ANDBANK

Private Bankers

Andbank Luxembourg

2022 Pillar III Disclosure Report

Glossary

ALCO – Asset and Liquidity Committee

AML/CFT – Anti-Money Laundering and Combating the Financing of Terrorism

BCP – Business Contingency Plan

BIA – Basic Indicator Approach

BoD – Board of Directors

CET 1 – Common Equity Tier 1

CRD – Capital Requirement Directive

CR&E – Climate-Related and Environmental risks

CRR – Capital Requirements Regulation

CSSF – Commission de Surveillance du Secteur Financier

DRP – Disaster Recovery Plan

KRI – Key Risk Indicator

KYC – Know Your Client

LCR – Liquidity Coverage Ratio

LtD – Loan-to-Deposit ratio

MiFID – Markets in Financial Instruments Directive

NPL – Non Performing Loan

RCSA – Risk & Control Self Assessment

RM – Risk Management department

SA – Standardised Approach

VBP – Value Basis Point

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1 Introduction & General Requirements for disclosure

This report provides Pillar III disclosure for Andbank Luxembourg S.A (the "Bank") on an individual basis as of 31st December 2022. The aim of the Pillar III standards is to improve comparability and consistency of disclosures through the introduction of a harmonised disclosure report.

The objective of this report is to present to the stakeholders the risk assumed by Andbank Luxembourg S.A. throughout the on-going of banking activities, market strategy and Risk Management framework as well as the corporate governance and the own funds regulatory provisions to face losses in case of unexpected events.

The document aims to provide disclosure on different topics as required by the Basel framework, enforced in the European Union by the Directive 2019/876 ("CRD V") amending the Directive 2013/36 ("CRD IV") and the Regulation 876/2019 ("CRR II") amending the Regulation 575/2013 ("CRR").

The Bank is qualified as small and non-complex institution as per Art. 4 no. 1 (145) of the CRR II. The Bank being non-listed, the scope of this report is limited to requirements of the Art. 433 (b). The Bank has not sought any exemption from the disclosure requirements on the basis of materiality or on the basis of proprietary or confidential information. This disclosure is made annually and published as soon as practicable after the publication of its Annual Report and Financial Statement. The Bank will reassess the frequency of disclosure in light of any material change in its business structure, the approach used for the calculation of capital or regulatory requirements.

This Pillar III report has been drafted by the Chief Risk Officer, approved by the Authorised Management ("AM") and the Joint Specialised Committee ("JSC"), and ultimately approved by the Board of Directors ("BoD") on 28 September 2023. These approvals are a declaration on the adequacy of the risk management arrangements of the institution providing assurance that the risk management systems in place are adequate for the Bank's profile and strategy. The Bank's overall risk profile as presented in the document is considered to be moderate to low and in line with its risk tolerance and business model. Indeed, the Bank is very well capitalised with a Capital ratio at 42.37% and shows a strong liquidity profile with a Liquidity Coverage Ratio ("LCR") at 152.42% as illustrated in the Template EU KM1 below.

		a	b	c	d	e
		31/12/2022	30/09/2022	30/06/2022	31/03/2022	31/12/2021
	Available own funds (amounts)					
1	Common Equity Tier 1 (CET1) capital	42,598,293	41,943,264	42,445,808	42,879,284	42,165,910
2	Tier 1 capital	42,598,293	41,943,264	42,445,808	42,879,284	42,165,910
3	Total capital	42,598,293	41,943,264	42,445,808	42,879,284	42,165,910
	Risk-weighted exposure amounts					
4	Total risk exposure amount	100,780,962	89,421,048	87,212,252	85,404,753	79,009,453
	Capital ratios (as a percentage of risk-weighted exposure amount)					
5	Common Equity Tier 1 ratio (%)	42.27%	46.91%	48.67%	50.21%	53.37%
6	Tier 1 ratio (%)	42.27%	46.91%	48.67%	50.21%	53.37%
7	Total capital ratio (%)	42.27%	46.91%	48.67%	50.21%	53.37%
	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 (%)	3.00%	3.00%	3.00%	3.00%	3.00%
EU 7b	of which: to be made up of CET1 capital (percentage points)	56.25%	56.25%	56.25%	56.25%	56.25%
EU 7c	of which: to be made up of Tier 1 capital (percentage points)	75.00%	75.00%	75.00%	75.00%	75.00%
EU 7d	Total SREP own funds requirements (%)	11.00%	11.00%	11.00%	11.00%	11.00%
	Combined buffer and overall capital requirement (as a percentage of risk-weighted exposure amount)					
8	Capital conservation buffer (%)	2.52%	2.52%	2.50%	2.50%	2.53%
EU 8a	Conservation buffer due to macro-prudential or systemic risk identified at the level of a Member State (%)	0.00%	0.00%	0.00%	0.00%	0.00%
9	Institution specific countercyclical capital buffer (%)	0.02%	0.02%	0.03%	0.03%	0.03%
EU 9a	Systemic risk buffer (%)	0.00%	0.00%	0.00%	0.00%	0.00%
10	Global Systemically Important Institution buffer (%)	0.00%	0.00%	0.00%	0.00%	0.00%
EU 10a	Other Systemically Important Institution buffer (%)	0.00%	0.00%	0.00%	0.00%	0.00%
11	Combined buffer requirement (%)	2.54%	2.54%	2.53%	2.53%	2.56%
EU 11a	Overall capital requirements (%)	13.54%	13.54%	13.53%	13.53%	13.56%
12	CET1 available after meeting the total SREP own funds requirements (%)	31.27%	35.91%	37.67%	39.21%	42.37%
	Leverage ratio					
13	Total exposure measure	570,547,542	622,677,962	498,526,663	442,427,524	428,899,431
14	Leverage ratio (%)	7.47%	6.74%	8.51%	9.69%	9.83%
	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 (%)	0.00%	0.00%	0.00%	0.00%	0.00%
EU 14b	of which: to be made up of CET1 capital (percentage points)	0.00%	0.00%	0.00%	0.00%	0.00%
EU 14c	Total SREP leverage ratio requirements (%)	3.00%	3.00%	3.00%	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 (%)	0.00%	0.00%	0.00%	0.00%	0.00%
EU 14e	Overall leverage ratio requirement (%)	3.00%	3.00%	3.00%	3.00%	3.00%
	Liquidity Coverage Ratio					
15	Total high-quality liquid assets (HQLA) (Weighted value -average)	331,500,155	279,946,567	193,089,426	143,100,012	119,454,062
EU 16a	Cash outflows - Total weighted value	246,862,876	239,078,405	140,818,301	107,993,090	111,071,300
EU 16b	Cash inflows - Total weighted value	37,433,640	36,717,505	41,655,026	42,780,034	45,021,432
16	Total net cash outflows (adjusted value)	209,429,236	202,360,900	99,163,274	65,213,055	66,049,868
17	Liquidity coverage ratio (%)	158.29%	138.34%	194.72%	219.43%	180.85%
	Net Stable Funding Ratio					
18	Total available stable funding	260,863,406	269,313,055	268,712,382	251,107,220	220,777,986
19	Total required stable funding	189,722,415	200,941,098	171,571,241	180,155,063	156,790,794
20	NSFR ratio (%)	137.50%	134.03%	156.62%	139.38%	140.81%

Table 1 : Template EU KM1

2 Risk Management Framework

The Bank established a comprehensive risk management framework based on a three-lines-of-defense model, which groups different roles and responsibilities that are coherently delimited:

- The first line-of-defence consists of the business units that take or acquire risks under a predefined policy and limits and carry out controls on a day-to-day basis. Their objective is to identify as soon as possible the errors and omissions occurred during the processing of current transactions;
- The second line is formed by the support functions including the following functions: financial and accounting, IT, compliance and risk, which contribute to the independent risk control;
- Finally, the Internal Audit function, which provides an independent review and a critical valuation of the previous two lines, is the third line-of-defence.

2.1 Risk Management function

The Risk Management department promotes an internal risk culture aiming at improving staff awareness for sound and prudent operational management. It is also accountable for the identification, mitigation, management and reporting of all the risks to which the institution is, or may be, exposed. In addition, the risk control function ensures that the strategies, activities and organisational and operational structure are compatible with internal and regulatory requirements. It monitors compliance with these limits and, in case of breach, ensures that they are remedied as soon as possible. Thus, the risk control function shall ensure that the terminology, methods and technical resources used are consistent and effective.

The main responsible to follow the tracking and to report all type of risks is the Risk Management department. They report to the AM and related business units, the JSC and the BoD. The reporting task is divided on different timeframes (daily, monthly, quarterly or annually) depending on the information.

The Risk Appetite Framework is consistent with the strategic and business plan, capital planning and liquidity. Key Risk Indicators ("KRI") and set of thresholds within each area of material risk identified have been defined and implemented. The Risk Appetite Statement, embedded part of the Risk Strategy, outlines all level and types of risk that the Bank is willing to assume within its risk capacity to achieve the strategic objectives defined in the business plan.

3 Own funds

The Bank's own funds consist of the Social Capital and the Reserve account. The Social Capital is formed by ordinary shares issued by the Headquarter entity, Andorra Banc Agricol Reig ("Andbank Andorra" or "the Parent Company"). The reserved accounts are constituted by the yearly accumulated P&L results of the Bank. The intangible asset account is also deducted to come up with the ultimate own funds figure. The Bank's regulatory capital consists exclusively of Common Equity Tier 1 ("CET1") capital. The Bank does not have issued additional Tier 1 capital or Tier 2 capital as defined in the CRR.

4 Capital Requirement

The core business activities developed by the Bank expose the entity to credit risk and operational risk, both have capital requirements and risk mitigation practices.

In order to calculate the regulatory capital requirements for credit risk associated to the credit portfolio activities, the Standardised Approach ("SA") described in the CRR regulation is used.

Regarding the operational risk, a Basic Indicator Approach ("BIA") based on a three-year historical data model is applied to calculate the own funds requirements.

The overview of the total risk exposure amounts is exposed hereafter:

		Total risk exposure amounts (TREA)		Total own funds requirements
		a	b	c
		T	T-1	T
1	Credit risk (excluding CCR)	74,549,040.22	42,588,097.50	8,200,394.42
2	Of which the standardised approach	74,549,040.22	42,588,097.50	8,200,394.42
3	Of which the Foundation IRB (F-IRB) approach			
4	Of which slotting approach			
EU 4a	Of which equities under the simple riskweighted approach			
5	Of which the Advanced IRB (A-IRB) approach			
6	Counterparty credit risk - CCR	6,150,271.44	29,467,828.83	676,529.86
7	Of which the standardised approach	2,904,587.15	26,275,493.83	319,504.59
8	Of which internal model method (IMM)			
EU 8a	Of which exposures to a CCP			
EU 8b	Of which credit valuation adjustment - CVA	3,245,684.29	3,192,335.00	357,025.27
9	Of which other CCR			
10	Not applicable			
11	Not applicable			
12	Not applicable			
13	Not applicable			
14	Not applicable			
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 1 250 % / deduction			
20	Position, foreign exchange and commodities risks (Market risk)			
21	Of which the standardised approach			
22	Of which IMA			
EU 22a	Large exposures			
23	Operational risk	20,081,650.64	17,365,121.29	3,012,247.60
EU 23a	Of which basic indicator approach	20,081,650.64	17,365,121.29	3,012,247.60
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)			
25	Not applicable			
26	Not applicable			
27	Not applicable			
28	Not applicable			
29	**Total**	100,780,962.30	89,421,047.62	11,889,171.88

Table 2 : Template EU 0V1

5 Credit Risk

Credit risk is the risk of default on a debt that may arise from a borrower failing to make required payments. A default is considered to have occurred when either both or the following have taken place:

- The client is "impaired", meaning unlikely to pay its credit obligations to the Bank without recourse of the Bank to action such as realising security;
- The client is past due more than 90 days on any material obligation to the Bank.

The majority of the Bank's credit offer to Private Banking customers is mainly concentrated on clients holding assets at Andbank Luxembourg. The approach aims at standardising the process by developing a credit risk policy detailing, in particular, the collateralisation aspects with the application of appropriate haircuts to the assets market value according to its quality, liquidity, volatility and level of diversification.

Exceptionally, the Bank can grant credits for the non-private banking activities. In this case, the policy is based on a case-by-case analysis of the exposures and on the financial health of the counterparty. This analysis is focusing on the customer capacity to fulfill its financial obligations.

5.1 Standardised Approach

The Standardised Approach requires the banks to use, where possible, risk assessments prepared by External Credit Assessment Institutions ("ECAI") or expert credit agencies to determine the risk weightings applied to rated counterparties. The Bank uses the following ECAI: Moody's Investors Service, Standard & Poor's and Fitch Ratings. They are used for exposures on the Bank securities, securities collaterals for client credits, credit institutions and central government and central banks.

5.2 Credit risk limits

With respect to the quality of the loan portfolio, Andbank Luxembourg has established four limits in terms of delinquency and coverage:

- Non-Performing Loan ("NPL") Ratio shows the credit quality by means of the ratio between the amounts of doubtful loans on the total loans granted.
- Adjusted NPL Ratio shows the credit quality as the ratio of net doubtful loans to net total loans granted (net amounts are calculated by subtracting collateral from gross amount of loans).
- Net Non-performing loans on Equity is the percentage of the net doubtful loans on equity.

5.3 Credit risk Mitigation

As the credits are collateralised, the Bank monitors that the evolution of the eligible marketable securities, guarantees and other forms of collateral respect the limits established by the contracts signed by the customers. The main objective is to promote the early detection of any problem which might arise on the part of the borrowers and to focus attention on those credits which need to be more closely watched. The credit risk monitoring is organised in particular around the following controls:

- Daily examination of irregular exposures;
- Weekly review of irregularities expositions and/or watch list clients in Credit Committee;
- Monthly review of exposures for the provisioning process;
- Quarterly review, during the production of the solvency ratio and of the composition and quality of assets collateralised;
- Joint Specialised Committee is informed about the main irregularities on the credit activity, including accounts overdrafts;
- Annual review within the framework of the credit lines renewals.

The Bank has also implemented controls on its exposures concentration risks, whether direct or indirect:

- Effects of the diversification of the client's portfolio when computing the maximum Lombard value available for each credit line;
- Analysis of the concentration of indirect risks;
- Specific analyses of sectorial concentrations.

The Bank ensures to receive enough collateral and ensures that assets are of good quality and broadly diversified in terms of nature, countries, industries and entities. Assets that could be potentially accepted by the Bank as collateral portfolio are:

- Stock-exchange listed company shares & ETF;
- Mutual funds;
- Sovereign and Corporate bonds;
- Preferred shares;
- Structured products, only those issued or commercialised by the Bank;
- Physical Gold and Silver and Certificates;
- Cash.

5.4 Counterparty Credit Risk

The counterparty credit risk of the Bank is focused on FX contracts of the clients that are exclusively closed with the Parent Company. As of 31st December 2022, the exposure value was EUR 2,904,587 as per the mark-to-market method.

6 Operational Risk

According to the Basel Committee, the operational risk encompasses different types of events: internal and external fraud, labour relations, practices with customers, products and businesses, damages to material assets, system and execution failures.

The operational risk management of the Bank is framed by an internal policy supplemented by procedure dedicated to the realisation of controls and on the collection of incidents.

The responsibility for the mitigation of these risks is the responsibility of all individuals within the business lines and support functions, which must promote an operational risk culture within their teams. The management control mechanism is also based on processes supervised by the Bank's control function.

For the calculation of regulatory requirements for operational risk, the Bank has adopted the Basic Indicator Approach. In addition, Andbank Luxembourg forecast the maximum amount of operational losses that might happen by stressing historical data considering three different scenarios. This information is used to calculate expected and unexpected losses and thus allocates additional capital amount to cover operational risk.

The mitigations factors set in place by the Bank are the following:

- Training to improve the awareness of the staff;
- Periodic review of the Risk and Control Self-Assessment ("RCSA");
- Business Continuity Plan ("BCP") and Disaster Recovery Plan ("DRP");
- Internal data-gathering related to operational risks. Incident reports are formalised by the business lines and support functions to ensure an exhaustive declaration of all profits or losses arising from an operational risk event. These reports contain all the necessary information to their analysis and follow-up and are sent for approval to the Risk Management department and to the Parent Company (the latter only for losses >10,000 EUR);
- One Key Risk Indicator also Recovery Indicator computing the total loss on the ordinary margin. The indicator was within the Appetite Zone (< 1.5%) during the year.

During 2022, there were 23 operational risk events among which 14 resulted in a financial loss for the Bank (total loss of EUR 83K).

7 Market Risk

The market risk is the risk of losses in positions on the trading or banking book arising from movements in the market price.

Market risk is managed in accordance with the Market Risk Policy which defines the fundamental principles, framework and governance for the management of market risk.

Market risk is subject to the limits established by the Board of Directors. In this sense, a series of different restraints are established for both: Banking and Trading book. Trading book may comprise derivative instruments held for hedging purpose such as but not limited to Interest rate swap or cross-currency swap. They may be entered into to cover interest rate risk deriving from the banking book or the portfolio of loans. From a hedge effectiveness point of view:

- The Bank will ensure that an economic relationship exists between both instruments by performing a hedging efficiency test at the time of the purchase using the R-squared measure[1]. The R-squared parameter should be higher than 0.9.

- The Bank will monitor the credit worthiness of the hedged instrument by checking the credit ratings

- The Bank will also monitor the hedge ratio on a frequent basis by comparing the P&L of both exposures to ensure that the P&L of one product is offset by the P&L of the corresponding hedging derivatives instrument. The expected range is 80%-125%.

The Bank does not have capital requirements as defined in accordance with Part Three, Title IV, Chapters 2 to 4 of the CRR.

<u>Market risks limits</u>

Related with the investment banking activity and with the ALCO, the Bank limits the interest rate sensitivity of the trading portfolio at EUR 5,000 Value of Basis Point ("VBP"). Also, non-related to trading activity, the Bank also limits the interest rate risk emerging from the Fair Value through Other Comprehensive Income ("FVOCI") portfolio to EUR 50,000 VBP and for Hold To Maturity portfolio to EUR 40,000 VBP.

In addition, the positions that can be held in the Bank's trading portfolio have two qualitative limits set by the ALCO or Authorised Management:

- A limit on term of sensitivity is set at EUR 5,000;
- A limit on the notional amount is set at EUR 5 Million.

For the purpose of the limits the following currencies are considered as liquid: USD, JPY, GBP, CHF, DKK, NOK, SEK, CAD, AUD, NZD, SGD, and HKD.

A special focus is put on BRL which has a specific limit. The authorised limits on overall open position are the following:

- Liquid currency – intraday & overnight: 100,000 in EUR equivalent;
- Liquid currency – weekend: No limit;
- Illiquid currency: 50,000 in EUR equivalent; BRL currency: 50,000 in EUR equivalent.

[1] It measures how closely the value of the hedging instrument tracks the value of the underlying exposure being hedged.

The Bank calculates on a monthly basis the following regulatory stress tests as set out in EBA/GL/2018/02 and CSSF 08/338:

- Parallel shift of +200 BP and -200 BP of interest rate curve are also used to perform the regulatory stress test as defined by Directive 2013/36/EU (Standard Shock) and circular CSSF 08/338;
- Scenarios SC1 to SC6 (Parallel shock up, Parallel shock down, Short rates shock up, Short rates shock down, Steepener shock, Flattener shock) are the defined EBA rate shock scenarios for measuring Economic Value of Equity ("EVE") under the standard EVE outlier test. When the decline in EVE is greater than 15.00% of the institutions Tier 1 capital under any of the six scenarios, the Bank should inform the competent authority within the next reporting cycle. When the amount of the negative impact on EVE is greater than 20% of the institution's own funds, the Bank will inform the competent authority immediately.

Market risk monitoring

The market risk monitoring is done through a daily examination in nominal and duration of detention of the Bank's trading exposures by the Risk Management department which ensures the coherence between the limits approved and the operational thresholds used by the Treasury and Dealing Room department.

8 Liquidity Risk

The liquidity risk plays a key role on the Bank's Risk Management framework. Liquidity and funding are critical, for this reason they are continuously managed to ensure they can be adjusted to sudden changes in market conditions or the operating environment, whether widespread or relatively small.

Regarding the funding, the Bank benefits from the support of its Parent Company and has established a Global Master Repurchase Agreements with several counterparties allowing to perform repurchase operations in case of need. The Bank receives extra liquidity from its Parent Company. This volatile excess of liquidity from the group is deposited with the Bank in order to access the BCL. This excess of liquidity is placed to the BCL, through the Bank, to minimise the counterparty risk from a corporate level. In addition, the Bank has a EUR 50M pledge from its Parent Company to mitigate the Large Exposure towards the Group. The liquidity from the Parent Company is not considered as a source of funding.

The Bank maintains daily deposits at the BCL. Consequently, the Daily Liquidity Reporting ("DLR") is sent to BCL in order to allow the market authority to follow the Bank situation. Internally, the Bank is performing a daily monitoring of LCR and Loan-to-Deposit ratio ("LtD") to ensure the liquidity situation is sufficient to handle with not only the business requirement but also the unforeseen situations in the market.

The Bank is also daily monitoring the Net Stable Funding Ratio.

On a quarterly basis, the Bank performs liquidity stress testing tests to assess the potential impact of extreme stress scenarios on its liquidity positions and current mitigation techniques taking into account both market liquidity (external factors) and funding liquidity (internal factors).

9 Other risks

9.1 Compliance Risk

Compliance risk is defined as the risk of regulatory scrutiny and/or sanctions or loss to reputation which may result in material financial loss for the Bank, as a result of its failure to comply with laws, regulations, its own code of conduct and standard of best practices.

Andbank Luxembourg is scrutinised by a strong regulatory regime in the Luxemburgish financial sector. The Bank constantly must adhere to new regulations and European directives. It requires a strong organisation that is able to adapt and implement new regulatory requirements in a timely manner.

Although there aren’t specific qualitative metrics that measures compliance risk, the Bank has put in place an organisational department that manages the policies and procedures necessary to meet all the regulatory requirements. In addition, a new regulatory committee is being created aiming to enforce and put in place the upcoming regulatory Banking requirements.

The Bank will apply the maximum diligence and the appropriate means to minimise the risk of normative non-compliance. In this sense, the necessary control mechanisms will be established to avoid regulatory non-compliance.

<u>Mitigation techniques of the Compliance Risk</u>

The Bank respects all laws and regulations in force by having developed a set of policies and procedures that includes supervision controls. By implementing those, the employees shall respect the regulatory framework of Andbank Luxembourg.

In the area of AML/CFT, key aspects are:

- A regulatory watch on AML/CFT issues is in place (strengthened rules on country restrictions);
- All high risk account openings are examined and validated by the Compliance department, completed by a formalised revision process updating the KYC elements on the existing client base.
- The implementation of a customer risk classification based on risk factors for the Private Bank activities;

- The on-going customer and transaction monitoring, including the clients' name screening against official list;
- The control of the status of the various breaches detected and the monitoring of the corrective actions defined to mitigate the gaps identified;
- Staff training and awareness.

In the area of market integrity, professional and personal ethics:

- The Bank has a MiFID control framework.
- The Bank has an inducements and conflict of interest policies to effectively manage conflicts of interests, to declare gifts and incentives, to guarantee the best conditions for the execution and safeguarding of assets, and to establish controls against market manipulation.

Regarding the internal code of ethics, the right of alert is granted to every employee ("whistleblowing"). This right is defined in the internal code of conduct which is handed to every employee at the inception of his/her employment contact.

In addition, the Compliance department prepares a summary annual report to the attention of the BoD and JSC on the compliance situation of the Bank, according to Circular 12/552 requirements. The document is approved by the BoD and sent to the CSSF. In addition, the internal audit department is performing annual reviews on the MiFID and AML/CFT controls and triannual reviews on the compliance function. The main objective of those reviews is to detect any deficiencies and ensuring they are remediated, by performing a follow-up of the issues detected and their remediation processes.

9.2 Legal Risk

Legal risk can be defined as the risk of loss or imposition of penalties, damage or fines from the failure of the Bank to meet its legal obligations including regulatory or contractual requirements.

The Legal department identifies the legal risks linked to all the activities of the Bank (whether in current or future activities). The Legal department is in particular responsible to ensure that:

- All contracts are correctly written and updated;
- The Bank's procedures identify the main activities that might be subject to a legal risk;
- A legal watch is communicated to all employees.

When particular case is required (e.g. where the law of another jurisdiction may be relevant and where complex contractual relationships are intended), an external legal advisor may be consulted.

9.3 Climate-related and environmental risks

Andbank has initiated efforts and will continue to integrate climate-related and environmental risks ("CR&E") into the Bank's risk management framework in order to be fully aligned with the CSSF Circular 21/773 and the EBA/REP/2021/18. CR&E risks may translate into physical and transitions risks that could materially impair the financial situation and the operational capacity of a credit institution.

Andbank recognises that CR&E risk inevitably acts as a risk driver that has the potential to materialise across all enterprise risk categories. Based on the initial materiality assessment of CR&E risk on Andbank's business model and associated risk categories, the Bank has identified the following material risk categories:

- Credit risk;
- Operational risk;
- Outsourcing risk.

10 Remuneration

The Bank's compensation model will foster corporate risk culture, promoting risk-taking practices consistent with the desired performance of the business areas and defined risk appetite.

The Remuneration Policy contains the following points to effectively integrate the values of the corporate risk culture:

- The policy will define a fixed remuneration as well as annual and multi-year plans of variable remuneration;
- The remuneration will not depend exclusively on the achievement of financial objectives, it also takes into account the risks taken to reach those objectives, both in the area of risk and in business;
- In the business area, the remunerations will consider business and risk objectives;
- In the area of risks, remuneration will focus on those objectives relevant to the performance of its function and will not include business objectives that may compromise its independence;
- In the rest of the central service areas (except for Internal Audit), the remuneration will be set based on the operating margin and the particular criteria of each area, valuing the inclusion of criteria based on the metrics and qualitative indicators of appetite to the risk that is relevant.

Remuneration policy

The Risk Management department assists in and informs on the definition of suitable risk-adjusted performance measures, as well as in assessing how the variable remuneration structure affects the risk profile and culture of the institution. It will also validate and assess risk adjustment data and will review the policy of the Bank in order to assure the alignment with the risk management strategy and framework.

The disclosures in relation to the Article 450 of CRR are available in the Bank's website though the following documentation:

- Andbank AL Remuneration Policy;
- Disclosure remuneration.

https://www.andbank.com/luxembourg/cadre-reglementaire-la-banque/

11 Appendix

Article	Description	Reference to the report	Templates EU 2021/637
435	**Risk management objectives and policies**		
435 (1) (a)	Strategies and processes to manage risks	2; 5; 6; 7; 8; 9	
435 (1) (e)	Declaration of the management body on the adequacy of risk management arrangements	1	
435 (1) (f)	Concise risk statement approved by the management body	1	
435 (1) (f) (i)	Key ratios and figures providing external stakeholders a comprehensive view of the institution’s management of risk	1	
435 (1) (f) (ii)	Information on intragroup transactions and transactions with related parties that may have a material impact of the risk profile of the consolidated group	8	
438	**Own funds requirements and risk-weighted exposure amounts**		
438 (d)	The total risk-weighted exposure amounts and the corresponding total own funds requirement determined in accordance with Chapter 2 of Part Three, Title II, 8 % of Article 92, to be broken down by the different risk categories set out in Part Three and, where applicable, an explanation of the effect on the calculation of own funds and risk-weighted exposure amounts that results from applying capital floors and not deducting items from own funds;	4	EU OV1
447	**Disclosure of key metrics**		
447 (a)	Composition of own funds and own funds requirements	1	EU KM1
447 (b)	Amount of total risk exposure	1	EU KM1
447 (c)	Amount and composition of additional own funds	Not applicable	
447 (d)	Combined buffer requirement	1	EU KM1
447 (e)	Leverage ratio and total exposure measure	1	EU KM1
447 (f)	Composition of Liquidity Coverage Ratio	1	
447 (f) (i)	Average or averages of the liquidity coverage ratio based on end-of-the-month observations over the preceding 12 months for each quarter of the relevant disclosure period	1	EU KM1

447 (f) (ii)	Average or averages of total liquid assets coverage ratio based on end-of-the-month observations over the preceding 12 months for each quarter of the relevant disclosure period	1	EU KM1
447 (f) (iii)	Averages of their liquidity outflows, inflows and net liquidity outflows end-of-the-month observations over the preceding 12 months for each quarter of the relevant disclosure period.	1	EU KM1
447 (g)	Composition of Net Stable Funding Ratio:	1	
447 (g) (i)	The net stable funding ratio at the end of each quarter of the relevant disclosure period	1	EU KM1
447 (g) (ii)	The available stable funding at the end of each quarter of the relevant disclosure period	1	EU KM1
447 (g) (iii)	The required stable funding at the end of each quarter of the relevant disclosure period	1	EU KM1
447 (h)	Own funds and eligible liabilities ratios and components, numerator and denominator	Not applicable	
450	**Remuneration policy**		
450 (1) (a)	Decision-making process used for determining the remuneration policy, as well as the number of meetings held by the main body overseeing remuneration during the financial year, including, if applicable, information about the composition and the mandate of a remuneration committee, the external consultant whose services have been used for the determination of the remuneration policy and the role of the relevant stakeholders;.	10	EU REMA
450 (1) (b)	Information on link between pay and performance	10	EU REMA
450 (1) (c)	Most important design characteristics of the remuneration system, criteria used for performance measurement, deferral policy	10	EU REMA
450 (1) (d)	Ratios between fixed and variable remuneration set in accordance with Article 94(1)(g) of Directive 2013/36/EU	10	EU REMA
450 (1) (h)	Aggregate quantitative information on remuneration, broken down by senior management and members of staff with material impact	10	EU REM1
450 (1) (h) (i)	Amounts of remuneration for the financial year, split into fixed and variable remuneration, and the number of beneficiaries	10	EU REM1
450 (1) (h) (ii)	Amounts and forms of variable remuneration, split into cash, shares, share-linked instruments and other types	10	EU REM1
450 (1) (h) (iii)	Amounts of outstanding deferred remuneration, split into vested and unvested portions	10	EU REM3

450 (1) (h) (iv)	Amounts of deferred remuneration awarded during the financial year, paid out and reduced through performance adjustments	10	EU REM3
450 (1) (h) (v)	New sign-on and severance payments made during the financial year, and the number of beneficiaries of such payments	10	EU REM2
450 (1) (h) (vi)	Amounts of severance payments awarded in previous periods that have been paid out during the financial year	10	E U REM2
450 (1) (h) (vii)	Amounts of severance payments awarded during the financial year, number of beneficiaries and highest such award to a single person	10	EU REM2
450 (1) (i)	Number of individuals being remunerated EUR 1 million or more per financial year	10	EU REM4 EU REM5
450 (1) (j)	Total remuneration for each member of the management body or senior management (upon demand)	10	EU REMA