EDMOND DE ROTHSCHILD

Pillar III of Basel II 2014

EDMOND DE ROTHSCHILD (EUROPE)

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EDMOND DE ROTHSCHILD (EUROPE) - Public Limited Company

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1. Introduction

The first Swiss bank to open in the Grand Duchy of Luxembourg in 1969, the original aim of Edmond de Rothschild (Europe) was to receive fiduciary investments from the Geneva head office. From the mid-80s, EdRE developed private banking activities followed by custodian services and investment fund administration.

Specialising in wealth management, fund administration and custodian services as well as global asset management (family office), EdRE now has more than 500 employees in Luxembourg.

Within the framework of regulation (EU) n° 575/2013 of the European Parliament on prudential requirements for credit institutions and investment firms, a set of requirements aimed at improving the financial transparency of banks vis-à-vis the market was defined, so as to enable third parties to assess their capital adequacy in the light of their risk profiles. These elements are disclosed in this document.

2. Scope of Pillar III

The scope of this report covers Edmond de Rothschild (Europe) (hereinafter referred to as the "Bank") as well as its three branches in Belgium, Spain and Portugal respectively.

On the basis of criteria established under Luxembourg law, the Bank is exempt from the obligation to produce consolidated accounts.

No current or foreseen material or legal impediment should prevent the prompt transfer of own funds or repayment of liabilities between Edmond de Rothschild (Suisse) S.A. (hereinafter referred to as the "Parent Company") and the Bank as well as between the Bank and its subsidiaries.

3. Risk management and capital adequacy

3.1 General principles

The Bank's risk management and capital adequacy policy falls strictly within the framework of the capital and risk policies defined at Edmond de Rothschild Holding S.A., parent holding of Edmond de Rothschild Group. In accordance with this policy, the Bank provides capital adequacy and risk management via a comprehensive framework of principles, an organisational structure, limits and processes closely linked to the Bank's activities and the nature of the risks to which it is or could be exposed.

In line with CSSF Circular 06/273 (as modified), the capital adequacy and risk management policy is the subject of an annual report "Report on the Internal Capital Adequacy Assessment Process (ICAAP)" validated by the Board of Directors of the Bank and intended for the Luxembourg control authority. This report is part of the dialogue between the latter and the Bank regarding risks and capital adequacy.

The report must, among other things, cover an assessment of all the risks to which the Bank is or might be exposed, their sensitivity to crisis scenarios and their expected changes in the light of the Bank's development strategy.
Once the risks have been identified and quantified, the Bank determines the amount of capital needed to be raised to cover its risks or implements appropriate management and control procedures for those risks, such as the liquidity risk, which may not be covered by capital.

This internal assessment framework is integrated into the Bank's various management and decision-making processes by means of various devices such as crisis scenario sensitivity analyses or committees such as the Credit Committee or the Market and Assets/Liabilities Management Team.

[1] Internal Capital Adequacy Assessment Process.

3.2 Management functions

The daily management of the bank is under the supervision of the approved directors, who together act as the Executive Committee of the bank. As at 31st December 2014, the committee is comprised of the following members:

Mr Marc Ambroisien
Chairman of the Executive Committee
Board member, Chief Executive Officer
Responsible for domiciliation activities
and internal audit functions

Mr Marc Grabowski
Vice-chairman of the Executive Committee
Responsible for accounting functions

Mr Franck Sarrazin
Vice-chairman of the Executive Committee
Responsible for market's activities and administrative
and IT systems functions

Mr Jean-Marc Thomas
Vice-chairman of the Executive Committee
Responsible for risk management, compliance, clientele's complaints handling functions, rules of conduct in the financial sector and the Single View of Customer (SVC) mechanism in the framework of the deposit guarantee scheme

Mr Pierre-Marie Valenne
Vice-chairman of the Executive Committee

3.3 Organisation of risk management

Since March 2008, the Bank has a centralised risk management department. This department reports directly to the Executive Committee. In compliance with the CSSF 12/552 circular, the bank has separated the role of Chief Risk Officer from the responsibility of the Risk Management within the Executive Committee.

This department was created with three objectives:

- To adapt the risk management framework (risk policy, process, methodologies and tools) to expected changes in the Bank's activities and risks;
- To participate in the day-to-day management of risks in collaboration with the Bank's various business areas and departments;
- To advise the Management Committee and Board of Directors in the fields of risk management and capital planning.

As part of an efficiency and cross disciplinary process, the Risk Management Department is located at the very heart of the Bank's management and control framework. This position enables it, among other things, to have direct access to the Bank's various management bodies, the Board of Directors and even the Parent Company's Risk Management Department.

3.4 Capital management and capital adequacy

3.4.1 PRUDENTIAL OWN FUNDS

The Bank's prudential own funds are calculated in accordance with the requirements of part two entitled "Own funds" of regulation (EU) n° 575/2013, articles 25 to 91.

Eligible capital and reserves (in millions of euros)	**31.12.2014**	**31.12.2013**
Original own funds	**221.7**	**221.4**
- Paid-up capital	31.5	31.5
- Reserves	178.8	147.6
- Profit brought forward	14.6	5.8
- Revaluation reserves	0.0	39.9
- Deduction of deferred taxes	-3.2	-3.4
Additional own funds	**1.3**	**14.5**
- Capital gains on shares	0.0	13.2
- Special items with quota share of reserve	1.3	1.3
Items to be deducted from own funds	**0.0**	**-6.7**
- Priadvisory Holding (100%)	0.0	-2.5
- Edmond de Rothschild Asset Management* (99.92%)	0.0	-3.6
- Edmond de Rothschild Intl Fund Bermuda (14.75%)	0.0	-0.5
- LCF Edmond de Rothschild Conseil (99.99%)	0.0	-0.1
- Iberian Renewable Energies S.à.r.l. (100%)	0.0	-0.01
Total	**223.0**	**229.2**

* Formerly Edmond de Rothschild Investment Advisors

3.4.2 PRUDENTIAL OWN FUNDS REQUIREMENTS BY TYPOLOGY OF RISK

Within the framework of part three of regulation (EU) n° 575/2013 entitled “Capital requirements”. The Bank must calculate its minimum regulatory capital requirement to cover credit, market, operational, credit valuation adjustment and settlement/delivery risks respectively.

To this end, the Bank has selected the most appropriate regulatory methodologies for its organisation and activities; namely:

Type of risk	Methodology used
Credit risk	Standard approach
Market risk	Standard approach
Operational risk	Standard approach
Credit valuation adjustment risk	Standard approach
Settlement/delivery risk	Non applicable

In addition, the Bank has selected the general method within the credit risk mitigation techniques, except for personal guarantees in respect of which the Bank uses the substitution method.

The following tables detail the Bank’s regulatory capital requirement by type of risk and class of exposure as at 31st December 2014 and 2013.

31st DECEMBER 2014

Type of risk	Basel II approach	Exposure class	Weighted risk after mitigation*	Capital requirement*
Credit risk	Standard	Central governments and central banks	0.0	0.0
		Public sector entities	0.1	0.0
		Credit institutions	74.1	5.9
		Corporate [2]	243.6	19.5
		Shares of UCIs	4.9	0.4
		Stocks	91.1	7.3
		Other	40.8	3.3
		Total	**454.6**	**36.4**
Market risk	Standard	Exchange risk	0.0	0.0
Operational risk	Standard		342.2	27.4
Settlement/ delivery risk	Non applicable	Settlement/delivery risk (without trading book)	0.3	0.0
Credit valuation adjustment risk	Standard		1.6	0.1
Total			**798.7**	**63.9**

*in millions of euros

31st DECEMBER 2013

Type of risk	Basel II approach	Exposure class	Weighted risk after mitigation*	Capital requirement*
Credit risk	Standard	Central governments and central banks	0.0	0.0
		Public sector entities	0.0	0.0
		Credit institutions	63.3	5.1
		Corporate [2]	213.8	17.1
		Shares of UCIs	5.2	0.4
		Other	61.2	4.9
		Total	**343.5**	**27.5**
Market risk	Standard	Exchange risk	0.0	0.0
Operational risk	Standard		365.0	29.2
Settlement/ delivery risk	Non applicable	Settlement/delivery risk (without trading book)	0.2	0.02
Credit valuation adjustment risk [3]	Standard		0.0	0.0
Total			**708.7**	**56.7**

*in millions of euros

[2] The “Corporate” exposure class consists essentially in exposures to private clients and investment funds.
[3] Non applicable in 2013.

3.4.3 CAPITAL ADEQUACY RATIOS

In accordance with the requirements of regulation (EU) n° 575/2013, the Bank calculates a capital adequacy ratio and a Common Equity Tier 1 capital ratio.

The following tables summarise the elements making up these two ratios.

	31.12.2014 (in millions of euros)	31.12.2013 (in millions of euros)
Eligible capital and reserves	**223.0**	**229.3**
Minimum requirement to cover		
- Credit risk	36.4	27.5
- Market risk	0.0	0.0
- Operational risk	27.4	29.2
- Settlement/delivery risk.	0.0	0.02
- Credit valuation adjustment risk	0.1	0.0
Capital adequacy ratio (%)	**27.9**	**32.4**
Tier I Ratio (%)	**27.8**	**30.8**

The minimum capital adequacy ratio to be adhered to by any credit institution is set by regulations at 8% (excluding capital conservation buffer), comprising 4% Common Equity Tier 1 own funds as at 31st December 2014.

3.4.4 INTERNAL CAPITAL

The Bank has defined its internal capital on the basis of the prudential own funds required by regulations and the realisation of stress-tests carried out within the framework of ICAAP report.

Changes in regulatory and internal capital as well as capital requirements are assessed on the basis of capital sources and expected changes in the Bank's risk profile.

3.4.5 PILLAR I RISKS
Credit and counterparty risk

Definition of the risk

Credit and counterparty risk (jointly referred to as "credit risk") is defined as the risk of deterioration of the quality or default of a counterparty resulting in the latter not meeting its contractual obligations towards the Bank.

Management of the credit and counterparty risk

As credit risk covers a wide range of sub-categories of risks and activities, the analysis of this risk is structured below according to the two major credit activities carried out by the Bank; namely client credit business and interbank business.

Client credit business

In 2014, it should be noted a repositioning of the credit as a service and product; Credit becomes important in the process of capturing the new clients. The appetite for client's credit risk is medium.

Any credit granted by the Bank must be secured with financial collateral meeting draconian criteria in terms of diversification, liquidity, valuation, rating and geographic coverage or by personal guarantees (exclusively transfers of life insurance policies or bank guarantees payable upon first call issued by first class credit institutions).

An analysis of the quality of the collateral by assigning a Lombard or equivalent-risk valuation is carried out by a specific unit within the Risk Management Department. Each item of financial collateral is subject to a different analysis according to the type of asset, which covers a wide range of criteria such as liquidity, the existence of a reliable valuation, rating of the asset (e.g. debt instruments), residual life (e.g. debt instruments), type of issuer (e.g. debt instruments), nationality of the issuer, currency, geographic coverage (e.g. investment funds), diversification (e.g. investment funds) or even the level of indebtedness (e.g. investment funds).

Analyses of investment fund, derivative and structured product type assets are routinely subject to review and validation by the multi-disciplinary Lombard Weightings Committee.

Apart from meeting individual eligibility criteria, financial collaterals and personal guarantees securing credit must also comply with strict rules in terms of diversification such as the absence of any correlation between the debtor and the financial collaterals personal guarantees or even a minimum number of different securities.

The transposition of this strict policy leads the Bank to require systematic over-collateralisation, the percentage of which varies according to the type of financial collateral and/or personal guarantees and their level of diversification.

This prudent policy is strengthened by the governance mechanism introduced at the various stages of the life cycle of credits with a set of controls carried out by the various players within the Bank, including the Credit Committee, the keystone of the mechanism.

Interbank business

The Bank has a limited appetite for credit and counterparty risk in interbank business. This interbank business, essentially deposits and spot and forward exchange transactions, is simply to support the needs of clients.

Counterparty selection, carried out in collaboration with the Parent Company, is based on qualitative and quantitative criteria in line with best market practice.

Furthermore, the Bank makes substantial use of credit risk mitigation techniques such as tripartite reverse repurchase agreements, reverse repurchase agreements done with central counterparties, deposits with the Central Bank of Luxembourg and/or master netting agreements.

Within the framework of tripartite reverse repurchase agreements, the Bank seeks to optimise the balance between diversification of the counterparties and the quality of the basket of eligible securities. The latter are limited exclusively to debt instruments issued or guaranteed by central administrations, central banks, multilateral development banks and international organisations[5]. For the reverse repurchase agreements done with Eurex Repo, a German central counterparty, the basket of financial collateral is the EUR GC Pooling ECB[6] basket. This basket enables the re-use of collateral received for refinancing within the framework of European Central Bank open market operations. The securities received are checked on a daily basis so as to ensure that they comply with criteria of eligibility and quality. In addition, these securities are valued at their market value and readjusted on a daily basis.

In order to minimise the counterparty risk of non-secured deposits, the policy implemented by the Bank is designed to diversify counterparties by means of very low, regularly updated limits and dynamic management of the use of those limits in close collaboration with its Parent Company.

Banking counterparty limits by type of instrument (interbank deposits, reverse repurchase agreements, fiduciary deposits, spot forex transactions and forward exchange transactions) are set by the Board of Directors Committee of the Bank and its Parent Company for the whole Group. They are subject to regular review at the initiative of the Parent Company or at the Bank's request.

Use of external credit rating agencies

As regards quantifying capital requirements in respect of the credit risk risky assets, the Bank uses ratings from two external credit rating agencies, namely Moody's and Standard & Poor's, mostly in respect of the following exposure classes:

- Central governments and central banks;
- Multilateral development banks;
- International organisations;
- Public sector entities;
- Institutions;
- Corporates.

The Bank has mapped the ratings of these two external rating agencies to internal ratings using the same criteria as set out in CSSF Circular 06/273 (as modified).

These mappings are shown in the table below.

Credit quality ranking	**1**	**2**	**3**	**4**	**5**	**6**
Moody's rating	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to Ba3	B1 to B3	Caa1 and below
Standard & Poor's rating	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to BB-	B+ to B-	CCC+ and below

[5] Eligible multilateral development banks and international organisations are only limited to those with a 0% rating within the framework of regulation (EU) n° 575/2013

[6] The GC Pooling ECB basket comprises more than four thousand ECB eligible debt instruments, essentially complying with LCR criteria for the HQLA category. Securities with a rating below A-/A3 are not eligible. This basket allows, in addition, the reuse of collateral as a guaranty for the refinancing through ECB open market operations and GC pooling market.

Exposure to counterparty credit risk

The over-the-counter derivative financial instruments used by the Bank are limited to forward forex contracts and are solely designed to hedge forex risk (hedging of forex transactions initiated by clients).

In 2014, the evaluation of the counterparty credit risk related to these financial instruments is carried out using the mark-to-market method in accordance with current regulations.

The following table shows the Bank's exposure to counterparty credit risk as well as the impact of mitigation techniques on that risk as at 31st December 2014 and 2013.

Derivative instruments	**31.12.2014** (in millions of euros)	**31.12.2013** (in millions of euros)
Notional amount	10 753.7	13 455.0
Gross positive fair value	125.8	84.1
Gross value exposed to risk	170.0	269.4
with a maturity period of < 1 year	*164.9*	*269.0*
Net value exposed to risk	35.6	139.0
Risk-weighted assets	19.4	34.1
Capital requirements	1.6	2.7

Credit valuation adjustment	**31.12.2014** (in millions of euros)	**31.12.2013** (in millions of euros)
Gross value exposed to risk	14.3	Non applicable
Total amount exposed to risk	1.6	Non applicable
Capital requirements	0.1	Non applicable

The use of counterparty credit risk mitigation techniques enables the Bank to reduce the gross value exposed to risk by 79%. In addition, the Bank has introduced margin call mechanisms with the main counterparties with which it deals.

Exposure to credit and dilution risks

The exposure published in the various tables in this section covers:

- The net amounts of balance sheet items;
- The gross amounts of the off-balance-sheet commitments, namely the undrawn committed credit lines and the amount of guarantees issued by the Bank in favour of third parties;
- The equivalent-risk amount of forward exchange transactions.

Exposure by exposure class

The following tables show all exposures split by exposure class as at 31st December 2014 and 2013.

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Exposure class	Weighting %	Annual average of exposed value*	Exposed value before mitigation*	Exposed value after mitigation*	Risk weighted assets*	Capital requirement*
Central governments and central banks	0	483.5	161.3	161.3	0.0	0.0
Public sector entities	0	4.9	5.4	5.4	0.0	0.0
	20	0.1	0.2	0.2	0.1	0.0
Credit institutions	2	2 202.1	2 248.1	86.8	1.7	0.1
	20	1 959.8	2 243.6	335.3	67.1	5.4
	50	3.8	6.8	6.8	3.4	0.3
	100	0.5	1.1	0.6	0.6	0.1
	150	0.4	0.9	0.9	1.3	0.1
Corporate [7]	20	0.0	0.0	0.0	0.0	0.0
	100	1 391.3	1 451.0	243.2	243.2	19.4
	150	0.7	0.5	0.3	0.4	0.0
Shares of UCIs	100	4.8	4.9	4.9	4.9	0.4
Stocks	100	29.3	30.8	30.8	30.8	2.5
	250	16.5	24.1	24.1	60.3	4.8
Other	0	2.3	2.6	2.6	0.0	0.0
	20	0.1	0.2	0.0	0.0	0.0
	100	132.1	167.4	40.8	40.8	3.3
Total		**6 232.2**	**6 348.9**	**944.0**	**454.6**	**36.4**

*in millions of euros

[7] The “Corporate” exposure class consists essentially in exposures to private clients and investment funds.

31st DECEMBER 2013

Exposure class	Weighting %	Annual average of exposed value*	Exposed value before mitigation*	Exposed value after mitigation*	Risk weighted assets*	Capital requirement*
Central governments and central banks	0	1 589.0	1 560.7	1 560.7	0.0	0.0
Public sector entities	0	9.3	10.0	9.9	0.0	0.0
Credit institutions	20	3 362.5	3 477.0	1 979.0	63.3	5.1
Corporate [7]	20	0.003	0.0007	0.0007	0.0001	0.00001
	100	1 263.0	1 272.2	213.8	213.8	17.1
	150	9.3	0.004	0.0	0.0	0.0
Shares of UCIs	100	4.5	5.2	5.2	5.2	0.4
Other	0	2.4	2.9	2.9	0.0	0.0
	100	130.3	120.0	61.2	61.2	4.9
Total		**6 370.2**	**6 447.9**	**3 832.6**	**343.5**	**27.5**

*in millions of euros

[7] The “Corporate” exposure class consists essentially in exposures to private clients and investment funds.

Exposure by exposure class and credit quality ranking

The following tables show all exposures split by exposure class and credit quality ranking as at 31st December 2014 and 2013.

31st DECEMBER 2014

Exposure class	Credit quality ranking [8]	Exposed value before mitigation*	Exposed value after mitigation*	Risk weighted assets*	Capital requirement*
Central governments and central banks	1	161.3	161.3	0.0	0.0
Public sector entities	1	5.7	5.7	0.0	0.0
Credit institutions	1	2 442.6	280.8	40.5	3.2
	2	23.0	22.9	6.5	0.5
	3	0.8	0.7	0.2	0.0
	4	0.2	0.2	0.1	0.0
	5	0.2	0.1	0.1	0.0
	6	0.9	0.9	1.3	0.1
	NA [10]	2 032.7	124.8[11]	25.3	2.0
Corporate [9]	1	0.0	0.0	0.0	0.0
	4	38.1	10.4	10.4	0.8
	5	0.7	0.0	0.0	0.0
	6	0.5	0.3	0.4	0.0
	NA [10]	1 412.2	232.7	232.7	18.6
Shares of UCIs	NA [10]	4.9	4.9	4.9	0.4
Stocks	1	0.0	0.0	0.0	0.0
	2	0.0	0.0	0.0	0.0
	3	0.0	0.0	0.0	0.0
	NA [10]	54.9	54.9	91.0	7.3
Other	NA [10]	170.3	43.4	40.8	3.3
Total		**6 348.9**	**944.0**	**454.6**	**36.4**

*in millions of euros

[8] Use of ratings of external credit rating agencies. See table for matching ratings to credit quality rankings.
[9] The "Corporate" exposure class consists essentially in exposures to private clients and investment funds.
[10] No rating available.
[11] After application of the method of substitution.

31ST DECEMBER 2013

Exposure class	Credit quality ranking [8]	Exposed value before	Exposed value after	Risk weighted assets*	Capital requirement*
Central governments and central banks	1	1 560.7	1 560.7	0.0	0.0
Public sector entities	1	10.0	9.9	0.0	0.0
Credit institutions	1	691.2	295.8	57.2	4.6
	2	1 127.7	18.5	3.7	0.3
	3	3.3	3.3	0.8	0.06
	4	0.4	0.4	0.07	0.006
	5	0.2	0.1	0.02	0.002
	6	0.04	0.02	0.005	0.0004
	NA [10]	1 654.2	1 660.9[11]	1.5	0.1
Corporate [9]	1	0.0007	0.0007	0.0001	0.00001
	4	15.1	2.2	2.2	0.2
	5	4.9	0.001	0.001	0.0001
	6	0.004	0.0	0.0	0.0
	NA [10]	1 252.2	211.6	211.6	16.9
Shares of UCIs	NA [10]	5.2	5.2	5.2	0.4
Other	NA [10]	122.9	64.1	61.2	4.9
Total		**6 447.9**	**3 832.6**	**343.5**	**27.5**

*in millions of euros

[8] Use of ratings of external credit rating agencies. See table for matching ratings to credit quality rankings.
[9] The “Corporate” exposure class consists essentially in exposures to private clients and investment funds.
[10] No rating available.
[11] After application of the method of substitution.

Exposure by exposure class and geographic area
The following tables show all exposures split by exposure class and geographic area as at 31st December 2014 and 2013.

31st DECEMBER 2014

Exposure class	Europe*	Americas*	Rest of the world*	Total*
Central governments and central banks	161.3	0.0	0.0	161.3
Public sector entities	5.7	0.0	0.0	5.7
Credit institutions	4 486.9	1.7	11.8	4 500.4
Corporate [13]	1 278.4	44.5	128.5	1 451.4
Shares of UCIs	4.5	0.0	0.5	4.9
Stocks	54.6	0.0	0.3	54.9
Other	170.3	0.0	0.0	170.3
Total	**6 161.6**	**46.2**	**141.1**	**6 348.9**

*in millions of euros

More than 97% of the Bank's exposure is concentrated in Europe and more specifically within the Eurozone.

[13] The "Corporate" exposure class consists essentially in exposures to private clients and investment funds.

31ST DECEMBER 2013

Exposure class	Europe*	Americas*	Rest of the world*	Total*
Central governments and central banks	1 560.7	0.002	0.0	1 560.7
Public sector entities	10.0	0.0	0.0	10.0
Credit institutions	3 451.5	17.7	7.8	3 477.0
Corporate [13]	1 169.5	55.2	47.5	1 272.2
Shares of UCIs	5.1	0.0	0.1	5.2
Other	122.5	0.008	0.3	122.9
Total	**6 319.3**	**72.9**	**55.7**	**6 447.9**

*in millions of euros

[13] The "Corporate" exposure class consists essentially in exposures to private clients and investment funds.

Exposure by exposure class and economic sector

The following tables show all exposures split by exposure class and economic sector as at 31st December 2014 and 2013.

31ST DECEMBER 2014

Exposure class	Central banks*	Credit institutions*	Corporate*	Investment funds*	Households*	Other exposures*	Total*
Central governments and central banks	161.3	0.0	0.0	0.0	0.0	0.0	161.3
Public sector entities	0.0	0.0	0.0	0.0	0.0	5.7	5.7
Credit institutions	0.0	4 500.4	0.0	0.0	0.0	0.0	4 500.4
Corporate [14]	0.0	0.0	475.3	621.9	352.9	1.3	1 451.4
Shares of UCIs	0.0	0.0	0.0	4.9	0.0	0.0	4.9
Stocks	0.0	0.0	54.9	0.0	0.0	0.0	54.9
Other	0.0	0.0	0.0	0.0	0.0	170.3	170.3
Total	**161.3**	**4 500.4**	**530.2**	**626.8**	**352.9**	**177.3**	**6 348.9**

*in millions of euros

The “Corporate” economic sector consists essentially in wealth management holdings.

[14] The “Corporate” exposure class consists essentially in exposures to private clients and investment funds.

31ST DECEMBER 2013

Exposure class	Central banks*	Credit institutions*	Corporate*	Investment funds*	Households*	Other exposures*	Total*
Central governments and central banks	1 560.7	0.0	0.0	0.0	0.0	0.002	1 560.7
Public sector entities	0.0	0.0	0.0	0.0	0.06	9.9	10.0
Credit institutions	0.0	3 476.2	0.5	0.0	0.0	0.3	3 477.0
Corporate [14]	0.0	0.0	403.9	600.6	266.1	1.6	1 272.2
Shares of UCIs	0.0	0.0	0.0	5.2	0.0	0.0	5.2
Other	0.0	0.07	18.5	0.0	0.0	104.3	122.9
Total	**1 560.7**	**3 476.3**	**422.9**	**605.8**	**266.2**	**116.1**	**6 447.9**

*in millions of euros

[14] The "Corporate" exposure class consists essentially in exposures to private clients and investment funds.

Exposure by exposure class and residual maturity
The following tables show all exposures split by exposure class and residual maturity as at 31st December 2014 and 2013.

31st DECEMBER 2014

Exposure class	< 3 months*	> 3 months and< 1 year*	> 1 an and < 5 years*	> 5 years*	No maturity *	Total*
Central governments and central banks	161.3	0.0	0.0	0.0	0.0	161.3
Public sector entities	5.7	0.0	0.0	0.0	0.0	5.7
Credit institutions	4 378.2	122.2	0.0	0.0	0.0	4 500.4
Corporate [15]	832.0	611.9	4.1	3.5	0.0	1 451.4
Shares of UCIs	0.0	0.0	0.0	0.0	4.9	4.9
Stocks	0.0	0.0	0.0	0.0	54.9	54.9
Other	170.3	0.0	0.0	0.0	0.0	170.3
Total	**5 547.4**	**734.1**	**4.1**	**3.5**	**59.8**	**6 348.9**

*in millions of euros

More than 87% of exposure has a residual maturity of less than 3 months.

[15] The “Corporate” exposure class consists essentially in exposures to private clients and investment funds.

31ST DECEMBER 2013

Exposure class	< 3 months*	> 3 months and< 1 year*	> 1 an and < 5 years*	> 5 years*	No maturity *	Total*
Central governments and central banks	1 560.7	0.0	0.002	0.0	0.0	1 560.7
Public sector entities	10.0	0.0	0.0	0.0	0.0	10.0
Credit institutions	3 474.6	2.4	0.002	0.0	0.0	3 477.0
Corporate [15]	754.7	506.0	2.2	9.4	0.0	1 272.2
Shares of UCIs	0.0	0.0	0.0	0.0	5.2	5.2
Other	104.4	0.0	0.0	0.0	18.5	122.9
Total	**5 904.3**	**508.4**	**2.2**	**9.4**	**23.6**	**6 447.9**

*in millions of euros

More than 91% of exposure has a residual maturity of less than 3 months.

[15] The “Corporate” exposure class consists essentially in exposures to private clients and investment funds.

Depreciation and provisions for exposure to credit and dilution risks

In the context of its policy for depreciating and accruing for the impaired exposures the Bank has implemented dedicated identification, quantification and monitoring processes. A specific report is prepared on a monthly basis by the Credit Department for review and validation by the Credit and the Executive Committees.

Any past due exposure or exposure not covered by collateral expressed in Lombard value (risk equivalent) is covered by an accrual.

The Bank accounts for interest revenue in relation to credit granted only when the interest is actually paid. Interest revenue on partially settled credit is, in principle, recorded in full. Interest arrears are not subject to any specific treatment when determining accruals for credit.

In respect of impaired exposures interest continues to be calculated on a pro rata basis, interest due but not paid is added to the principal but funded up to the full amount and is not accounted for as revenue.

As at 31st December 2014, the Bank had 26 non-substantial impaired exposures on its books (total amount of 3.4 million euros) considered as doubtful and this sum has therefore been covered by a provision. On this amount, only one impaired exposure considered as important was booked (2 millions euros).

The following table shows changes in impaired and past due exposures in 2014 and 2013.

Impaired and past due exposures	31.12.2014 (in millions of euros)	31.12.2013 (in millions of euros)
Balance as at 1st January	0.8	3.6
Reversal of provision	0.0	-3.2
Appropriation	2.6	0.4
Balance	**3.4**	**0.8**

The following table shows the distribution of value adjustments by geographic area as at 31st December 2014 and 2013.

Geographic area	31.12.2014 (in millions of euros)	31.12.2013 (in millions of euros)
Europe	3.4	0.8
Americas	0.0	0.0
Rest of the world	0.0	0.02
Balance	**3.4**	**0.8**

Credit risk mitigation techniques

As described in previous sections, the Bank's risk management policy is to maximise the use of credit risk mitigation techniques with routine use of financial collaterals and personal guarantees within the framework of its client credit business.

As far as interbank business is concerned, the techniques used include reverse repo transactions as well as deposits with the Central Bank of Luxembourg.

As at 31st December 2014 and 2013, the impact of credit risk mitigation techniques on exposure is as follows:

31st DECEMBER 2014

Exposure class	Exposure before mitigation*	Exposure after mitigation*
Central governments and central banks	161.3	161.3
Public sector entities	5.7	5.7
Credit institutions	4 500.4	430.4
Corporate [16]	1 451.4	243.4
Shares of UCIs	4.9	4.9
Stocks	54.9	54.9
Other	170.3	43.4
Total	**6 348.9**	**944.0**

*in millions of euros

31st DECEMBER 2013

Exposure class	Exposure before mitigation*	Exposure after mitigation*
Central governments and central banks	1 560.7	1 560.7
Public sector entities	10.0	9.9
Credit institutions	3 477.0	1 979.0
Corporate [16]	1 272.2	213.8
Shares of UCIs	5.2	5.2
Other	122.9	64.1
Total	**6 447.9**	**3 832.6**

*in millions of euros

[16] The "Corporate" exposure class consists essentially in exposures to private clients and investment funds.

The personal guarantees taken into consideration within the framework of credit risk mitigation techniques according to regulation consist exclusively of bank guarantees payable upon first call issued essentially by Group entities representing a total amount of 10 million euros as at 31st December 2014.

The collateral received in the framework of the different credit risk mitigation techniques is diversified and of high quality. There are no market or credit risk concentrations within the collateral basket.

The following tables show the split of interbank deposits as at 31st December 2014 and 2013.

31st DECEMBER 2014

Interbank deposits	Amount (in millions of euros)	Amount (as percentage)
Deposits with the Central Bank of Luxembourg [17]	155.1	3.4
Deposits with Belgian, Spanish and Portuguese Central Banks [17]	6.2	0.1
Deposits secured by reverse repurchase agreements	4 181.5	90.1
Unsecured deposits	296.8	6.4
Total	**4 639.6**	**100.0**

31st DECEMBER 2013

Interbank deposits	Amount (in millions of euros)	Amount (as percentage)
Deposits with the Central Bank of Luxembourg [17]	1 553.9	31.7
Deposits with Belgian. Italian. Spanish and Portuguese Central Banks [17]	6.8	0.1
Deposits secured by reverse repurchase agreements	3 170.9	64.7
Unsecured deposits	171.3	3.5
Total	**4 902.8**	**100.0**

[17] Including mandatory reserves.

Leverage Ratio

The leverage ratio is equal to the amount of own funds divided by the amount of total exposure of the institution, expressed as a percentage.

	LR exposure 31/12/2014
VALUE EXPOSED TO RISK	
Securities Financing Transactions (SFT) exposure according to CRR 220	4 181.5
Derivatives	169.9
Undrawn credit facilities which may be cancelled unconditionally at any time without notice	21.6
Medium/ low risk trade related off-balance sheet items	83.4
Other assets	1 324.4
OWN FUNDS AND REGULATORY ADJUSTMENTS	
Tier 1 capital - fully phased-in definition	235.7
Tier 1 capital - transitional definition	221.7
Regulatory adjustments - Tier 1 - fully phased-in definition	-3.2
Regulatory adjustments - Tier 1 - transitional definition	-14.0
LEVERAGE RATIO*	
Leverage Ratio - using a fully phased-in definition of Tier 1	4.08
Leverage Ratio - using a transitional definition of Tier 1	3.8

* Leverage ratio calculated in accordance with delegated regulation (EU) n° 2015/62

Market risk

Definition of the risk

Market risk is defined as the risk of loss stemming from an unfavourable development in market conditions having a negative impact on the Bank's positions.

The Bank distinguishes three categories of market risk:

- Interest rate risk is the risk of loss resulting from an unfavourable movement in interest rates affecting the Bank due to mismatching of its assets, liabilities and off-balance sheet undertakings relating to non-congruent rates and interest rate reference systems;
- Forex risk, resulting from an unfavourable change in the price of a currency affecting the Bank due to mismatching of its assets, liabilities and off-balance sheet undertakings denominated in currencies other than the currency of the capital;
- Securities position risk, related to unfavourable changes in the value of securities held in the Bank's securities portfolio.

Market risk management

The three categories of market risk are subject to a very prudent management policy by the Bank by means of strict limits and a daily control mechanism.

In addition to the various monthly stress tests relating to interest rates prescribed by the Markets and Assets/Liabilities Management Team, the latter applies those defined by CSSF Circular 08/338; namely half-yearly quantification of the impact of an upward or downward variation of 200 basis points of parallel interest rate curves on the intrinsic value of the Bank's assets.

As at 31st December 2014, the results of that stress test were 1.16% of the Bank's capital and reserves for all currencies (1.04% for the euro, 0.16% for the US dollar and 0.002% for the swiss franc respectively); well below the regulatory threshold of 20% considered to be the critical threshold.

This excellent result again reflects the Bank's desire to keep its exposure to the interest rate risk to the absolute minimum.

Operational risk

Definition of the risk

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

The Bank includes legal risk and reputation risk within this definition where they occur as a consequence of an operational risk event.

In order to simplify the analysis and management of operational risks, the Bank has split these risks into three categories linked to the types of loss events defined by the Basel Committee.

Types of loss events	Categories of operational risk	Definition
Employment practices and workplace safety	Other operational risks	Losses arising from acts inconsistent with employment, health or safety laws or agreements, from payment of personal injury claims, or from discrimination events punishable under a law or regulation, and excluding sexual harassment and mobbing.
Clients, products and business practices		Losses arising from an unintentional or negligent failure to meet a professional obligation to specific clients (including fiduciary and suitability requirements), or from the nature or design of a product.
Execution, delivery and process management		Losses from failed transaction processing or process management, from relations with trade counterparties and vendors.
Internal fraud	Fraud	Losses due to acts of a type intended to defraud, misappropriate property or circumvent regulations, the law or company policy, excluding discrimination events, punishable under a law or regulation, and excluding sexual harassment and mobbing, and which involves at least one internal party.
External fraud		Losses due to acts of a type intended to defraud, misappropriate property or circumvent the law, by a third party.
Damage to physical assets	Security	Losses arising from loss or damage to physical assets from natural disaster or other events.
Business interruptions and system failures		Losses arising from disruption of business or system failures.

Operational risk management

The Bank has introduced a methodology for operational risk management based on strong, constant management involvement and numerous control, information and monitoring activities.

This methodology includes, among other things, mapping operational risks as well as incident collection processes.
Risks are assessed according to two criteria: frequency and impact. This involves estimating the occurrence of the risk on the one hand, in other words the number of times the risk is likely to occur within a given period, and the severity of the risk on the other, i.e. the estimated probable cost of the risk when it occurs. This impact is not only assessed in monetary terms, it may be a question of damage to the Bank's image or reputation.

It should be noted that each risk is assessed twice: a gross assessment and a net assessment. The transfer from the first to the second is made by taking into account the internal control mechanism (level one and level two controls, procedures, etc.).

Furthermore, the Bank has introduced an overall business continuity plan under the responsibility of the "Business Continuity Manager". The main aim is to enable the Bank and the entities attached to it to operate at an agreed level of activity enabling it to respect the commitments made to clients even when the places in which it normally conducts its business and hosts its essential information systems are no longer accessible.

Software dedicated to operations and business continuity management, eBRP, enables all the information essential to business continuity to be consolidated. More than 400 employees, spread throughout the Luxembourg Head Office and foreign branches, have access to this software.

Every department manager has appointed teams responsible for identifying and documenting their critical processes and needs (IT resources and applications, specific office equipment, etc.) in eBRP. This constitutes a business impact analysis and enables the necessary information to be provided for designing appropriate business continuity strategies.

3.4.6 PILLAR II RISKS

Introduction

Within the framework of Pillar II, in addition to the risks described above under Pillar I, the Bank has introduced a process for identifying, quantifying, managing and reporting all the risks to which it is or might be exposed.

These risks are essentially:

- Liquidity risk;
- Strategic risk;
- Business risk;
- Reputation risk;
- Legal risk;
- Compliance risk;
- Custodian risk;
- Concentration risk;
- Residual risk;
- Macro-economic and regulatory risk;
- Country risk;
- Settlement/delivery risk.

The methodology employed by the Bank to quantify internal capital requirements is primarily based on the measurements of the Pillar I capital adequacy ratio regime supplemented by prudent adjustments resulting from its internal process for assessing internal capital adequacy.

Stress tests

Out of a constant desire to perpetuate its business activities and its clients' interests, the Bank has developed a set of extreme but plausible crisis scenarios, combining idiosyncratic and systemic shocks.

These various scenarios enable the Bank to test its ability to withstand shocks and ensure that it has adequate capital and reserves. The assumptions of these various crisis scenarios are reassessed on a regular basis. In addition, the Bank performs reverse stress-tests.

3.4.7 REMUNERATION POLICY

The Bank has decided on a remuneration policy (the "Policy") which aims to maintain a policy compatible with a sound and efficient management of risks and which does not lead to excessive risk-taking. The last version of the Policy was decided on by the Board of Directors (the "Board") on 12 December 2011.

The Policy is aligned to the Bank's strategy, its objectives, values and long-term interests, such as the prospects of long-term growth. It takes into account the principles governing the protection of clients and investors and aims to ensure that the internal processes and the internal and prudential equity capital provide adequate management and cover of the risks to which the Bank could be exposed, particularly the risks linked to the Policy and to remuneration practices.

It describes the basic principles of the remuneration with an indication of the relation between remuneration and services, including the criteria for the evaluation of the service provider in relation to the objectives and the comparative importance of the different components of the remuneration. It especially implements sound corporate governance as well as strict compliance with procedures, internal regulations, social legislation and the norms of the financial sector.

The remuneration depends on responsibility as well as experience and individual and collective performances and is in accordance with the relevant practices of the sector in view of the nature and the importance of the position and the particularities of the activity sectors of the Bank.

As at 31st December 2014, 3 executives received a remuneration superior to 1 million euros. Additional elements on the allocation of these remunerations are available upon request from the Communication department of the bank.

Targeted personnel categories and conferred powers

The Policy applies to staff involved in the daily management belonging to one of the categories detailed below:

- Members of the Executive Committee;
- Other directors holding key positions within the Bank where the variable part of the remuneration is as significant as the fixed part, as well as the Chief Executive Officers and Deputy Chief Executive Officers of the branches;
- Certain members of staff holding positions likely to have a material effect on the risk profile of the Bank;
- Heads of control functions;
- Any member of staff whose total remuneration is at least equivalent to the average total remuneration of the members of the above-mentioned staff categories.

Decision process and implementation

The Board has within its field of competence the approval of the Policy for all the remunerated staff of the Bank (head office, branches, agencies and representative offices) and its subsidiaries, subject to the approval of the General Meeting of Shareholders, and it alone is competent to decide the compensation package.

For the establishment and the follow-up of the Policy, the Board relies on the recommendations of the Remuneration Committee, whose members are drawn from amongst the Board of Directors, and which consists of at least three directors not involved in the daily management. The Board has delegated the implementation of the Policy and its related procedures to the Executive Committee.

Each year the Board decides, on the proposal of the Remuneration Committee, the remuneration of the Executive Committee members and of the staff responsible for the independent control function. It is informed, at its request, of the remunerations of the persons affected by the Policy.

Each year the implementation of the Policy is the subject of a central and independent examination, conducted by the Internal Audit Department to check its compliance with the remuneration policies and procedures. A report of this examination is addressed to the Board.

3.4.8. DIVERSITY POLICY APPLICABLE TO SELECTION OF MANAGEMENT BODY MEMBERS

In the selection of the Management Body members, the Bank looks for a permanent diversity in gender, seniority, acquired expertise and past experience. As at 31st December 2014, the enlarged Executive Committee of the bank is composed of 15 members, of which more than 25% are women.

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