monitor and approve the implementation of the principles, strategies and objectives setup as the risk appetite of the Bank.

- Review key documentation such as the ICAAP / Individual Liquidity Adequacy Assessment Process (“ILAAP”) as well as key business activity, material risk taking and risk-related control processes.

3.2. Authorized Management

- Implement sound and effective processes in order to identify, manage, report and mitigate all material risks, in relation to the established risk-bearing capacity.
- Establish internal reporting tools which allow a proper oversight of the risks identified.
- Ensure the proper management of risks in case that they materialize in a way that might affect the operational effectiveness of the Bank.
- Ensure that proper internal control systems (electronic and non-electronic) are setup, ensuring the follow up of Risks.

3.3. Risk Management Department

- Analyse, monitor and control the risks arising during the business activity of the Bank.
- Develop and maintain the Bank’s risk management procedures and policies in order to ensure a continuous monitoring over the proper regulatory compliance.
- Provide relevant independent information, analysis and expert judgement on risk exposures and risk decisions
- Assist the Authorized Management and the Board of Directors in order to take informed decisions regarding risk management.
- Assist in the embedding of risk management within all areas of the business

An elaboration of the aforementioned objectives, processes and strategies of the Risk Management department will be detailed in the following section (section 4).

3.4. Compliance Department

- Ensure the Bank remains relevant to the current regulatory guidance and requirements.
- Assisting in the designing of appropriate risk identification, assessment and reporting processes to facilitate the adherence to regulatory requirements.

3.5. Internal Audit Department

- Assist the Board of Directors in their oversight responsibilities relating to financial matters, including corporate reporting, risk management and internal control.
- Responsible for the oversight of the quality and integrity of accounting and reporting practices and the performance of the internal audit function and independent external auditors
- Ensure, through independent audits, that the adequacy of the risk control and risk management function is monitored.

4. RISK MANAGEMENT FRAMEWORK

4.1. Risk Management objectives and policies

The Bank is exposed to a variety of risks as a result of its business activities. As such, active and effective risk management is fundamental to the Bank's core competence. In order to support this, the Bank has developed procedures and policies which help define a structured and formulated approach towards risk management. The key areas which the Risk Management department focuses on are:

- The identification and effective management of all types of risks the Bank is exposed to.
- Use of key risk metrics and business performance indicators to monitor risk levels quantitatively and qualitatively.
- Monitoring the implementation of significant changes in the Bank and their associated impact on the Bank's metrics
- Promoting a culture of ethical conduct, accountability, risk awareness and transparency that extends across the Bank in all its departments and activities carried out.
- Full compliance with applicable regulation, laws and procedures.

The reporting of risk controls, either scheduled or exceptional, is made to the Authorized Management of the Bank on a periodic basis. The risk reporting is produced by internal tools and databases which have been developed internally, whereby controls are in place to ensure accuracy, completeness and coherence of the different databases.

Risk Management reports are, on a monthly, quarterly and annual basis, produced and sent to the Parent Company in Andorra, which provide backward and forward looking empirical measures regarding all key risks faced by the Bank.

4.2. Framework

The internal Risk Management framework of the Bank is established in the Risk Management Policy, which describes how the risks are identified, measured, mitigated and reported. The risks are defined in various types and subcategories whose granularity reflects the size and complexity of the Bank's operations. The allocation of own funds is determined by using as reference the information already reported to the CSSF within the Circular 06/273 as amended, and complement by adding the risks and capital requirements that are not covered by these reports and materialized in the ICAAP report which is validated by the Board of Directors of the Bank and sent to the CSSF once per year.

This report presents the various risks to which the Bank is facing, or may face, as well as the stress scenarios which allows the Bank's Management to allocate specific capital resources to each activity to cover the risk related to such activities. It also serves to implement the necessary procedures to monitor, mitigate and manage the identified risks, and to locate unidentified risks.

Since its establishment, the Bank has had a Risk Management function which has developed and maintained the risk management framework through the setting up of various specific procedures for each department of the Bank. The Risk Management function is independent from the Business Units and reports directly to the Bank's Management, the Board of Directors and the Internal Control Department of the Parent Company.

4.3. Risk identification and notification

All operational units and individuals of the Bank have the duty to identify and quantify potential risks in their area of responsibility. As a result the Bank's risk identification process is a firm wide initiative which involves a proactive process of constant monitoring and assessment.

The Bank's risk identification process is both forward and backward looking. Assessment is done by regular review of processes in order to identify key areas of risk, weak points and points of failure. Similarly, following an incident, the bank conducts a further assessment to push mitigation actions and employ principles of learning from the event.

Once a risk has been identified, logged or realised, the Bank has ensured a procedure of centrally recording these errors (further details will be presented in section 6.3). All the operational units (first line of defence) including individual employees must notify the Risk Management Department (second line of defence), in a timely manner, of the risks that have been identified and quantified.

4.4. Risk appetite

The Risk Appetite clearly defines the Bank's attitude to the type and amount of risk taking in consideration the type of business, capital targets, shareholders expectations and macroeconomic conditions.

The Bank has defined the general Risk Appetite as low/moderate and conservative in the development of its business strategies. In this sense the Risk Appetite incorporates all material risks facing the Bank and aligns to the strategy through the use of the forward-looking business plan. In order to ensure alignment to the strategy the Bank uses the following processes:

- Risk Capacity (capital and liquidity) is evaluated and quantified
- Risks arising from the business strategy are identified (quantitative and qualitative) and assessed

The Risk Appetite is approved by the Board of Directors on an annual basis as part of the strategic planning process and is outlined through both quantitative and qualitative measures. This is underpinned by the following planning processes:

- Capital adequacy: Hold sufficient capital to maintain capital ratios above both regulatory and stressed capital requirements
- Earning stability: Limit earning volatility to support the ability to achieve state financial objectives
- Funding liquidity risk: Manage liquidity and funding liquidity risk by maintaining sufficient funds to meet all obligations on both a business-as-usual basis and in periods of liquidity stress
- Minimization of reputational risk: Avoid any transactions or services that bring risk of an unacceptable level of damage to the Bank's reputation
- Control of operational risk: Ensure robust management of operational risk in the Bank's day-to-day operations and its forward looking business strategy.
- Concentration risk: Proactively control concentrations within position risk by maintaining a well-diversified funding base.
- Control legal risk: Conduct business practices that are in line with the Bank's code of conduct and proactively identify sources of risk and/or breaches that may lead to reputational risk or regulatory sanctions.

4.5. Risk limits and mitigation

The Bank has a number of techniques which it employs to mitigate each risk depending on its nature. This includes the use of controls, outsourcing, contingency planning, capital allocation and collateral.

Based on these aforementioned techniques the Bank has developed approved limits set out by key risk type. These limits are then used as a basis for defining a more granular risk framework. The Authorized Management and the Chief Risk Officer are responsible for setting specific limits deemed necessary to manage the risk within individual lines of business and across counterparties as followed:

- Market risk is excluded as the Bank does not have a trading book and thus does not employ any methodology regarding, sensitivity, portfolio or stress management. Nevertheless, the Bank does monitor its banking book foreign exposure risk on a daily basis.
- Credit risk limits are based on a variety of exposure and stress measures including, for example, counterparty exposure and portfolio loss stress metrics. The overall credit risk management is designed to control overall credit quality, collateral arrangements and mitigation of concentration risk (such as single name) within the portfolio.
- Operational risk thresholds are based on a series of metrics designed to assess control effectiveness. The Bank has internally designed an operational risk database tool which allows for calibration and monitoring of events. This tool is designed to identify key areas of potential control weakness and helps drive development programmes to reduce operational risk. These thresholds are set in both quantitative (considering historical losses and gains) and qualitative terms.

These limits define the Bank's maximum risk appetite given management resources, market environment, business strategy and available resources to absorb potential losses.

4.6. Pillar 2

The Pillar 2 assessment is largely comprised on the ICAAP which is the Banks methodology for assessing the level of capital that adequately supports all of the Banks current and future risks in its business. The ICAAP focuses on the principal risks to the consolidated financial position and examines all risk categories to identify exposure that could put the Bank's capital at risk. The ICAAP is developed to ensure that capital resources:

- remain adequate to support the Bank's risk profile and outstanding commitments
- maintain capitalisation in events of severe economic downturn stress scenario
- meet current and future regulatory requirements
- remain consistent with the Bank's strategic and operational goals and our shareholder and investor expectations.

The ICAAP is supported by a scenario analysis which is used to support the determination of a level of capital required for severe but plausible events. It is updated and reviewed annually, with more frequent reviews in the event of a fundamental or anticipated change to the Bank's business. The ICAAP is formally approved by the Authorized Management and Board of Directors, which has the ultimate responsibility for the effective management of risk and approval of the Bank's risk appetite.

4.7. Stress testing

Stress testing is a key part of the Bank's planning and risk management processes helping to identify, analyse and manage risks within the business. Capital planning forms part of the ICAAP and a range of stress test and scenario analysis are used to estimate the impact of stress events on capital resources and regulatory capital requirements. In addition, stress testing is conducted for the ILAAP and supports the Recovery Plan and its associated scenario analysis.

Stress testing and scenario analyses are conducted on a regular basis and the results, trend information and supporting analysis are reported to the Authorized Management. In particular, the scenario's are defined and based upon historical events or on forward-looking, hypothetical plausible events that could impact the Bank's positions in terms of capital, liquidity or profitability. The scenario's are reviewed and updated as markets and business strategies of the Bank evolve.

5. CAPITAL MANAGEMENT AND OWN FUNDS

5.1. Solvency

Article 56 of the law of April 5, 1993 related to the Financial Sector gives the CSSF the ability to determine the coefficients to be applied according to the International conventions as well as the European Directives that needs to be respected by the credit institutions under their supervision.

The methods to calculate the solvency ratio are described in CSSF's Circular 06/273 as amended, concerning the definition of Capital and Solvency Ratios.

In such Circular, the following concepts to be applied to Credit Institutions are defined:

- The levels of own funds to be respected;
- The terms of a notification system and the limits of large exposure;
- The capital requirements related to credit risk as well as dilution risk of all activities;
- Capital requirements to cover operational risks associated with the activities it develops;
- Capital requirements for currency risk hedging;
- Capital requirements to cover the risk of price changes in commodities;
- A simplified capital ratio relating to the risk weighting

The solvency ratio can give a clear outlook of the importance of own funds of the institution, as related to credit, currency and operational risks associated to the Bank's activities. In accordance to Circular 06/273, the Bank's own funds must be at least equal to the overall capital requirements.

5.1.1. Simplified ratio

Due to the absence of market activity, the Bank was exempted from calculating an integrated ratio in accordance with EU Regulation No 575/2013.

The Bank has obtained a waiver in order to calculate a simplified ratio during the reporting period in accordance to CSSF's Circular 06/273, Section V, Chapter 2, part 9 as amended, as the Bank has no trading portfolio.

	30/12/2016	30/12/2015
	EUR	EUR
Common Equity Tier 1 (CET1)	46,130,261	37,692,349
+ Supplementary capital	-	-
Own Funds	46,130,261	37,692,349

The calculation of the capital requirement is detailed below:

	30/12/2016	30/12/2015
	EUR	EUR
Credit risk, counterparty credit risk, securitization risk, and incomplete transactions	5,999,875	6,060,523
Operational risk	2,032,420	1,465,136
Market risk	-	-
Total Pillar 1 Capital Requirements	8,032,295	7,525,659
Solvency ratio	45.94%	40.07%

6. PILLAR 1 RISK CATERGORIES

6.1. Credit and Counterparty risk

Credit and counterparty risk arises from the potential failure of the Bank's borrowers or counterparties to fulfil their obligations. This risk is the most significant risk faced by the Bank in terms of regulatory capital requirements that arise from its lending activities.

Credit risk represents the Bank's largest regulatory capital requirement and is controlled through specific procedures that the Bank has in place. These procedures provide the Bank with qualitative and quantitative tools which allow diversification of counterparties, which are selected using a "credit rating" method developed by the Parent Company. Depending on the rating obtained, a specific limit will be granted to each counterpart. This procedure is mainly used for interbank activity.

Regarding credit risk, an internal procedure is in place consisting of a setting up of specific review and authorization steps for credit proposals. Customer lending business is not a core activity of the Bank, and it is focused on private clients and well-recognized companies and fully collateralized by cash deposits or asset portfolios mainly in custody of the Bank. Specifically, any loan granted has to be guaranteed by financial collateral, cash, life insurance policies or a bank guarantee. The collateral arrangements are periodically monitored by the "Professional Services & Credit Lending" department. The Bank has a very strict collateral policy related to lending and always requires a high level of collateralization when granting a loan. The credit risk is determined on by the standardized approach as defined by CSSF's Circular 06/273.

The tables below give details on the requirements of regulatory capital by type of exposure as of December 30, 2016.

As of December 30, 2016 (in Euros)

Type of Exposure	Exposure before mitigation	Exposure after mitigation	Weighted Risk after mitigation	Own Funds requirement
Central Administration and Central Banks	68,558,579	367,163,360	-	-
Credit Institutions	345,055,441	71,586,146	35,611,183	2,848,895
Corporates	48,176,760	23,027,029	17,182,350	1,374,588
Retail clients	24,685,038	24,666,467	14,041,636	1,123,331
Other	9,310,534	8,212,282	8,163,272	653,062
Total	495,786,353	494,655,286	74,998,441	5,999,875

During 2016, the Bank did not transfer any credit or counterparty risk by using securitization vehicles.

6.1.1. Problem loans

As of December 30, 2016, no problem loans were detected and therefore no value adjustments were performed.

6.1.2. Credit Rating

The Bank calculates its credit risk by using the standard method as specified in CSSF's Circular 06/273 as amended and by using the credit ratings published by Standard and Poor'. The table below details the regulatory capital requirements by type of exposure and by credit quality.

As of December 30, 2016 (in Euros)

Type of Exposure	Credit quality	Exposure before mitigation	Exposure after mitigation	Weighted Risk after mitigation	Own Funds requirement
Central Administration and Central Banks	1	68,558,579	367,163,360	-	-
Credit Institutions	2	345,055,441	71,586,146	35,611,183	2,848,895
Corporates	N/A	48,176,760	23,027,029	17,182,350	1,374,588
Retail clients	N/A	24,685,038	24,666,467	14,041,636	1,123,331
Other	N/A	9,310,534	8,212,282	8,163,272	653,062
Total		495,786,353	494,655,286	74,998,441	5,999,875

6.1.3. Reporting, measurement and mitigation

The Bank follows the alternative approach proposed by CSSF's Circular 06/273 as amended, to mitigate credit risk. Additionally, the Bank has developed an internal system which allows the assessment on a day-to-day basis of the credit limit utilisation of counterparties in relation to their associated limit. Additionally, on a daily basis the Risk Management department develops a report to show the liquidity balance by counterparty and duration thus helping analyse overdrafts.

6.2. Market risk

Market risk is the risk of changes in market prices, interest rates, currencies or other economic factors that could cause a reduction in the value of assets or portfolio of assets. Market risk can arise from

open market positions (either long or short) or imperfectly hedged positions. The Bank's exposure to market risk is mainly concentrated in foreign exchange rate and interest rate risk.

The Bank does not own a trading portfolio and as such is not subject to capital requirements to cover position risks. However, the bank is exposed to currency risk as it holds cash in different currencies.

The Bank's policy regarding the decisions to take foreign exchange positions is conservative and is to have enough cash to cover small operations from clients. However, an exchange risk on corporate credit lines as well as hedging spot/forward positions initiated by the clients, still exist. To control the market risk, the Risk Management department performs daily checks on the foreign exposure in the banking book.

The Bank does however face the potential of market risk in the form of interest rate risk (as a result of fluctuations in interest rates in connection with cash movements or borrowing or currency risk in operating business when recognising net revenues denominated in foreign currencies).

6.2.1. Interest rate risk

As specified in its dedicated policy, the Bank covers the treasury market risk in operations on behalf of its clients. The Bank's policy normally accepts on exceptional basis commitments which exceed 6 months and requests to cover most of its position when it is for more than 30 days (based on their expectations). However, due to the low sensitivity to movements in interest rates, no limits have been defined for this risk.

Stress tests are performed by the Bank, as per CSSF's Circular 08/338 as amended, which are done in a monthly basis. The methodology followed to perform the stress tests is by scenario simulation, taking in account those assets in the balance sheet that are sensitive to changes in interest rate. A calculation of the economic value and impact occurred when the interest rates changes is performed, allowing to calculate the financial margin and the impact on the income statement. The stress tests are designed to determine the impact in the Capital position of the Bank, from an upward or downward movement of 200 basis points in the interest rates curves.

As of December 30, 2016, the results of the stress test for a variation of 100 and 200 basis points on the interest rates were as followed:

Sensitivity	Economic Sensitivity Value	Financial Sensitivity Margin
+100bp	4.64%	82.01%
-100bp	-4.65%	-34.68%
+200bp	9.26%	164.84%
-200bp	-9.32%	-37.24%

6.3. Operational risk

Operational risk is defined as the risk of direct or indirect loss resulting from inadequate or failed internal processes, people, and systems or from external events. The objective of the administration structure of the Bank is to ensure the business functions and to have available the necessary support for their operations.

The operational risk capital requirement has been based on the CSSF Circular 06/273 Part XV, as amended. The Bank has elected the Basic Indicator Approach (“BIA”) for operational risk. The gross income indicator has been calculated based on accounting values for the last three years. The Bank has decided to adopt a prudent approach by using a 15% indicator for all of its exposure. The total capital requirement for operational risk amounted, at the end of December 2016, to EUR 2,032,420.

While the Bank currently employs the BIA approach, the firm is working towards developing the foundation of a sound risk control framework based on the Principles for a sound Management of Operational Risk from the Basel Committee in applying the Risk and Control Self-Assessment (“RCSA”) practice to analyse its risk profile as well as the adequacy of its control to cover it.

The Bank also notes two sub-risks which fall under operational risk:

- **Compliance risk:** Defined as the risk generated by the macroeconomic and regulatory environment which the Bank operates in. This risk is mitigated by the Compliance function within the Bank identifying and evaluating compliance risk.
- **Reputational risk:** Defined as the risk from negative public perception which could cause a contraction in the customer base, costly litigations or shareholder value. This risk is mitigated by the robust application of Anti-Money Laundering and Know your customer (“KYC”) principles.

6.3.1. Reporting, measurement and mitigation

For monitoring purposes, the Bank has set up a database tool developed by the Parent Company whose methodology is known and accepted by the Bank. The purpose of the tool is centralising all reported operational risk incidents in order to ensure the collection of the entire incidents as well as to monitor the operational risk profile of the Bank.

Consequently, all operational incidents (with and without a financial impact) are assessed and logged, both on paper and electronically in the form of an incident report form, in order to control the deficiencies through all the processes, better adapt risk management processes and refine back testing work.

The monitoring of this database is ensured by the Risk Management Department of the Bank, who ensures the collection and registration of all operational incidents through the database, based on report incidents received by the responsible business lines.

6.4. Liquidity risk

Liquidity risk is defined as the possibility of incurring losses when there are not sufficient cash or liquid resources to comply with the obligations assumed. The Bank is exposed to liquidity risk as it may lack sufficient liquidity to meet its daily payment obligations or incur refinancing costs in the event of liquidity stress.

The management of liquidity risk is detailed by the Bank’s liquidity risk procedure, which set out the full coverage of the Bank’s liquidity standards as required by the regulator, stress tests and scenario analyses. In particular the Bank utilises reverse liquidity stress tests to ensure that efficient liquidity during potential market disruptions and idiosyncratic scenarios.

As of December 31, 2016, the schedule of financial assets and liabilities is as follows:

Maturities of financial assets and liabilities (book value, EUR)

	≤ 3 months	> 3 m < 1 yr	> 1 yr < 5 yrs	> 5 yrs	Total
Instrument Category (financial assets)					
Treasury and balances with Central Banks	59,011				
Financial Assets held for trading	3,785,840	-	-	-	59,011
Loans and advances to credit institutions	343,216,420	-	-	-	3,785,840
Loans and advances to customers	20,061,154	-	-	-	343,216,420
Investments held to maturity	-	13,251,261	183,454	18,119,986	51,615,855
TOTAL	367,122,425	13,251,261	68,293,149	18,119,986	466,786,821

Instrument Category (financial liabilities)					
Debts to central banks	36,001,866	-	220,013	-	36,22,879
Financial liabilities held for trading	3,743,058	-	-	-	
Amounts owed to credit institutions	29,533,800	-	-	-	
Customer Deposits	346,388,505	2,034,040	-	-	348,422,545
Other Liabilities	-	2,194,600	1,236,376	209,804	3,640,780
Engagements	1,263,895	9,363,691	5,000,000	103,964	15,731,550
TOTAL	416,931,124	13,592,331	6,456,389	313,769	367,794,875

6.4.1. Reporting, measurement and mitigation

The Bank employs a range of liquidity risk assessments and stress tests to assess its ability to meet its obligations when they fall due.

The Bank performs daily assessment on the following regulatory ratios:

- **Liquidity Coverage Ratio ("LCR"):** The Liquidity Coverage Ratio requires financial institutions to hold a stock of liquid assets to cover the net cash outflow of the Bank over a period of 30 days. The net cash outflow is defined as the difference between the total cash outflows and the minimum between the total cash inflows and 75% of the total cash outflows
- **The Net Stable Funding Ratio ("NSFR"):** The purpose of the Net Stable Funding Ratio ("NSFR") is to ensure that banks hold a minimum amount of stable funding based on the liquidity characteristics of their assets and activities over a one-year horizon. The objective is to reduce maturity mismatches between the asset and liability items on the balance sheet and thereby reduce funding risks.

Additionally the Bank also analyses metrics regarding depositor concentrations, geographical location and currencies on top of quarterly stress tests to assess the Bank's liquidity resilience.

7. REMUNERATION POLICY

As a credit institution, the Bank is in conformity with the CSSF Circular 10/496, which refers to the CEBS Guidelines on Remuneration Policies and Practices of 10 December 2010 and CSSF Circular 11/505 regarding remuneration. The Bank has established a Remuneration Policy which is validated by the Board of Directors.

The Remuneration Policy intends to encourage prudent and sound risk-management in order to not exceed the level of the Bank's tolerated risk. The Policy shall be in line with the Bank's conservative business strategy and the long-term interests and underlying values of wealth preservation and sustainable growth. This is highlighted by the reasonable percentage of variable remuneration paid, which is specifically designed to preserve a sound risk management culture avoiding conflict of interests with non-sustainable business profitability and excessive risk taking.

In order to encourage its employees to participate as actively as possible in the achievement of the strategic objectives, controls and business goals, while respecting the work contracts in effect over time, the Bank applies, in a general manner and whenever possible, compensation policies which provides a fixed and a variable component based on the results achieved when pursuing the assigned objectives. The adoption of an adequate compensation mechanism allows to:

- Guide and encourage positive desired behaviours
- Influence motivation / personal expectations
- Support the achievement of strategic objectives in the long and short term.
- Recognize and reward individual / collective contributions
- Contribute to the competitiveness and the attractiveness of the Group in respect to other competitors in the labour market
- Retain the employees

The remuneration policy applies to all employees of the Bank and places particular emphasis on takers of material risks as required by the Capital Requirements Directive. The implementation of the remuneration policy is reviewed yearly by the control functions and is also subject to a review by both the internal and external auditors of the Bank, before it's finally submitted for approval for the Board of Directors, at least, on an annual basis.

The Bank has defined the remuneration structure for its employees on the basis of the following two elements:

- **Salary:** The fixed part of the remuneration (including any benefits provided for in the collective agreement and / or the contract of employment)
- **Bonus:** The variable part of the remuneration paid.

The remuneration policy of the Bank is, as far as possible, adapted to the actual duties and responsibilities as set out in the job descriptions. The remuneration policy is also adapted to the commitment demonstrated, according to the position held, to the seniority and experience acquired by the employee. The assignment of an adequate remuneration makes it possible to positively influence employees towards professional and ethical behaviour. Equitable remuneration further enables the value of merit to be put into practice.

7.1. "Material" Risk Takers

The Remuneration Policy of the Bank applies to different categories of employees. Some employees are considered as "material" risk takers, and another part of the employees, given their powers and duties, are naturally excluded from the concept of "material risk takers".

For each of the categories, the risks associated with these categories are detailed, as is the number of persons involved (as of 31 December 2016):

Category	Eligibility for variable remuneration	Risk taker	Number of persons concerned
<u>Members of the Board of Directors (*)</u>	No	Material	8
<u>Members of the Direction</u> - <i>Managing Director</i> - <i>Chief Operating Officer</i>	Yes	Material	2
<u>Control Functions</u> - <i>Chief Internal Auditor</i> - <i>Chief Risk Officer</i> - <i>Chief Compliance Officer and Deputy Chief Compliance Officer</i>	Yes	Material	4
<u>Commercial, Operational and support activities</u> - <i>Head of Accounting & Mgt Secretary (including HR).</i> - <i>Head of IT Dept.</i> - <i>Head of Corporate and Fund Services Dept.</i> - <i>Head of Legal Dept. (to be recruited)</i>	Yes	Material	3
<u>Banque de Patrimoines Privés, Portugal Branch</u> - <i>Managing Directors</i> - <i>Deputy General Manager</i> - <i>Chief Risk Officer</i> - <i>Chief Compliance Officer</i>	Yes	Material	3
Others (Employees not included in the aforementioned categories)	Yes	N/A	54

(*) Including the Managing Director

7.2. Breakdown of total remuneration by type of Risk Taker

For the financial year 2016, as of 31 December, the following two summary tables show the share of variable remuneration on the total remuneration paid:

Employees of the Bank	Number of people	Variable portion of total compensation
All categories (Including "Other" and "Directors")	66	6 %

Risk takers:	Number of people	Variable portion of total compensation ¹	Pension contribution	Long-term indemnities
<u>Members of the Board of Directors</u>	8	n/a	None	None
<u>Members of the Direction</u> - Managing Director - Chief Operating Officer	2	7 %	None	None
<u>Control Functions</u> - Chief Internal Auditor - Chief Risk Officer - Chief Compliance Officer et Deputy Chief Compliance Officer	4	12 %	None	None
<u>Commercial, Operational and support activities</u> - Head of Accounting & Mgt Secr (including HR). - Head of IT Dept. - Head of Corporate and Fund Services Dept - Head of Legal Dept. (to be recruited)	3	20 %	None	None
<u>Banque de Patrimoines Privés, Portugal Branch</u> - Managing Directors - Deputy General Manager - Chief Risk Officer - Chief Compliance Officer	3	0 %	None	None

7.3. Limits to variable compensation

The Bank has set a maximum ceiling for the variable component. Pursuant to Article 38.6 (g) of the Act of 23 July 2015 transposing CRD IV, the variable component may not exceed 100% of the fixed component for material risk takers. Any approval of a higher ratio shall be made in agreement with the Board of Directors and following a specific procedure.

No employee of the Bank shall be entitled to a total remuneration of no more than EUR 1,000,000 during a working year.

Finally, during the year 2016 no employee has received a variable compensation which depended on financial or sales related objectives.

¹ Given that variable compensation, consisting exclusively of a bonus / bonus for the relevant period, is only paid at the beginning of the following year