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Lombard Odier (Europe) S.A.
Pillar 3 Disclosures
at 31 December 2022

Contents

1. Introduction

The present Pillar III report aims to provide control bodies, counterparties and clients with qualitative and quantitative information related to the risk profile of Lombard Odier (Europe) S.A. (hereafter "LOESA" or "the Bank").

The Bank was established in 2012 and received a Luxembourg banking license from the Luxembourg Ministry of Finance the same year. Its main business activity is wealth management, and it acts as the European hub of Lombard Odier Group ("LO Group"), a Swiss based banking group active in three business lines Private Banking, Asset Management and Technology. It is organized as a Luxembourgish "Société Anonyme" and has currently five operating branches located in Belgium, Spain, the UK (operating under a Third-Party country regime), France and Italy as well as a subsidiary in Spain in charge of funds and portfolio management.

The report is produced and published on a yearly basis (first time in 2023) in accordance with the applicable regulatory requirements. In particular, the information provided in the report is in line with the stipulations prescribed in the framework of the regulation EU No 2019/876 of the European parliament on prudential requirements for credit institutions and investments firms (commonly referred as "CRR II" regulation).

Article 433b of Part 8 of the above-mentioned regulation provides the disclosure requirements for "Small and Non-complex Institutions" (as defined in article 4, paragraph 1 (145) of CRR II). In compliance with the defined requirements in article 433b, the present report includes quantitative information (tables KM1, CC1, CC2 and OV1) related to key metrics, regulatory capital and risk exposure amounts as well as descriptive information on LOESA's risk management objectives and policies and its remuneration policy. It concludes with a statement from LOESA's Board of Directors on the adequacy of the risk management arrangements and systems with regards to the Bank's profile and strategy.

The report is published on the internet site www.lombardodier.com.

2. Overview of key metrics (KM1)

Summary

As at 31 December 2022, all regulatory key metrics were largely above the regulatory and internal limit thresholds, demonstrating the comfortable position of the Bank in terms of solvency and liquidity.

The Bank's Common Equity Tier 1 ("CET1") ratio amounts to 20.46%, positively impacted by the enhanced profitability during the business year 2022. The subsequent impact of this evolution on the capital base of the Bank also resulted in a higher leverage ratio, amounting to 4.67% as at 31 December 2022.

The liquidity ratios profited from the large client cash positions deposited with the Bank. Both the short term and the long term ratios were at comfortable levels during the business year 2022, with an average Liquidity Coverage Ratio ("LCR") at 436.96% and a Net Stable Funding Ratio ("NSFR") at 343.61% as at 31 December 2022.

Template EU KM1 (in EUR)

		31.12.2022	31.12.2021
Available own funds (amounts)			
1	Common Equity Tier 1 (CET1) capital	90,168,469.24	79,168,469.24
2	Tier 1 capital	90,168,469.24	79,168,469.24
3	Total capital	90,168,469.24	79,168,469.24
Risk-weighted exposure amounts			
4	Total risk exposure amount	440,651,816.29	414,411,299.01
Capital ratios (as a percentage of risk-weighted exposure amount)			
5	Common Equity Tier 1 ratio (%)	20.46%	19.10%
6	Tier 1 ratio (%)	20.46%	19.10%
7	Total capital ratio (%)	20.46%	19.10%
Additional own funds requirements to address risks other than the risk of excessive leverage (as a percentage of risk-weighted exposure amount)			
EU 7a	Additional own funds requirements to address risks other than the risk of excessive leverage (%)	2.50%	2.50%
EU 7b	of which: to be made up of CET1 capital (percentage points)	1.41%	1.41%
EU 7c	of which: to be made up of Tier 1 capital (percentage points)	1.88%	1.88%
EU 7d	Total SREP own funds requirements (%)	10.50%	10.50%
Combined buffer and overall capital requirement (as a percentage of risk-weighted exposure amount)			
8	Capital conservation buffer (%)	2.50%	2.50%
EU 8a	Conservation buffer due to macro-prudential or systemic risk identified at the level of a Member State (%)	-	-
9	Institution specific countercyclical capital buffer (%)	0.15%	0.03%
EU 9a	Systemic risk buffer (%)	-	-
10	Global Systemically Important Institution buffer (%)	-	-
EU 10a	Other Systemically Important Institution buffer (%)	-	-
11	Combined buffer requirement (%)	2.65%	2.53%
EU 11a	Overall capital requirements (%)	13.15%	13.03%
12	CET1 available after meeting the total SREP own funds requirements (%)	11.05%	9.69%
Leverage ratio			
13	Total exposure measure	1,931,083,270.75	2,299,413,910.22
14	Leverage ratio (%)	4.67%	3.44%

		31.12.2022	31.12.2021
Additional own funds requirements to address the risk of excessive leverage (as a percentage of total exposure measure)			
EU 14a	Additional own funds requirements to address the risk of excessive leverage (%)	-	-
EU 14b	of which: to be made up of CET1 capital (percentage points)	-	-
EU 14c	Total SREP leverage ratio requirements (%)	3.00%	3.00%
Leverage ratio buffer and overall leverage ratio requirement (as a percentage of total exposure measure)			
EU 14d	Leverage ratio buffer requirement (%)	-	-
EU 14e	Overall leverage ratio requirement (%)	3.00%	3.00%
Liquidity Coverage Ratio			
15	Total high-quality liquid assets (HQLA) (Weighted value -average)	897,309,459.91	586,753,824.27
EU 16a	Cash outflows - Total weighted value	765,525,808.64	606,329,845.31
EU 16b	Cash inflows - Total weighted value	644,556,790.47	610,139,037.24
16	Total net cash outflows (adjusted value)	211,006,264.34	151,582,461.33
17	Liquidity coverage ratio (%)	436.96%	385.29%
Net Stable Funding Ratio			
18	Total available stable funding	1,125,623,980.94	1,535,068,259.06
19	Total required stable funding	327,589,129.52	295,573,083.23
20	NSFR ratio (%)	343.61%	519.35%

3. Composition of regulatory own funds (CC1)

Summary

The Bank's regulatory own funds are exclusively constituted of Common Equity Tier 1 ("CET1") capital. Similar to the other entities of LO Group, the Bank does not issue bonds or any other equity instrument.

Th capital base of the Bank at the end of the year 2022 amounted to EUR 90.17 mio of CET1 capital, resulting in very comfortable solvency and leverage ratios.

Template EU CC1 (in EUR)

		Amounts
1	Capital instruments and the related share premium accounts	154,072,360.37
	of which: Instrument type 1	40,000,000.00
	of which: Instrument type 2	114,072,360.00
	of which: Instrument type 3	-
2	Retained earnings	(62,729,891.13)
3	Accumulated other comprehensive income (and other reserves)	14,000.00
EU-3a	Funds for general banking risk	-
4	Amount of qualifying items referred to in Article 484 (3) CRR and the related share premium accounts subject to phase out from CET1	-
5	Minority interests (amount allowed in consolidated CET1)	-
EU-5a	Independently reviewed interim profits net of any foreseeable charge or dividend	-
6	Common Equity Tier 1 (CET1) capital before regulatory adjustments	91,356,469.24
7	Additional value adjustments (negative amount)	-
8	Intangible assets (net of related tax liability) (negative amount)	-
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38 (3) CRR are met) (negative amount)	-
11	Fair value reserves related to gains or losses on cash flow hedges of financial instruments that are not valued at fair value	-
12	Negative amounts resulting from the calculation of expected loss amounts	-
13	Any increase in equity that results from securitised assets (negative amount)	-
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	-
15	Defined-benefit pension fund assets (negative amount)	-
16	Direct, indirect and synthetic holdings by an institution of own CET1 instruments (negative amount)	-
17	Direct, indirect and synthetic holdings of the CET 1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	-
18	Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-
19	Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	(1,188,000.00)
EU-20a	Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative	-
EU-20b	of which: qualifying holdings outside the financial sector (negative amount)	-
EU-20c	of which: securitisation positions (negative amount)	-
EU-20d	of which: free deliveries (negative amount)	-
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability where the conditions in Article 38 (3) CRR are met) (negative amount)	-
22	Amount exceeding the 17,65% threshold (negative amount)	-
23	of which: direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities	-

		Amounts
25	of which: deferred tax assets arising from temporary differences	-
EU-25a	Losses for the current financial year (negative amount)	-
EU-25b	Foreseeable tax charges relating to CET1 items except where the institution suitably adjusts the amount of CET1 items insofar as such tax charges reduce the amount up to which those items may be used to cover risks or losses (negative amount)	-
27	Qualifying AT1 deductions that exceed the AT1 items of the institution (negative amount)	-
27a	Other regulatory adjustments	-
28	Total regulatory adjustments to Common Equity Tier 1 (CET1)	(1,188,000.00)
29	Common Equity Tier 1 (CET1) capital	90,168,469.24
30	Capital instruments and the related share premium accounts	-
31	of which: classified as equity under applicable accounting standards	-
32	of which: classified as liabilities under applicable accounting standards	-
33	Amount of qualifying items referred to in Article 484 (4) CRR and the related share premium accounts subject to phase out from AT1	-
EU-33a	Amount of qualifying items referred to in Article 494a(1) CRR subject to phase out from AT1	-
EU-33b	Amount of qualifying items referred to in Article 494b(1) CRR subject to phase out from AT1	-
34	Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interests not included in row 5) issued by subsidiaries and held by third parties	-
35	of which: instruments issued by subsidiaries subject to phase out	-
36	Additional Tier 1 (AT1) capital before regulatory adjustments	-
37	Direct, indirect and synthetic holdings by an institution of own AT1 instruments (negative amount)	-
38	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	-
39	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-
40	Direct, indirect and synthetic holdings by the institution of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)	-
42	Qualifying T2 deductions that exceed the T2 items of the institution (negative amount)	-
42a	Other regulatory adjustments to AT1 capital	
43	Total regulatory adjustments to Additional Tier 1 (AT1) capital	-
44	Additional Tier 1 (AT1) capital	-
45	Tier 1 capital (T1 = CET1 + AT1)	90,168,469.24
46	Capital instruments and the related share premium accounts	-
47	Amount of qualifying items referred to in Article 484(5) CRR and the related share premium accounts subject to phase out from T2 as described in Article 486(4) CRR	-
EU-47a	Amount of qualifying items referred to in Article 494a(2) CRR subject to phase out from T2	-
EU-47b	Amount of qualifying items referred to in Article 494b(2) CRR subject to phase out from T2	-
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties	-
49	of which: instruments issued by subsidiaries subject to phase out	-
50	Credit risk adjustments	-
51	Tier 2 (T2) capital before regulatory adjustments	-
52	Direct, indirect and synthetic holdings by an institution of own T2 instruments and subordinated loans (negative amount)	-

		Amounts
53	Direct, indirect and synthetic holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	-
54	Direct, indirect and synthetic holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-
55	Direct, indirect and synthetic holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)	-
EU-56a	Qualifying eligible liabilities deductions that exceed the eligible liabilities items of the institution (negative amount)	-
EU-56b	Other regulatory adjustments to T2 capital	-
57	Total regulatory adjustments to Tier 2 (T2) capital	-
58	Tier 2 (T2) capital	-
59	Total capital (TC = T1 + T2)	90,168,469.24
60	Total Risk exposure amount	440,651,816.29
61	Common Equity Tier 1 capital	20.46%
62	Tier 1 capital	20.46%
63	Total capital	20.46%
64	Institution CET1 overall capital requirements	8.56%
65	of which: capital conservation buffer requirement	2.50%
66	of which: countercyclical capital buffer requirement	0.15%
67	of which: systemic risk buffer requirement	-
EU-67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer requirement	-
EU-67b	of which: additional own funds requirements to address the risks other than the risk of excessive	1.41%
68	Common Equity Tier 1 capital (as a percentage of risk exposure amount) available after meeting the minimum capital requirements	11.05%
72	Direct and indirect holdings of own funds and eligible liabilities of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	-
76	Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)	-
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	-
78	Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap)	-
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	-
80	Current cap on CET1 instruments subject to phase out arrangements	-
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	-
82	Current cap on AT1 instruments subject to phase out arrangements	-
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	-
84	Current cap on T2 instruments subject to phase out arrangements	-
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	-

The reconciliation between the Bank's financial statement's equity and its regulatory own funds is explained in table CC2 in the annex of the present document.

4. Overview of total risk exposure amounts (OV1)

Summary

The table hereunder provides an overview of the Bank's Total Risk Exposure Amounts ("TREA") and the related minimum own fund requirements (8% of TREA) as of 31 December 2022. The most relevant risk types in the global TREA of LOESA are the Credit Risk and the Operational Risk. While Credit Risk related TREA remained relatively stable, the capital requirements for Operational Risk increased compared to the previous years as a result of the enhanced profitability of the Bank in 2022 (application of the Basis Indicator Approach for the Operational Risk).

		Total risk exposure amounts (TREA)		Total own funds requirements
		31.12.2022	**31.12.2021**	**31.12.2022**
1	Credit risk (excluding CCR)	300,141,358.33	303,683,926.08	24,011,308.67
2	Of which the standardised approach	300,141,358.33	303,683,926.08	24,011,308.67
3	Of which the Foundation IRB (F-IRB) approach	-	-	-
4	Of which slotting approach	-	-	-
EU 4a	Of which equities under the simple risk weighted approach	-	-	-
5	Of which the Advanced IRB (A-IRB) approach	-	-	-
6	Counterparty credit risk - CCR	9,798,859.95	6,716,234.93	783,908.80
7	Of which the standardised approach	9,285,379.02	5,348,047.64	742,830.32
8	Of which internal model method (IMM)	-	-	-
EU 8a	Of which exposures to a CCP	-	-	-
EU 8b	Of which credit valuation adjustment - CVA	5,780.50	158,658.25	462.44
9	Of which other CCR	507,700.43	1,209,529.04	40,616.03
15	Settlement risk	-	-	-
16	Securitisation exposures in the non-trading book (after the cap)	-	-	-
17	Of which SEC-IRBA approach	-	-	-
18	Of which SEC-ERBA (including IAA)	-	-	-
19	Of which SEC-SA approach	-	-	-
EU 19a	Of which 1250%	-	-	-
20	Position, foreign exchange and commodities risks (Market risk)	1,950,514.13	-	156,041.13
21	Of which the standardised approach	1,950,514.13	-	156,041.13
22	Of which IMA	-	-	-
EU 22a	Large exposures	-	-	-
23	Operational risk	128,761,083.88	104,011,138.00	10,300,886.71
EU 23a	Of which basic indicator approach	128,761,083.88	104,011,138.00	10,300,886.71
EU 23b	Of which standardised approach	-	-	-
EU 23c	Of which advanced measurement approach	-	-	-
24	Amounts below the thresholds for deduction (subject to 250% risk weight) (For information)	-	-	-
29	Total	440,651,816.29	414,411,299.01	35,252,145.31

5. General information about governance and risk management

Three lines of defense organization

LOESA's internal control system is organized around the "three lines of defence" model. The first line of defence includes the businesses and functions involved in risk taking. A dedicated Business Risk Management function supports the departments in their risk management responsibilities.

The second line of defence is composed of risk specialists and includes mainly the Risk Management function and the Compliance function, completed by other departments such as Human Resources, Finance and Legal, among others. These functions are independent from the business and are responsible for providing independent oversight, advice, and challenge to the first line of defence.

The third line of defence is the Bank's Internal Audit function.

Governance and main responsibilities with regard to risk management

LOESA's governance and main responsibilities with regard to risk management are:

The Board of Directors ("BoD"): The BoD has the overall responsibility for the Bank. It ensures execution of activities and preserves business continuity by way of sound central administration and internal governance arrangements pursuant to the provisions of Circular CSSF 12/552 (as amended). Among other elements, the BoD approves and writes down the Bank's Risk Policy, including the risk tolerance as well as the guiding principles governing the risk identification, measurement, reporting, management and monitoring. In addition, the BoD defines the guiding principles relating to the internal control mechanisms, including the internal control functions and remuneration policy and the guiding principles for escalation, settlement and sanctions. The committee meets at least on a quarterly basis.

The Audit, Compliance and Risk Committee ("ACR"): The purpose of this committee is to assist the BoD in the areas of financial information, internal control, including internal audit, the control by the external audit firm as well as compliance and risk management. The committee meets at least on a quarterly basis.

The Nomination and Remuneration Committee: The main purpose of this committee is to ensure that the Bank's Remuneration Policy is consistent with and promotes sound and effective risk management and is in line with the business strategy, objectives, corporate culture and values and the long-term interest of the Bank (detailed description in part 11).

The Authorized Management ("AM"): Pursuant of the provisions of the above mentioned CSSF Circular 12/552 (as amended), the AM is in charge of the effective, sound and prudent day-to-day business (and inherent risk) management. The AM implements through internal written policies and procedures all the strategies and guiding principles laid down by the BoD in relation to central administration and internal governance, in compliance with the legal and regulatory provisions and after having consulted the internal control functions. The members of the AM are authorised to effectively determine the business direction. Consequently, where management decisions are taken by the Executive Committee (cfr definition hereunder), the AM members are part of it and have a veto right.

The Executive Committee ("ExCo"): The main purpose of the ExCo is to provide recommendations to the BoD on LOESA's policies, business plans and strategies and to oversee their implementation, in line with the BoD's mandate. In addition, the ExCo is responsible to ensure on an ongoing basis that the business of the Bank is managed in accordance with established risk tolerance statement approved by the BoD. To this respect, the ExCo delegates specific responsibilities to the Bank's Risk Management Committee. The ExCo meets on a monthly basis.

The Risk Management Committee ("RMC"): The RMC is the Bank's main governance body for enterprise-wide risk management. It is in charge of managing the profile of the organization and its monitoring within the defined risk tolerance levels as set by the BoD and the ExCo, taking into account all types of risks to ensure that they are in line with the business strategy, objectives, corporate culture and values of the institution, focusing on risk culture, risk profile and integration of risk management in the Bank's strategic decisions. Specific responsibilities are delegated to dedicated sub-committees and fora of the RMC, such as for example the Credit Committee or the Assets and Liabilities Forum.

The Chief Risk Officer ("CRO"): The CRO implements the BoD's resolutions on risk management and control. More specifically, the CRO establishes an appropriate organisational structure dedicated to managing risks. He proposes to the relevant governing bodies all measures necessary for consistent management of the Bank's risk and monitors the changes in those risks. He sets up the tools and methodologies necessary for an efficient risk management. The CRO informs the BoD as well as the AM without delay of any significant event that might alter the Bank's risk profile.

The Risk Management function: The Risk Management function, under the supervision of the CRO, reports regularly to the management and to the governing bodies the level of risk compared to applicable limits and tolerance.

The Compliance function: The Compliance function is tasked with ensuring compliance with legal and regulatory provisions, as well as internal directives (in particular with respect to the prevention of money laundering and terrorism financing, investor protection, and integrity of the markets). The Chief Compliance Officer regularly reports to governing bodies in charge of management risk and compliance and draws their attention to any situation of non-compliance while proposing areas for improvement.

The Internal Audit function: The Internal Audit function reports directly to the BoD. It performs its duties independently and in compliance with all applicable regulatory requirements. It coordinates its activities according to the audit plan approved by the BoD.

Internal Capital/Liquidity Adequacy Assessment Process and risk tolerance

On a yearly basis, the Bank issues an Internal Capital Adequacy Assessment Process ("ICAAP"). The main purpose of the Bank ICAAP report is to determine the adequate level of capital to support the residual risks that the Bank faces while implementing its business strategy, as well as to demonstrate, based on a three-year capital plan, how the Bank can meet its regulatory capital adequacy requirements, taking into account the event of an economic downturn. The ICAAP not only considers the risks required to be covered by capital for regulatory purposes (i.e. credit, market and operational risks) but also considers other risk types to which the Bank is exposed, such as for example business risk, sustainability risk or interest rate risk in the banking book.

The ICAAP is completed by the Internal Liquidity Adequacy Assessment Process ("ILAAP"). The related report documents the Bank's liquidity situation, including a 3 year forecast of the evolution of its liquidity profile and metrics under "base case" conditions as well as in severe and catastrophic stress scenarios.

As part of its Enterprise Risk Management framework, the Bank has defined a risk taxonomy and sets risk tolerance statements and risk tolerance measures for each of the relevant risk types in its risk taxonomy.

Risk reporting and stress testing

Risk reporting is in place from the Risk Management unit to the different governing bodies of the Bank and of Lombard Odier Group. Its objective is to provide a holistic update and to identify changes in the Bank's risk profile. The responsibility for this reporting lies within the Risk Management unit, under the supervision of the Chief Risk Officer.

The risk reporting provides key indicators on the different applicable financial and operational risk types. Current and historical risk indicators are compared to the defined risk tolerance. Key insights are given on different components of the risks, including credit exposures and top operational risk events.

The Bank performs stress testing as part of its capital planning to gauge the effect on the medium-term capital plan and key financials. These stress tests focus on the key risk areas of the Bank, including business risk, operational risk and credit risk as well as interest rate risk. The Bank also separately undertakes regularly stress tests on credit, liquidity and interest rate risk and reports the outcome to the relevant internal and external stakeholders.

Risk culture

Risk management is the responsibility of all staff members within LOESA. This is made clear through the onboarding process, the Bank's policy framework, its Code of Conduct and the periodic individual staff evaluation reviews.

The risk culture is further reinforced through the risk management framework and governance, learning and development initiatives, internal communication and collaboration, the periodic appraisal process, consequence management and the constant effort to bring risk management closer to the Business with the objective of making it a value-adding factor in strategic decision-making.

Risk systems

Financial risks are monitored in the first place by front-office employees who form part of the first line of defence thanks to their operating systems. The Risk Management function, acting as the second line of defence, uses in-house risk management tools and systems to calculate risk exposures and to compare them to the limits. They are based on independent extractions from the front-office tools, accounting systems and risk management tools.

Dedicated systems, used for data gathering and depository, are in place to manage operational incidents. The data is consolidated and it sources Key Risk Indicators defined for the Operational Risk. The respective risk type owners ensure consistency of reporting within the business lines. The second line of defence ensures a global monitoring and reporting.

A dedicated New Business Initiative process ensures that all relevant stakeholders (including all support and control functions) are involved in new business developments and assess the impact of these initiatives on their respective areas.

6. Market Risk

Market risk is the risk of loss due to value fluctuation of a position resulting from a change in the factors that determine its price, such as exchange rates, interest rates, equity prices, etc. It impacts the Bank's results mainly through balance sheet positions of derivatives contracts. The framework for risk management is defined in the Market Risk Policy of the Bank, which applies the same principles as the Market Risk Policy at LO Group level.

The strategy of the Bank is to execute clients' orders and not to take proprietary trading positions.

Currency risk

The Bank uses the Euro as its operational currency. The Bank's currency risk mainly relates to positions and transactions in Swiss francs, US dollars and British pounds and on a limited scale in other currencies hold on behalf of the Bank's clients. In addition, some limited foreign currency transactions or positions are related to the Bank operations, for example purchase invoices settled in foreign currency. Foreign currency positions are monitored on a daily basis and in principle neutralized via transactions with other entities of LO Group. The Bank's Risk Tolerance Statement only allows very limited foreign currencies positions "overnight" on the Bank's balance sheet.

Price risk

The Bank only holds for its own risk a limited number of bonds which qualify as "High Quality Liquid Assets", in order to meet liquidity and solvency requirements and to manage its interest rate risk in the banking book ("IRRBB"). The positions are in principle held until maturity, the price risk is compensated by the yield as the yield to maturity is positive.

Interest rate risk

The Bank is exposed to interest rate risk on the interest-bearing assets (mainly composed of cash and cash equivalents, loans and advances to customers and credit institutions and the investment portfolio) and interest-bearing liabilities (mainly being the amounts owed to our clients and credit institutions). The Bank has not entered into any derivative contracts to hedge the interest rate risk on assets/liabilities. The Bank's Assets & Liabilities Forum monitors the interest rate risk in the Bank's balance sheet and proposes potentially required mitigation actions to the AM. The level of the interest rate risk is stressed by the Bank on a quarterly basis in accordance with the requirements of the CSSF and the EBA. Its level -compared to the Bank's capital base- is in line with the regulatory thresholds.

7. Credit Risk

Credit risk is defined as the potential risk that a borrower or counterparty will fail to meet its contractually agreed obligations. LOESA faces credit risk against its clients and against its financial counterparties. In addition, the Bank is exposed to a limited credit risk through its investment portfolio on the issuers. Dedicated guidelines cover all credit risks.

The Bank's Board of Directors defines the global business strategy and in particular the credit strategy, with a dedicated framework defined in the LOESA Credit Policy. The Bank's Risk Management Committee and its competent sub-committee, the Credit Committee, monitor the credit risk and propose potential changes to the credit risk management approach including credit calculation methodologies. Credit decisions are taken as per the competency graph defined in the Bank's Credit Policy.

Monitoring reports are provided on a regular basis to the competent bodies. The LOESA Risk Management function is responsible for daily monitoring of the situation and the preparation of reports.

Client credit risk

The Bank's client credit risk is generated through two forms of activity, both secured by a pledge of listed and liquid securities of sufficient quality:

- Lending, which is essentially limited to cash credit (loans and overdrafts) granted to clients (also known as "Lombard Credit");
- Other credit exposure, which may include credit commitments (bank guarantees and subscriptions on behalf of clients to Private Equity or other investment vehicles employing capital calls) and trading positions that require a margin such as derivatives and any other financial instruments.

Pledged portfolios are analysed in depth by the LOESA Risk Management function and a conservative lending value is assigned to each pledged position based on relevant indicators of credit risk and market risk, as well as liquidity and country risk of the investment. Currency risk and concentration risk by issuer and by country are systematically taken into consideration with regard to each collateral portfolio.

The credit exposure amount, market value and lending value of the pledged assets are valued and monitored on a daily basis. Where coverage is insufficient or a limit is overrun, margin calls are made, and the Bank may sell the pledged assets if needed to repay loans or cover other credit exposure.

LOESA does not grant mortgages or commercial loans to its clients.

Counterparty risk

The Bank's Risk Policy restricts the choice of institutional counterparties in line with a cautionary approach, long-term vision and the objective of providing clients with a high-quality service. Institutions that play a major – or even systemic – economic role in their country or internationally are preferred.

Over-the-counter derivatives are traded exclusively on a collateralised basis with other entities of LO Group as counterparty.

In the context of the Bank's balance sheet management, reverse repos and repos with other entities of LO Group are used for liquidity management purposes.

All new counterparties are investigated thoroughly, analysed and approved independently by the Risk Management function at the level of LO Group and LOESA. The eligibility, financial health and limits of counterparties are reassessed at least once a year at LO Group level.

Counterparty risk is managed through a combination of limits that cover the various instrument types arising from the Bank's activities. Limits are set where the Bank acts as principal towards counterparties (direct risk) but also where it acts as agent on its clients' behalf (indirect risk).

LO Group as well as LOESA apply a maximum financial risk for each counterparty, which limits the total amount of acceptable exposure across all its activities. The limits per activity and the maximum total amount authorised vary according to the counterparty's creditworthiness.

The LOESA Risk Management function monitors the change in the quality of service of counterparties, their financial soundness, and the macroeconomic situation. It proposes changes to the limits wherever necessary. Counterparty limits are monitored daily by both the first line (Finance/Treasury) and the second line of defence (Risk Management function).

Investment portfolio risk

The Bank's risk policy restricts the choice of the investments in the investment portfolio, to issuers that have to be rated A or better and bonds generally have to qualify as High Quality Liquid Assets ("HQLA") under liquidity risk rules.

Investments in the investment portfolio are selected as proposed by the Bank's Assets & Liabilities Management Forum to its Authorized Management who is in charge of the investment decision. Maximum duration, issuer risk and country risk limits are monitored by Finance/Treasury as first line of defence and by the Risk Management function as second line of defence.

Concentration risk

Concentration risk in the credit book (e.g. large exposures) as well as concentration risks in client assets used as collateral for Lombard loans are closely monitored and managed in accordance with internal and regulatory limits.

Intragroup exposure

Being part of LO Group, LOESA has significant exposures to other companies within the Group, mainly towards Bank Lombard Odier & Co Ltd in Geneva ("BLOCL"). The exposure is mainly in form of overnight and term deposits made by LOESA with BLOCL as well as Repo and Reverse Repo transactions with balance sheet management objectives. These transactions can potentially have a material impact on the risk profile of the consolidated Group.

LOESA benefits from an exemption of its intra-group exposure for Large Exposure limits.

Default risk

At the end of 2022, LOESA had no specific credit provisions and no loans to clients were considered doubtful.

In the unlikely event that a borrower is not able to meet its obligations, the Authorized Management of the Bank and its Risk Management Committee decide whether a specific provision should be recognised, taking into account the detailed analysis of the pledged assets. The loan would be then considered doubtful.

8. Liquidity Risk

Liquidity risk is defined as being the ability of the Bank to finance its assets, to satisfy the demands of its counterparties and to fulfil any arising obligations without incurring undue losses. LOESA's BoD determines the liquidity management principles as well as the liquidity risk tolerance of the Bank. The Bank aims to maintain a strong and liquid balance sheet without need for any external funding. The risk tolerance is expressed via regulatory metrics such as the liquidity coverage ratio supplemented with internal indicators covering short term liquidity risk, sources of stable funding and sound balance sheet structure.

The LOESA Assets and Liabilities Management forum ("ALM") is responsible for the liquidity risk management and monitors the liquidity risk evolution of the Bank.

Liquidity risk indicators are computed, monitored, and presented to governing bodies on a regular basis. These risk indicators are stressed each year according to three scenarios reflecting possible evolution of the Group over a 3-year horizon. The results of these simulations are documented in the yearly regulatory Internal Liquidity Adequacy Assessment.

During the fourth quarter of the year 2022, the Bank was faced to important client cash outflows as a result of the raising interest rates in the main currencies. Nevertheless, the internal funding (mainly via client cash deposits) was at every moment sufficient to finance the Bank's activities on the asset side (mainly Lombard Loan activity, investments in HQLA bonds and placement of cash with counterparties within LO Group and Central Banks). A strong monitoring framework, both for short- and long-term liquidity and funding risks, is in place.

9. Operational Risks

Operational risks (defined as being the risk of loss arising from deficiencies or failures relating to internal procedures, people, or systems or following external events due to intentional, accidental or natural causes) is inherent in the business activities of the Bank; it may take various forms and have many causes, ranging from unintentional human error to fraudulent acts and external events. It includes all the important risk categories defined in the operational risk taxonomy.

The Bank is prepared to accept operational risks on the strict condition that they are in line with the implementation of its strategy and business policy, and that compliance with the regulations and laws of the markets in which it operates is always ensured. In its Risk Policy, the BoD has defined risk tolerance statements regarding the key operational risks that enable it to supervise and manage the operational risk profile at any time.

Operational risk management is the responsibility of all employees and requires the commitment of employees and managers at all levels, as well as a strong operational risk prevention culture within the Bank.

In practice, this means that each business unit must take ownership of its operational risks as a first line of defence with respect to the identification, evaluation and management of these risks, and the proactive implementation of improvement measures.

The second line of defence, represented in particular by Risk Management and Compliance, is responsible for the supervision and monitoring of operational risks. They also offer specialist support to the units with regard to the implementation of the Bank's risk management framework and the management of specific types of risk. The Legal Unit, with the assistance of external expert lawyers if necessary, assesses individually legal risks associated with potential litigation.

Identification and assessment of operational risks is conducted using a systematic and structured process and appropriate tools and methods such as a process-level Risks and Controls Self-Assessment exercise ("RCSA"), analysis of internal and external events, analysis of relationship between operational incidents, underlying risks, processes and controls, and Key Risk Indicators.

LOESA has defined principles and processes for the identification and evaluation of prevalent operational risks, their management and mitigation, the oversight and reporting of operational risks within the Bank, and the promotion of a strong operational risk culture.

The Bank's operational risk management framework complies with the standards defined by the Basel Committee and the applicable regulations on both the European and the national level in Luxembourg.

Operational risk management and mitigation consist of defining and implementing strategic and operational measures in order to provide an appropriate response to a risk. Where relevant, the first line of defence defines and implements risk mitigation actions and projects. The second line of defence ensures oversight, follow-up, support and challenge of the risk management and mitigation actions implemented by the first line of defence.

LOESA had outsourced its back-office and IT activities to BLOCL. A dedicated monitoring and governance framework is in place, in compliance with the applicable regulatory requirements. An independent assessment of the internal control system for the outsourced back-office and IT activities is conducted annually on the basis of an external audit in order to obtain a certification based on ISAE 3402 type 2 and ISAE 3000 standards.

Every operational incident has to be notified by the concerned employee, with relevant data entered into an operational risk incident database. An Operational Incident may result in a financial loss/gain or might be a near miss or it may also have impacts other than a financial one (such as reputational risk, business risk, regulatory risk, etc.). The entries are analysed and validated in order to define, as necessary, mitigating actions or improvement projects.

With regard to its business continuity plan, the Bank believes that, in the event of an accident or major disaster, its ability to maintain and rapidly recover its critical activities is crucial to minimising the impact of such events on its operations. The Business Chief Operating Officer of the Bank is responsible for the methodology and the setup of a Crisis Management team to handle matters if such an event were to occur. The Bank applies the basic principles of the Business Continuity Management arrangements of LO Group.

LOESA tests its business continuity plan at least once a year to ensure that it is suitable, especially as regards its sensitive activities (technological infrastructure, information system, access to markets, and executing and booking of orders).

Finally, with respect to technology and cyber security, the Bank has set up the technology, information security and cyber risk management framework according to the regulatory requirements in place. Processes and controls are implemented within the organization to ensure the confidentiality, the integrity and the availability of the Information Systems as well as the identification of potential threats, the protection of the technology infrastructure, the timely detection of security incidents based on systematic monitoring and the reaction and quick recover of normal activities in case of events. The technology, information security and cyber risk management framework relies on the three lines of defence model.

10. Climate and Sustainability Risk

The Bank performs on a yearly basis (in the context of the regulatory ICAAP) a materiality assessment of the Climate and Sustainability Risk inherent to its business model. Details of this risk assessment are included in the Bank's yearly regulatory ICAAP document. The result of the assessment is that the Bank continues to have a low exposure to this risk type compared to other actors of the financial industry, taking into account its business model and its conservative risk management framework. As the Bank does not offer corporate lending, its loan book is not exposed to the climate risk of the borrowers as it is the case for commercial banks. In addition, the LOESA does not offer mortgage loans and is as a consequence not directly exposed to climate risks related to real estate/housing.

In its Pillar 2 internal capital assessment documented in the ICAAP, the Bank allocates a reduced amount of dedicated capital to the climate risk. This is resulting from the internal assessment considers operational profit decrease as a result of a stress on those companies which have been classified as "Burning logs" (i.e. companies with a significant impact on global warming) held in its client portfolios.

Despite the rather low risk exposure, LOESA (similar to LO Group) put substantial resources in the coverage of the Climate and Sustainability Risk Management.

With regards to its discretionary investment decision process, sustainability characteristics are already considered, amongst other factors, as indicated in the Bank's disclosures in place to comply with the Sustainable Finance Disclosure Directive. The mechanisms continue to evolve in line with the latest regulation, academic research, and best practices.

Starting from the summer 2022, the Bank collects the sustainability preferences from its clients as well as information on "Principle Adverse Impacts" which clients wants the Bank to avoid in their portfolios via a dedicated form. Corresponding products will be developed and offered to the clients during the year 2023.

LO Group has received the "B Corp" certification. B Corp is one of the most widely recognised private sustainability certifications granted by B Lab, a global non-profit organisation, to companies that practice corporate sustainability at the highest level.

11. Strategic and Business Risk

These risk types (defined as risks arising from uncertainty regarding the generation of profits and/or the risk of loss resulting from strategic courses of action and choices made, either long or short term) are managed as part of the strategic planning process and monitored through the regular internal financial and risk reporting process.

They are considered in the Bank's ICAAP through stress scenarios applied to the forward-looking capital plan. The scenarios consider adverse developments in external markets and their effects on the balance sheet, earnings and capital of LOESA.

12. Reputational Risk

This risk translates into a negative perception (image, trust) of business practices or internal controls, which could ultimately have an impact on the Bank's finances. Reputational risk includes the risk of disclosure of confidential / private information.

Since reputational risk often represents a secondary risk from the realisation of other risks, safeguarding the Bank's reputation is the responsibility of every employee and as such they are expected to consider the potential effect on LOESA's reputation of each of their actions on an ongoing basis.

Reputational risk is identified and assessed as part of the assessment of primary (financial or operational) risks. It is addressed primarily through establishing a sound risk culture and an adequate risk management framework within the Bank.

13. Remuneration policy

a. Philosophy and conducting principles

LOESA has defined a Remuneration Policy that describes its remuneration principles and practices applying to all its employees in Luxembourg and in its operating branches and subsidiaries located in Belgium, Spain, France, Italy and the United Kingdom.

This Remuneration Policy is compliant with the requirements on policies and practices in the financial sector, that have been defined by the European and the Luxembourg regulators, i.e. mainly:

- Directive (EU) 2019/878 (CRD V) of 20 May 2019 amending Directive 2013/36/EU as regards exempted entities, financial holding companies, mixed financial holding companies, remuneration, supervisory measures and powers and capital conservation measures;
- Regulation (EU) 2019/876 of 20 May 2019 amending Regulation (EU) No 575/2013 as regards the leverage ratio, the net stable funding ratio, requirements for own funds and eligible liabilities, counterparty credit risk, market risk, exposures to central counterparties, exposures to collective investment undertakings, large exposures, reporting and disclosure requirements, and Regulation (EU) No 648/2012;
- Final report on Guidelines on sound remuneration policies under Directive 2013/36/EU, published by the European Banking Authority (EBA) on 2 July 2021;
- EU Commission Delegated Regulation 2021/923 of 25 March 2021 supplementing Directive 2013/36/EU and specifying qualitative and quantitative criteria related to the definition of the Identified Staff;
- The Luxembourg Law of 5 April 1993 on the financial sector, as modified (the "LSF");
- All the opinions, guidelines and RTS of the European Banking Authority and CSSF Circulars related to remuneration, incl. Circulars 15/622 and 22/797.
- The CSSF Circular 12/552 as amended on central administration, internal governance and risk management.

The Remuneration Policy's conducting principles have been approved by the Board of Directors of the Bank and reflect both the Lombard Odier Group's culture and values, as well as compliance with the regulatory framework.

Sound and effective risk management

The Remuneration Policy and related practices aim at protecting the interests of the Bank's customers, providers, employees, stakeholders as well as the Bank's financial sustainability in a long-term perspective. In this context, the Bank has established, implemented and maintains a Remuneration Policy which is consistent with and promotes sound and effective risk management and which does not induce excessive risk-taking. In addition, in defining its Remuneration Policy, the Bank aims to maintain a sound balance between its fixed and variable cost base, with a view to maintain maximum flexibility at times of potential market stress.

Competitive and attractive remunerations

To ensure that client's satisfaction and protection remain at the heart of its philosophy, the Bank is willing to attract, retain and motivate highly qualified professionals in their respective domains. In this light, the Bank offers remuneration packages that are in line with market practices.

Pay for performance

Variable remunerations are part of the standard compensation package offered by the Bank. To protect the interests of all stakeholders, variable remuneration is systematically aligned with short, mid and long-term collective and individual performance. Effective performance is therefore subject to strict assessment rules that primarily aim at preventing excessive risk-taking behaviours.

Every year, the Bank performs a detailed analysis in order to identify its members of staff whose professional activities have a material impact on the Bank's risk profile, referred to as the "Identified Staff". More precisely, the Bank draws the list of Identified Staff mainly on the basis of (i) article 92 of Directive 2019/878 (CRD V), (ii) the section 5 of the EBA Guidelines on sound remuneration policies and (iii) the EU Commission Delegated Regulation 2021/923 specifying qualitative and quantitative criteria related to the definition of the Identified Staff.

This analysis is initiated by the HR Department, in close collaboration with the Compliance and Risk Management departments. The analysis is then reviewed by the Authorised Management, the Nomination & Remuneration Committee and finally validated by the Board of Directors.

Equal pay

Pay fairness principles are key to the Bank. From a pay fairness perspective, the Group is committed to address gaps that may not be explained by business factors, such as, but not limited to, experience, role/ job, responsibility, performance or location. The HR department is in charge of exploring the root causes of those gaps and address them where appropriate. Pay fairness assessments across our workforce are being conducted on a regular basis and remuneration packages are being closely monitored.

b. Principle of proportionality

LOESA resorts to the proportionality principle among institutions in as much as:

- LOESA has a limited size in the different countries in which it operates;
- In the light of LO Group's very conservative risk approach, the Bank has a very limited risk appetite and - as a consequence – a limited and closely managed risk exposure;
- The internal organization is not complex and all decisions are taken collectively;
- The nature, scope and complexity of the business activities is very limited as these mainly remain private banking activities;
- In addition, as per art. 94 of the Directive 2019/878 (CRD V), LOESA has total assets that are below the EUR 5 billion.

In this context, LOESA has decided to resort to the proportionality principle among institutions and disapplies the following requirements regarding the remuneration of its Identified Staff:

- Requirement to pay out a part of the variable remuneration in instruments and, de facto, the related instrument retention obligations;
- Requirement to pay out a part of the variable remuneration through a deferral scheme and, de facto, the related ex-post risk adjustment obligations (malus).

c. Governance of the Remuneration policy

The Board of Directors

The BoD of LOESA is responsible for the design of the Remuneration Policy, as well as for its monitoring, maintenance and review. It ensures to take into account all the adequate inputs provided by all competent control functions (i.e. Risk Management, Compliance, Internal Audit). It ensures that the Remuneration Policy is reviewed on an annual basis at a minimum and is responsible for implementing the required changes and adaptations that come out of this review. Such central and independent reviews assess whether the remuneration system (i) operates as intended and (ii) is compliant with the regulatory requirements.

The Executive Committee

The ExCo's role is to manage the operational implementation of the Remuneration Policy and to take all appropriate measures to ensure that it is applied properly.

The Nomination & Remuneration Committee

The Nomination & Remuneration Committee of LOESA is composed of three non-executive Board members and meets at least twice a year. It has the following responsibilities:

- Ensuring that the Remuneration Policy is consistent with and promotes sound and effective risk management and is in line with the business strategy, objectives, corporate culture and values and the long-term interest of the Bank;
- Providing its support and advice to the Board of Directors on the design of the Remuneration Policy including that such Remuneration Policy is gender neutral and supports the equal treatment of staff of different genders;
- Supporting the Board of Directors in overseeing the Remuneration Policy, practices and processes and ensuring that the Remuneration Policy is still up to date and, if necessary, make proposals for changes;
- Providing recommendations to the Board of Directors with regard to the design and conditions of the remuneration package of the members of the Executive Committee, the Heads of the control functions (i.e. Risk Management, Compliance and Internal Audit) as well as some other Identified Staff as the need may be;

- Ensuring the adequacy of the information provided to the shareholder on remuneration policies and practices, in particular on the proposed higher maximum levels of the ratio between fixed and variable remuneration;
- Assessing the achievement of performance targets and the need for potential ex post risk adjustment such as clawback;
- Providing its support and advice to the Board of Directors with regards to the appointment, re-appointment and dismissal, of members of the Authorised Management, the Heads of Control Functions as well as local executive management.

The Human Resources Function

The Human Resources function plays a key role in the design and regular update of the Remuneration Policy, providing core input regarding the definition of the Identified Staff, the performance assessment models, the calculation of the global variable remuneration envelope, the remuneration structure and the pay-out modalities amongst other topics. In addition, Human Resources ensure that the Remuneration Policy is correctly implemented through the robust management of the annual performance process.

The Control Functions

Compliance: The Compliance function plays a key role in the design and in the regular update of the Remuneration Policy, ensuring all regulatory requirements are complied with. More specifically, the Compliance function plays a central role in the definition of the Identified Staff and in the performance assessment process.

Risk Management: The Risk Management function is involved in the design and in the regular update of the Remuneration Policy, providing input on the definition of the Identified Staff, the calculation of the global variable remuneration envelope and the performance assessment.

Internal Audit: The Internal Audit department reviews on an annual basis the Remuneration Policy and its practical application. It submits its findings and improvement opportunities to the Executive Committee and the Board of Directors for further action.

d. The performance management system and the link with remuneration

The Bank monitors the performance of all its employees through an annual appraisal process; the objectives of this process are to define a personal development plan on the one hand, and to determine the base salary evolution and the amount of variable remuneration on the other hand.

Performance criteria are established and reviewed by the Bank's Human Resources Department to ensure that they are specific, measurable, attainable, realistic and time-bound. Performance criteria are defined at the level of the Bank, the department and the individual in a multi-year perspective and have different weightings depending on the role of the employee.

In line with prudent risk management and our focus on sustainability, LOESA incorporates both quantitative and qualitative criteria, with a strong focus on qualitative criteria to minimize behaviours that are inappropriate or incompatible with the Bank's long-term goals. These non-financial criteria include the assessment of the individual's alignment with corporate values and risk and compliance requirements such as integrity, trustworthiness, reliability, team spirit, key professional skills, compliance consciousness and consideration of sustainability risks and factors.

In order to avoid conflict of interests, the appraisal process of staff members in Control Functions only consist of non-financial individual criteria and does not contain criteria related to financial targets of the Bank or its branches.

In addition, the remuneration of the Heads of Control Functions is directly overseen by the Nomination & Remuneration Committee, that provides recommendations to the Board of Directors about to the design and conditions of their remuneration package.

The global amount of variable remuneration for the Bank is determined by the Group's Executive Committee (Partnership Committee) and approved by the Board of Directors. Criteria used in the definition of this amount include a certain number of elements such as market conditions, overall Group net profit, actual results of LOESA and the level of business plan achievement.

Remuneration structure

The remuneration packages of LOESA's employees are structured around the following two pillars:

- The fixed remuneration, which encompasses the annual base salary and the fringe benefits which are not linked to the performance;
- The variable remuneration, which encompasses all types of variable remuneration (performance-based discretionary bonus, etc.).

With regards to variable remuneration, LOESA applies a very strict policy, as defined below:

- In all circumstances, the award or payment of the variable elements of the remuneration will be limited or prohibited in case such award or payment may have a negative impact on the Bank's sound capital base;
- "Golden parachutes" are prohibited. In the event of any severance payment, the Bank ensures that payments related to the early termination of an employment contract reflect the actual performance of the concerned employees and do not reward failure or low performance;
- The Bank reserves the right to apply clawback clauses to variable remuneration components in case, for example, evidence of misbehaviour or serious error by the staff member is identified;
- As a general principle, and as per the CRD V requirements, the Bank does not pay any variable component exceeding 100% of the fixed component to any of its employees. On an exceptional basis, the Bank may apply a higher maximum level of the ratio between the fixed and variable components which would in no case exceed 200% of the fixed component, as per the CRD requirements. In this case, a detailed recommendation describing the reasons for, and the scope of, the approval sought (incl. the number of staff affected, their functions and the expected impact on the requirement to maintain a sound capital base) will be reviewed by the Nomination & Remuneration Committee, then validated by the Board of Directors and submitted to the Managing Partners. Copies of both the recommendation of the Board of Directors to the Managing Partners and the Managing Partners' decision will be provided to the regulatory authorities, as prescribed by CSSF circular 15/622.

14. Statement of the Board of Directors

LOESA is part of LO Group, a seventh-generation family-owned business, one of the oldest private banking groups in Geneva and one of the largest in Europe. Independent and accountable to clients and regulators, LO Group is considered as an independent expert in private wealth and institutional asset management offering high quality services to clients. As mentioned in the introduction, the Group has three main business activities, which are Wealth Management (Private Banking services for high net worth individuals and their families), Asset Management (Investments solutions for Retail and Institutional clients) as well as Banking Technologies (Platform outsourcing as well as Global Custody services).

LOESA's business model is aligned to the Group's and focusses exclusively on the Wealth Management business line. Through its network of European branches that ensure client proximity, LOESA aims at being one of the industry's leading, independent, specialist wealth managers by offering premium services to high-net-worth individuals and their families in Europe.

In order to ensure that LOESA performs its business in line with the conservative risk culture at LO Group level, the Board of Directors defines on a yearly basis the overall Risk Policy which sets the framework for risk-taking throughout the organisation and which establishes a basis for a sound risk culture. The Risk Policy outlines the organizational beliefs and the characteristics upheld in pursuit of the Group and Bank's objectives. As part of this statement, prudence and risk awareness are at the core of our financial strength. Being solid, stable and taking a long-term view are also part of these beliefs.

For this reason, the Bank adopts a prudent approach towards its risk with a set tolerance towards the risks it is prepared to accept in the day-to-day activities. Maintaining a conservative approach to risk tolerance is a key aspect of ensuring maintenance of the Fitch AA- credit rating at the level of LO Group.

Additionally, it is through effective risk management that the Bank enabled to implement the strategic goal and grow the business successfully in alignment with its philosophy and strategic principles. The risk management arrangements and the systems put in place are deemed adequate with regards to the Bank's profile and strategy.

Taking the above-mentioned principles into account and based on the available information on the effective risk profile of the Bank, the Board of Directors of LOESA deems the risk management arrangements in place as being adequate with regards to the Bank's profile and strategy.

The present report has been approved by the Bank's Board of Directors in September 2023.

15. Glossary

Abreviation	Description
ACR	Audit, Compliance and Risk Committee of LOESA
ALM	Assets and Liabilities Management
AM	Authorized Management
BLOCL	Bank Lombard Odier & Co Ltd, Geneva (sister company of LOESA)
BoD	Board of Directors of LOESA
CCR	Counterparty Credit Risk
CET1	Common Equity Tier 1 ratio
CRD	Capital Requirement Directive
CRO	Chief Risk Officer
CRR	Capital Requirement Regulation
CSSF	Commission de Surveillance du Secteur Financier
EBA	European Banking Authority
EXCO	Executive Committee of LOESA
HQLA	High Quality Liquid Assets
ICAAP	Internal Capital Adequacy Assessment
IRRBB	Interest Rate Risk in the Banking Book
LCR	Liquidity Coverage Ratio
LO Group	Lombard Odier Group
LOESA, the Bank	Lombard Odier (Europe) S.A.
LSF	Luxembourgish Law of the Financial Sector
NSFR	Net Stable Funding Ratio
RMC	Risk Management Committee
RTS	Regulatory Technical Standards
TREA	Total Risk Exposure Amount

16. Annex 1: Table CC2

		Balance sheet as in published financial statements (LUX GAAP) 31.12.2022	IFRS16	IFRS9	Other reclassi-fications	Balance sheet as in reported FINREP (IFRS) 31.12.2022	Partici-pations	Unaudited Profit/Loss (result of the period)	Under regulatory scope of consolidation 31.12.2022
Assets									
1.1	Liquid Assets	143,580,971	-	-	-	143,580,971	-	-	143,580,971
1.2	Amounts due from banks	687,760,936	-	-	53,132	687,814,068	-	-	687,814,068
1.3	Amounts due from securities fin.trans.	-	-	-	-	-	-	-	-
1.4	Amounts due from customers	718,523,191	-	(15)	3,357,157	721,880,333	-	-	721,880,333
1.5	Positive replac.value of deriv.fin.inst.	27,202,713	-	-	-	27,202,713	-	-	27,202,713
1.6	Financial investments	249,446,295	-	(917,563)	1,735,675	250,264,407	-	-	250,264,407
1.7	Accrued income and prepaid expenses	9,237,033	-	-	(5,145,964)	4,091,069	-	-	4,091,069
1.8	Tangible fixed assets	1,488,668	13,316,525	-	-	14,805,193	-	-	14,805,193
1.9	Other assets	2,375,586	-	-	-	2,375,586	-	-	2,375,586
1.10	Participations	1,188,000	-	-	-	1,188,000	(1,188,000)	-	-
1.99	Deferred tax assets	-	37,499	228,842	-	266,341	-	-	266,341
Total Assets		**1,840,803,393**	**13,354,024**	**(688,736)**	**-**	**1,853,468,681**	**(1,188,000)**	**-**	**1,852,280,681**
Liabilities									
2.1	Amounts due to banks	(4,733,865)	-	-	(14,883)	(4,748,748)	-	-	(4,748,748)
2.2	Liabilities from securities fin.trans.	-	-	-	-	-	-	-	-
2.3	Amounts due to customers	(1,674,634,061)	-	-	-	(1,674,634,061)	-	-	(1,674,634,061)
2.4	Other financial liabilities	-	(13,719,455)	-	-	(13,719,455)	-	-	(13,719,455)
2.5	Negative replac.value of deriv.fin.inst.	(26,923,644)	-	-	-	(26,923,644)	-	-	(26,923,644)
2.6	Provisions	(15,540,107)	-	-	-	(15,540,107)	-	-	(15,540,107)
2.7	Accrued expenses and deferred income	(4,601,349)	-	-	14,883	(4,586,466)	-	-	(4,586,466)
2.8	Other liabilities	(7,748,523)	10	-	-	(7,748,513)	-	-	(7,748,513)
2.99	Deferred tax Liabilities	-	-	-	-	-	-	-	-
Total Liabilities		**(1,734,181,549)**	**(13,719,445)**	**-**	**-**	**(1,747,900,994)**	**-**	**-**	**(1,747,900,994)**
Shareholders' Equity									
3.1	Subscribed capital	(40,000,000)	-	-	-	(40,000,000)	-	-	(40,000,000)
3.2	Share premium account	(114,072,360)	-	-	-	(114,072,360)	-	-	(114,072,360)
3.3	Reserves	(14,000)	-	-	-	(14,000)	-	-	(14,000)
3.4	Result brought forward	61,946,879	438,751	344,261	-	62,729,891	-	-	62,729,891
3.5	Profit (Loss) for the financial year	(14,482,363)	(73,329)	344,475	-	(14,211,217)	-	14,211,217	-
3.99	Participations	-	-	-	-	-	1,188,000	-	1,188,000
Total Equity		**(106,621,844)**	**365,422**	**688,736**	**-**	**(105,567,686)**	**1,188,000**	**14,211,217**	**(90,168,469)**

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