

## REGULATORY DISCLOSURE REPORT 2019

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*Quilvest Wealth Management S.A.*

Pillar III disclosure requirements pursuant to Part Eight of EU Regulation N°575/2013

- of the European Parliament and
- of the Council of June 26<sup>th</sup>, 2013 (Capital Requirement Regulation or CRR)

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## INTRODUCTION

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This document fulfils Quilvest Wealth Management S.A. (hereafter “QWM” or together with its subsidiaries, the “Group”) disclosure requirements in accordance with Part Eight of the Capital Requirements Regulation (CRR, EU N° 575/2013).

## ARTICLE 431 CRR – SCOPE OF DISCLOSURE REQUIREMENTS

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QWM is a financial holding company under the consolidated supervision of the *Commission de Surveillance du Secteur Financier* (CSSF) and pursuant to Articles 6(3) and 13(2) of the CRR, QWM shall comply with the obligations laid down in Part Eight of the CRR on the basis of a consolidated situation.

## ARTICLE 432 CRR – NON-MATERIAL, PROPRIETARY OR CONFIDENTIAL INFORMATION

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The Group has not omitted any disclosures of information which could be regarded as material or which omission could change or influence the assessment of the Group.

In accordance with the guidelines from the European Banking Authority on materiality under Articles 432(1) of the CRR, the Group has omitted to disclose the information described in Art. 442 (g), (h) and (i) and in Art. 447 of the CRR as such disclosures are not regarded as material.

## ARTICLE 433 CRR – FREQUENCY OF DISCLOSURE

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This document is published yearly at the time of the official release of QWM's Annual Report.

## ARTICLE 434 CRR – MEANS OF DISCLOSURE

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This document is available from QWM's homepage [www.quilvestwealthmanagement.com](http://www.quilvestwealthmanagement.com) upon request under the chapter “Legal Information” and will be made available by the Marketing department of QWM upon request by mail or telephone.

The consolidated financial statements of the Group, which are prepared on an annual basis, are also available upon request by email ([marketing@quilvestwealthmanagement.com](mailto:marketing@quilvestwealthmanagement.com)) or telephone to the Marketing department of QWM, or from the Luxembourg Trade and Company Register.

## ARTICLE 435 CRR – RISK MANAGEMENT OBJECTIVES AND POLICIES

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### RISK MANAGEMENT PRINCIPLES:

The Group's risk management policies are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies are reviewed regularly to reflect changes in market conditions as well as new products and services offered.

The primary objectives of the management of the Group are to comply with regulatory requirements and to have at all times a comfortable level of own equity covering its activities and related inherent risks. In this respect, the Group respects all regulatory requirements related to regulatory capital since inception, monitors the evolution of its solvency ratio on a quarterly basis and forecasts the impact of future business growth and/or regulatory changes relative on its own funds and capital charge for credit, market and operational risks.

The Group sustains a prudent approach with regard to risk exposure in general.

## **CREDIT RISK AND MARKET RISK:**

The following risk management principles are embedded in the Group's Risk Appetite Framework:

- a conservative approach related to the approval of credit exposures in accordance with the Group's collateral management policy and lending values ;
- the approval and monitoring of counterparty limits and the Group's decision to work only with prime counterparties ;
- all credits granted are to be approved by the relevant decision body, both on local and on Group level, within the powers attributed by the Board of Directors ;
- all investment decisions relative to the entities' banking books have to be approved by the Group's Asset and Liability Committee (ALCo), which is responsible for managing the Group's investment portfolio, monitoring global counterparty exposures, the consolidated liquidity risk position and relevant capital adequacy ratios.

The Group's policy towards country risk is based upon the principle not to hold active relationships with counterparties, correspondents, depositories or debtors in countries identified by the Group as risk bearing countries (non-OECD countries or countries listed by the CSSF with regards to the fight against anti-money laundering, counter-terrorist financing and/or international financial sanctions).

The Group's entities do not hold a trading book as proprietary trading is not allowed within the Group. However, a banking book, meeting strict internal investment rules following the Group's investment policy, allows certain investments as part of its asset and liability management, as partial transformation of main funding resources and for which surveillance is in the hands of the ALCo and the Group Chief Risk Officer.

## **LIQUIDITY RISK:**

The Group has established a Liquidity Risk Policy, approved by its Board of Directors, and in conformity with the latest prudential and regulatory dispositions adopted by the CSSF.

## **SETTLEMENT RISK:**

QWM is not directly exposed to settlement risk, being the risk that a counterparty will fail to deliver the terms of a contract at the time of settlement. Such risk exists at local entity level linked to a counterparty not delivering a security or its value in cash as per agreement, after the entity already delivered security or cash as per the underlying agreement. Interbank operations and credit transactions are also settlement risk sensitive. Settlement risks are managed at Group entity level by local Risk Managers whereby all counterparties have to be approved by local Management. The daily monitoring of delivery of payments or securities is handled by the respective back-offices where the vast majority of transactions is executed following the delivery versus payment method.

## **FOREIGN EXCHANGE RISK:**

The Group's exposure to foreign exchange risk stems from potential impact of movements in foreign exchange rates. The Group's policy is to exclude proprietary speculative foreign exchange positions. At CBPQ and QBP level, foreign exchange risk is very limited as it only represents residual client positions for which intraday and overnight limits are implemented and monitored by local Risk Management on a daily basis. QVS is mostly exposed to foreign exchange risk since a part of their revenues are denominated in USD, which are however upfront covered by forward currency contracts as their operating expenses are in CHF.

## **PROFITABILITY RISK:**

QWM does not have a specific policy regarding profitability risk. However, the Executive Committee of QWM closely follows the performance (profit and loss and key performance indicators) of each entity of the Group individually as

well as the consolidated situation on a monthly basis, based on information prepared by the Group CFO. This monitoring is a key management tool to monitor profitability risk and to oversee the achievement of the business objectives, in terms of new money, banking revenues and cost management. Indicators on regulatory solvency requirements are also part of the Management Information Systems (MIS), complementing the business view with risk-oriented metrics. Profitability risk is also being addressed in the Group's ICAAP/ILAAP report. Based upon QWM's 3-year consolidated business plan, the Group's budgeted profitability is stressed in the yearly ICAAP/ILAAP exercise, stressing financial results as a result of a slowdown of its planned commercial growth, in order to assess the impact of the Group's own funds.

#### **LEGAL AND REPUTATIONAL RISK:**

The Group's compliance policy defines legal and reputational risk as part of the overall compliance risks of the Group. The responsibility for the mitigation of all compliance risks is allocated by the group compliance charter to four levels of control: the Board of Directors, the Executive Committee, the compliance officer and the line managers in close cooperation with all staff. In addition, each entity has a legal department that intervenes in all processes which might imply a legal risk for the entity and thus for the Group. Potential legal risks are brought to the attention of the Exco by the Group's Head of Legal department and are assessed by the Exco on a case by case basis.

Reputational risk may be triggered for various reasons, but one major risk is a potential breach of applicable laws and regulations. In order to mitigate this risk, the Group has implemented a range of measures, including a close monitoring of new laws and regulations by the compliance department, staff training on compliance issues, validation of new procedures and amendments by the compliance department, implication by compliance in the account opening process and vetting of account holders and beneficial owners. Monitoring of transactions and accounts is defined on the basis of the risk category of the client and is closely followed by the local compliance officers.

Local compliance officers assess compliance risks in their entities on an ongoing basis and inform their local Management accordingly. They also report regularly to group compliance on all matters that imply a reputation risk.

#### **ASSET MANAGEMENT RISK:**

Risks related to asset management and its inherent control framework are described in dedicated policies at the local entities as QWM is a holding structure without operational responsibilities.

#### **CONCENTRATION RISK:**

Besides the concentration of credit risk on client loans for which regulatory restrictions apply both on entity and on Group level (large exposure limits), the Group pays specific attention regarding the management of concentration risks which can arise from different sources:

- concentration risk on received collateral covering client loans ;
- concentration of counterparties within the Group's investment portfolio ;
- concentration of client assets or group of clients representing a substantial source of income for the Group;
- concentration in terms of asset under management linked to a commercial team in case of departure of such team.

Above mentioned concentration risks have been assessed in the Group's ICAAP/ILAAP report by applying several stressed scenarios on the Group's 3 year's business plan.

The Group's Executive Committee hereby confirms that the risk management arrangements of its institution provide assurance that the risk management systems put in place are adequate with regard to the institution's risk profile and business strategy.

## KEY RATIOS AND INDICATORS:

RATIOS	31/12/2019
Regulatory Capital (in EUR)	125 713 333
Solvency ratio (>10.5%)	25.93%
Leverage Ratio (>3%)*	5.2%
Liquidity Coverage Ratio (>80%)	178.3%
Net Stable Funding Ratio (>100%)*	224.7%

\*not yet mandatory

in EUR	31/12/2019
Ressources	2 147 365 126
Client deposits	2 142 613 538
Interbank Loans	4 751 588

in EUR	31/12/2019	in % of ressources
Major reemployments	2 209 777 432	103%
Central Bank deposits	1 242 264 727	58%
Investment Portfolio	172 677 433	8%
Loans to clients	794 835 272	37%

For details on Regulatory Capital, refer to section Article 437 CRR – Own Funds.

For details on capital allocation, refer to section Article 438 CRR – Capital Requirements, Article 444 CRR – Use of ECAs, Article 445 – CRR Exposure to Market Risk and Article 446 CRR – Operational Risk.

## GROUP CREDIT POLICY:

The Group has adopted a conservative credit policy as the vast majority of client loans are granted based on full coverage of acceptable collateral as determined in the Group Credit Policy. Similarly, group internal guidelines are to be respected for all investments in debt securities such as credit quality of the debt issuer, type of debt, risk class, diversification and duration, within predefined individual and global counterparty limits.

In order to implement the Group's Credit Policy, the Board of Directors delegated some responsibilities to the Exco, functioning as Group Credit Committee, and to local Management Committees and/or local Credit Committees, which are responsible for credit granting, structuring operations and acceptance of any type of counterparty limit within the limits set forth by the Board of Directors. Local Credit Committee members are composed of members of the local Management Committee. The Board of Directors remains the ultimate decision-making body for all loan applications beyond the local Exco' decision-making authority or those presenting a level of risk deemed to be significant.

The GCRO is responsible for the daily risk management of the Group in close cooperation with local Risk Managers. The GCRO manages credit risk, market risk, counterparty risk, liquidity risk and operational risk and presents a consolidated risk dashboard to the Exco and the ARC on a quarterly basis.

Credit risk is monitored daily at entity level, both on credit exposures and collateral value. A weekly risk dashboard, provided by all entities to the Group Chief Risk Officer, includes the status of most relevant risk controls, including credit exposures, collateral shortages and remedial actions if applicable. This information is also reported on quarterly report presented to the Audit & Risk Committee (ARC).

Each local entity is required to implement the Group credit policies and procedures, with credit approval authorities delegated from the Group Credit Committee. Each entity has a local Risk Manager and Credit Officer, reporting to the local management and to the Group Chief Risk Officer.

Regular internal audits at local entities on the application of credit risk policies, procedures and monitoring are undertaken by the Internal Audit department.

#### **ORGANIZATION OF RISK MANAGEMENT:**

The Board of Directors (BoD) has final responsibility for the establishment and oversight of the risk management function within QWM.

The BoD has appointed an Executive Committee (Exco), chaired by the Chief Executive Officer (CEO), which is responsible for the daily management of the Group. The Exco is responsible for monitoring the implementation of all policies within the Group entities and meets on a bi-monthly basis.

QWM's risk management policies, established by the Exco of the Group, are approved by the BoD. In this respect, the BoD is assisted by an Audit & Risk Committee (ARC) for domains related to:

- financial information,
- internal controls (including internal audit),
- controls by the external auditors,
- compliance,
- risk management,
- Management of internal and regulatory own funds and liquidity reserves.

The Group's three governance functions being Internal Audit, Risk Management and Compliance, report minimum on a quarterly basis to the ARC and benefit from a direct access to the members of the ARC as well as to the chairman of the BoD.

During 2019, the ARC met 4 times on the following dates:

- 14/03/2019,
- 20/06/2019,
- 10/09/2019,
- 11/12/2019.

QWM's CEO is responsible for the Risk Management function within the Group. The Exco appointed a Group Chief Risk Officer (GCROGCRO) at QWM level who reports directly to the CEO.

## COMPOSITION OF GOVERNING BODIES (AS OF DECEMBER 31<sup>ST</sup>, 2019):

### Members of the BoD:

Alvaro Sainz de Vicuna	Chairman
Ana Sainz de Vicuna	Vice-Chairman
N. Becker	Lead Director
A. de Boisanger	Member
M. Hoffmann	Member
A. Meffre	Member
R. Filmer-Wilson	Member
G. Harles	Member
M. Giorgetti	Member
F. Pauly	Member
S. Retter	Member
G. Tanoira	Member
D. De Montmollin	Member
G. Dard	Member

### Members of the Exco:

		Number of directorships (IN AND OUTSIDE THE GROUP)
M. Hoffmann	Chairman	12
S. Chrétien	Member	3
M. Jenzer	Member	22
M. Flammang	Member	4
D. Weisse	Member	3
E. Libault	Member	5
D. Kuffer	Advisor	6

A description of the Exco's members' professional background is available on the website of the Group ([www.guilvestwealthmanagement.com](http://www.guilvestwealthmanagement.com)) by clicking on each name in the section Executive Committee of the page About Us.

### Members of the ARC:

A. De Boisanger	Chairman
N. Becker	Vice-Chairman
G. Harles	Member
F. Pauly	Member



### Members of the ALCo:

S. Chrétien	Chairman
M. Hoffmann	Member
M. Jenzer	Member
M. Flammang	Member
D. Weisse	Member
E. Libault	Member
J. Schmidt	GCRO
F. Barth	Group Treasurer

### RECRUITMENT POLICY FOR MEMBERS OF THE BOD:

The appointment of all « key persons », being the members of the BoD and the executive management, as well as the heads of the three control functions (audit, risk and compliance) of QWM and its affiliates, is subject to an internal appointment procedure in accordance with CSSF circular 12/552, as amended.

The appointment of « key persons » is subject to approval from the competent authorities. As such, the Group's entities shall constitute an approval file that meets the requirements of their respective supervisory authorities. In Luxembourg, reference will be made to the supervisory approval process for key office holders issued by the CSSF on its website.

In conformity to the CRD IV Directive, the composition and the selection criteria for members of the BoD of the Group are as follows:

- the overall composition of the BoD has to reflect a broad spectrum in terms of experience,
- all members should spend sufficient time in the exercise of their function,
- the BoD has to dispose, collectively, of the required knowledge, experience and competences to understand the Group's activities and all risks to which it is exposed,
- each BoD member proves his honesty, integrity and independence, permitting a sound judgement and ability to question, if needed, all decisions made by the executive committee, as well as ensuring the supervision and monitoring of taken management decisions,
- BoD members shall attend the necessary training in order to permit exercising their functions, and
- the recruitment policy of BoD members shall pay attention to favorize diversity amongst its members.

### ARTICLE 436 CRR – SCOPE OF APPLICATION

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Disclosure requirements of Quilvest Wealth Management S.A. are made pursuant to Part Eight of the CRR and are based on the consolidated situation of the Group. The consolidation scope includes the following direct subsidiaries, which are fully controlled by QWM:

- Compagnie de Banque Privée Quilvest S.A. (CBPQ), a Luxembourg-based bank under the supervisory authority of the CSSF ;
- Quilvest Banque Privée S.A. (QBP), a Paris-based bank under the supervisory authority of the ACPR (*Autorité de Contrôle Prudentiel et de Résolution*) ;
- Quilvest (Switzerland) Ltd. (QVS), a Zurich-based bank under the supervisory authority of the FINMA (Swiss Financial Market Supervisory Authority);

- Quamvest S.A. (QUAM), based in Luxembourg and under the supervision of the CSSF, disposes of its AIFM (Alternative Investment Fund Manager) license.

## ARTICLE 437 CRR – OWN FUNDS

QWM calculates a simplified solvency ratio as it does not hold a trading book.

At December 31st, 2019, QWM's consolidated regulatory capital amounted to EUR 126 M and its consolidated capital adequacy ratio reached 25,93 %, significantly above the minimum legally required prudential ratio of 10,5%, applicable as from January 1st, 2014.

Furthermore, for prudential reasons and in line with the conservative attitude towards risk exposure in general, the Board of Directors set a strategic target level for the Group's solvency ratio at minimum 15% in its Risk Appetite Framework, largely exceeding the current minimum regulatory solvency requirements of 10.5%, WHICH will be increased to 11.25% as from March 1st, 2020 as a result of a regulatory 0.75% add-on decided by the CSSF on 17/12/19 following their SREP (Supervisory Review and Evaluation Process).

The Group's own funds are entirely constituted by Tier 1 capital, which comprises CET1 capital less deductions, mainly intangible assets and goodwill. The Group's own funds do not include any additional Tier 1 Capital nor Tier 2 Capital.

Composition of own funds and capital requirements of 31 December 2019 are calculated as follows:

IN EUR THOUSANDS	31/12/2019
Paid up share capital	193 194
+ Share premium	65 781
<b>Eligible Common Equity Tier 1 Capital (CET1)</b>	<b>258 975</b>
+ Retained earnings	19 370
- Intangible assets	-41 647
- Goodwill	-127 550
- Deferred tax assets	-2 062
+ Accumulated other comprehensive income	19 318
- Other deduction	-691
<b>Tier 1 Capital</b>	<b>125 713</b>

- Distributions of paid-up share capital, share premium and retained earnings are restricted and subject to prior approval from QWM's shareholders as well as from CSSF. A detailed description of the other components of Common Equity Tier 1 Capital is available in the consolidated financial statements of the Group.
- The Group respects all regulatory Pillar I capital requirements since its inception and monitors the evolution of its solvency ratio on a quarterly basis.
- Besides the regulatory capital requirements, QWM has conducted its most recent Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP) report during the first quarter of 2020, in accordance with CSSF Circular 07/301 for the ICAAP and in line with Article 86 of Directive 2013/36/EU for the ILAAP.
- The ICAAP/ILAAP report is an internal process that allows the Group to assess the internal capital they deem appropriate in order to cover all the risks to which they are or could be exposed. The ICAAP/ILAAP is a forward looking internal inspection of the risk, capital and liquidity profile of the Group, where financial forecasts used as

basis for the business plan are employed to simulate the evolution of the Group's solvency and liquidity over a three-year period ranging from 2020 to 2022, both under normal conditions and under stressed conditions.

- The approach retained for assessing QWM's Pillar II internal capital is the "Pillar I plus" approach, in which the internal capital requirements for Pillar I risks are considered to be equal to the prudential own funds requirements. The risks which are not covered or not fully captured by the minimum prudential own funds requirements are then subject to a separate assessment and, in case of material exposure, the Group may decide upon specific capital add-ons to the risks of the first pillar in order to define the overall internal capital requirement.

In this regard and in accordance with the principle of proportionality, QWM has analyzed the following risks not included in Pillar I:

- Concentration risk ;
- Liquidity risk (ILAAP) ;
- Leverage risk ;
- Business risk ;
- Settlement risk ;
- Compliance risk ;
- Risks related to wealth management activities ;
- Risks related to trust administration activities ;
- Risks related to depository bank activity ;
- Risks related to structured products offering ;
- Risks related to management of alternative investment funds performed by QUAMVEST ;
- Risks related to the insurance brokerage activity ;
- Reputation risk; and.
- Exposures to shadow banking institutions
- An analysis of the control environment and its risk management techniques has been conducted and completed with different quantitative sensitivity analyses. These stress tests evaluate the possible negative impact in case of an occurrence of a specific risk on the Group's capital requirement.

Based on the analysis summarized in the ICAAP/ILAAP report, the Executive Committee of QWM considers that the available regulatory own funds and current liquidity reserves held by the Group are sufficient to cover all the risks (including liquidity risk) to which it is or could be exposed to following its 3 years' business plan.

## ARTICLE 438 CRR – CAPITAL REQUIREMENTS

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- The primary objectives of the management of the Group's own equity are to comply with regulatory requirements and to have at all times a comfortable level of own equity covering its activities and its inherent risks.

The Group uses the following approaches under Pillar I of the Basle III regulation to calculate its capital requirements:

- the standardized approach for credit risk applying the Financial Collateral Comprehensive Method (FCCM) with regards to risk mitigation techniques;
- the standardized approach for market risk ; and
- the Basic Indicator Approach (BIA) for operational risk.
- Total capital requirements amounted to EUR 38 788 755 as of 31 December 2019, of which EUR 22 699 072 for credit risk. The total gross risk exposure amounted to EUR 2 583 457 250.
- At 31 December 2019, the breakdown of capital requirements per Basle III risk category is as follows:

IN EUR THOUSANDS	31/12/2019
Capital charge for credit risk	22 699
Capital charge for market risk	0
Capital charge for operational risk	16 017
Credit Valuation Adjustment (CVA)	73
Total capital charge	38 789
<b>CONSOLIDATED CAPITAL ADEQUACY RATIO</b>	<b>25.93%</b>

The Group has assessed its internal capital requirement needs in its ICAAP/ILAAP report, including various stress tests related to the major risks to which the Group is exposed. As a result, the Group concluded not to allocate additional internal capital on top of the regulatory capital requirements.

## ARTICLE 439 CRR – EXPOSURE TO COUNTERPARTY CREDIT RISK

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- In case of defaulting counterparties related to derivatives transactions, losses can arise from re-establishing the derivative contracts with other counterparties. The Group measures this risk by applying the mark-to-market approach where the current positive fair value of the contracts are increased with a predefined add-on for potential future price changes.
- An important aspect of the Group's Risk Policy for reducing counterparty credit risk is the application of credit risk mitigation techniques like netting agreements and collateralization. In general, ISDA master agreements with the main banking counterparties are in place as well as Credit Support Annexes (CSA) for full risk coverage for positive fair values on derivatives transactions.
- Counterparties for derivative transactions are approved on a case by case basis. The Group has not defined specific counterpart limits for derivatives as derivative exposures are included in the overall counterparty risk exposure for which limits are set on a case by case basis by the Group's Alco. The Group has not allocated internal capital for counterpart credit risk related to derivative exposures.
- Correlation risks between the derivative transactions and collaterals received are limited as the Group only accepts cash or high quality sovereign bonds (mainly EU countries, supranational institutions and multilateral development banks) as eligible collateral. As such, the Group has not set up a specific policy regarding wrong-way risk exposures.

- The Group does not have an external credit rating and as a consequence, the amount of collateral provided to its counterparties cannot be impacted by a change in credit rating.
- At 31 December 2019, the breakdown of derivatives exposures is as follows (in EUR):

DERIVATIVE	NOTIONAL AMOUNT	ADD-ON	POSITIVE CURRENT REPLACEMENT COST	COUNTERPART CREDIT RISK EXPOSURE BEFORE MITIGATION	COUNTERPART CREDIT RISK EXPOSURE AFTER MITIGATION
INTEREST RATE CONTRACTS	37 130 903	0	2 747	2 747	2 747
EQUITY CONTRACTS	4 928 365	295 702	93 848	389 550	389 550
FOREIGN EXCHANGE AND GOLD	1 032 229 220	8 373 079	914 141	9 287 220	9 287 220
COMMODITIES	0	0	0	0	0
Total	1 074 288 488	8 668 781	1 010 736	9 679 517	9 679 517

#### ARTICLE 440 CRR – CAPITAL BUFFER

The countercyclical capital buffer (CCB) as of 31 December 2019 amounted to EUR 20 812 and was due to exposures mainly affected by the regulatory CCBs applicable to France and the United Kingdom.

#### ARTICLE 441 CRR – INDICATORS OF SYSTEMIC IMPORTANCE

The indicators of systemic importance were not applicable in 2019.

#### ARTICLE 442 CRR – CREDIT RISK ADJUSTMENTS

Since 1<sup>st</sup> January 2019, past due exposures and impaired exposures are defined in accordance with IFRS 9.

Past due exposures\_Include financial instruments that have had a significant increase in credit risk since initial recognition but that do not have objective evidence of impairment. The increase of credit risk is identified when the contractually agreed date for payment towards the Group has been exceeded for more than 30 days. Payments are considered past due when any payment, whether interests, fees or capital repayments, are not settled by the debtor upon the contractual date of payment.

Impaired exposures\_Include financial assets that have objective evidence of impairment at the reporting date. They are identified as past due exposures for more than 90 days.

Objective evidence of impairment include the following loss events:

- Significant financial difficulty from the debtor;
- a breach of contract, such as a default in interest payments ;
- the lender granting a concession to the debtor ;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganization ;
- the disappearance of an active market for that financial asset because of financial difficulties ;

- (f) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets.

For a collateralized financial asset, the estimated future cash flows include those that would be obtained from the execution of the collateral (i.e. its fair value). The notion of impairment applies to any financial asset which is not held for trading or designated at fair value through profit and loss.

Monitoring of contractual obligations (payments, margin calls, etc.) is performed at local level by the departments in charge of internal controls or risk management and include the identification of:

- credit limit overdrafts ;
- unpaid interests ;
- debit balances on client accounts without credit limits as a result of unpaid obligations ; and
- under-collateralized credit exposures (unanswered margin-calls).

Such controls shall include the monitoring of non-performing positions.

As of December 31, 2019 the amounts of past due and impaired exposures are insignificant.

The table below presents the average amount of the exposures over 2019 as well as the year-end amount, broken down by type of exposure:

In EUR	31/12/2019	Average 2019
Central Bank deposits	1 262 046 696	1 517 698 270
Interbank deposits	69 362 025	96 555 890
Investment Portfolio	172 633 038	119 251 678
Loans to client	856 849 075	1 025 876 229
Other	210 210 338	244 144 967
<b>Total</b>	<b>2 571 098 172</b>	<b>3 003 527 035</b>

A breakdown of exposures by geographic area, by counterparty type and by residual maturity is available in the consolidated financial statements of the Group.

## ARTICLE 443 CRR – UNENCUMBERED ASSETS

The Group's private banking activity includes lending business, principally offering Lombard credits and collateralized loans, which represents +/- 34% of total unencumbered assets, whereas the largest part is represented by central bank deposits (+/- 49%).

As of 31<sup>st</sup>, December 2019, the only type of encumbered assets are loans and advances, representing less than 1% of the Group's total assets. They are entirely represented by deposits covering derivatives transactions with the Group's main financial counterparties and legal reserves deposit at Central Banks. The Group has no collateral received available for encumbrance.

In EUR	CARRYING AMOUNT OF ENCUMBERED ASSETS	FAIR VALUE OF ENCUMBERED ASSETS	CARRYING AMOUNT OF UNENCUMBERED ASSETS	FAIR VALUE OF UNENCUMBERED ASSETS
ASSETS OF THE REPORTING INSTITUTION	19 025 603	0	2 490 177 551	172 674 831
EQUITY INSTRUMENTS	0	0	1 307 999	0
DEBT SECURITIES	0	0	172 674 831	172 674 831
OTHER ASSETS	19 025 603	0	2 316 194 720	0

In EUR	MATCHING LIABILITIES, CONTINGENT LIABILITIES OR SECURITIES LENT	ASSETS, COLLATERAL RECEIVED AND OWN DEBT SECURITIES ISSUED OTHER THAN COVERED BONDS AND ABSS ENCUMBERED
CARRYING AMOUNT OF SELECTED FINANCIAL LIABILITIES	1 945 537	12 625 523

### ARTICLE 444 CRR – USE OF ECAIS

The Group uses external ratings provided by External Credit Assessment Institutions (ECAIs) for the calculation of credit risk under the standardized approach. The ECAIs used by the Group are Standard & Poor's, Moody's and Fitch. The external ratings are used on the Group's investment portfolio, invested in sovereign, financial and -to a lesser extent- corporate debt, as well as for mitigating the credit risk on eligible securities as collateral for client credit exposures.

The external ratings applied are mapped to the different credit quality steps, which determine the regulatory haircuts defined in the standardized approach for credit risk following the CRR.

RATING STEP (CRR)	STANDARD & POOR'S	MOODY'S	FITCH
1	From AA- to AAA	From Aa3 to Aaa	From AA- to AAA
2	From A- to A+	From A3 to A1	From A- to A+
3	From BBB- to BBB+	From Baa3 to Baa1	From BBB- to BBB+
4	From BB- to BB+	From Ba3 to Ba1	From BB- to BB+
5	From B- to B+	From B3 to B1	From B- to B+
6	From D to CCC+	From C to Caa1	From D to CCC+
7	NOT RATED	NOT RATED	NOT RATED

The total exposure for which capital requirements are calculated by using the standardized approach amounted to EUR 2 583 457 250.

OVERVIEW STANDARDIZED APPROACH EXPOSURE CLASSES (IN EUR):

EXPOSURE CLASS (ART. 112 CRR)	EXPOSURE	OWN FUNDS REQUIREMENT
Central banks and governments	1 262 046 944	0
Public sector entities	31 342 956	0
Multilateral development banks	17 874 551	0
Institutions	206 382 281	7 522 692
Corporates	726 092 720	10 074 418
Retail	91 307 219	2 529 708
Mortgages on immovable property	34 890 013	392 935
Exposures in default	14 845	977
Units or shares in collective investment undertakings	0	0
Equity	1 193 310	136 139
Other exposures	212 312 411	2 042 203
<b>Total</b>	<b>2 583 457 250</b>	<b>22 699 072</b>

EXPOSURES TO CENTRAL BANKS AND GOVERNMENTS (IN EUR):

CREDIT QUALITY STEP	EXPOSURE	OWN FUNDS REQUIREMENT
1	1 262 046 944	0
2	0	0
3	0	0
4	0	0
5	0	0
6	0	0
Without external rating	0	0
<b>Total</b>	<b>1 262 046 944</b>	<b>0</b>

EXPOSURES TO PUBLIC SECTOR ENTITIES (IN EUR):

CREDIT QUALITY STEP	EXPOSURE	OWN FUNDS REQUIREMENT
1	31 342 956	0
2	0	0
3	0	0
4	0	0
5	0	0
6	0	0
Without external rating	0	0
<b>Total</b>	<b>31 342 956</b>	<b>0</b>



EXPOSURES TO MULTILATERAL DEVELOPMENT BANKS (IN EUR):

CREDIT QUALITY STEP	EXPOSURE	OWN FUNDS REQUIREMENT
1	17 874 551	0
2	0	0
3	0	0
4	0	0
5	0	0
6	0	0
Without external rating	0	0
Total	17 874 551	0

EXPOSURES TO INSTITUTIONS (IN EUR):

CREDIT QUALITY STEP	EXPOSURE	OWN FUNDS REQUIREMENT
1	5 611 714	89 787
2	105 382 948	3 040 966
3	89 795 712	3 043 865
4	0	0
5	0	0
6	0	0
Without external rating	5 591 906	1 348 073
Total	206 382 281	7 522 692

EXPOSURES TO CORPORATES (IN EUR):

CREDIT QUALITY STEP	EXPOSURE	OWN FUNDS REQUIREMENT
1	0	0
2	0	0
3	0	0
4	0	0
5	0	0
6	0	0
Without external rating	726 092 720	10 074 418
Total	726 092 720	10 074 418

RETAIL EXPOSURES (IN EUR):

CREDIT QUALITY STEP	EXPOSURE	OWN FUNDS REQUIREMENT
1	0	0
2	0	0
3	0	0
4	0	0
5	0	0
6	0	0
Without external rating	91 307 219	2 529 708
Total	91 307 219	2 529 708

EXPOSURES SECURED BY MORTGAGES ON IMMOVABLE PROPERTY (IN EUR):

CREDIT QUALITY STEP	EXPOSURE	OWN FUNDS REQUIREMENT
1	0	0
2	0	0
3	0	0
4	0	0
5	0	0
6	0	0
Without external rating	34 890 013	392 935
Total	34 890 013	392 935

EXPOSURES IN DEFAULT (IN EUR):

CREDIT QUALITY STEP	EXPOSURE	OWN FUNDS REQUIREMENT
1	0	0
2	0	0
3	0	0
4	0	0
5	0	0
6	0	0
Without external rating	14 845	977
Total	14 845	977

EXPOSURES IN THE FORM OF UNITS OR SHARES IN COLLECTIVE INVESTMENT UNDERTAKINGS (IN EUR):

CREDIT QUALITY STEP	EXPOSURE	OWN FUNDS REQUIREMENT
1	0	0
2	0	0
3	0	0
4	0	0
5	0	0
6	0	0
Without external rating	0	0
Total	0	0

EQUITY EXPOSURES (IN EUR):

CREDIT QUALITY STEP	EXPOSURE	OWN FUNDS REQUIREMENT
1	0	0
2	0	0
3	0	0
4	0	0
5	0	0
6	0	0
Without external rating	1 193 310	136 139
Total	1 193 310	136 139

## OTHER EXPOSURES (IN EUR):

CREDIT QUALITY STEP	EXPOSURE	OWN FUNDS REQUIREMENT
1	0	0
2	0	0
3	0	0
4	0	0
5	0	0
6	0	0
Without external rating	1 193 310	136 139
Total	1 193 310	136 139

## ARTICLE 445 CRR – EXPOSURE TO MARKET RISK

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Market risk is the risk that changes in market prices, such as equity and bond prices, in foreign exchange rates and in interest rates affect the Group's income or the value of its holdings of financial instruments.

Market risks are managed at entity level by local Risk Managers and are consolidated at Group level by the Group Chief Risk Officer.

The Group's exposure to market risk is principally limited to foreign exchange risk as it does not allow proprietary trading and as such does not hold a trading book. Foreign exchange risk is the exposure of the Group to the potential impact of movements in foreign exchange rates. The risk is that adverse fluctuations in exchange rates may result in a loss in EUR terms to the Group.

The Group's policy is to exclude proprietary speculative foreign exchange positions and as such, foreign exchange risk is very limited as it only represents residual client positions, monitored by overnight limits on a daily basis. The Group's entity QVS is mostly exposed to foreign exchange risk since a part of their revenues are denominated in USD whereas their operating expenses are in CHF. This specific currency risk is hedged throughout the year by forward currency contracts. As the absolute value of net long positions or net short positions represented less than 2% of the Group's own funds at December 31<sup>st</sup>, 2019, no capital requirements are to be calculated for foreign exchange risk.

Other market risks such as position risk or settlement risk are insignificant and, as a result, not disclosed in this report.

## ARTICLE 446 CRR – OPERATIONAL RISK

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Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's involvement with financial instruments, including processes, personnel, technology, infrastructure and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behavior.

The Group's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The Group dedicates substantial efforts to ensure that the operational risks resulting from all business activities are continuously assessed and monitored. A Group Operational Risk Management policy is in place and includes reporting of operational errors on local entity level to the GCRO. In addition, every entity of the Group has set up internal measures to reduce losses stemming from operational risk in compliance with local regulatory requirements, such as:

- strong internal control system including wide application of the four eyes principle is present in all entities and the risk governance structure includes third and second levels of controls. The set-up of compliance and risk functions at QWM level further strengthens the overall monitoring of its risk profile at Group level;
- information on operational incidents via data collection is escalated quarterly to the Group Chief Risk Officer for analysis and inclusion in the consolidated risk dashboard presented to the Group's Executive Committee;
- Business Continuity Plan (BCP) and/or Disaster Recovery Plan (DRP) exist at local entity level, with regular reviews and tests;
- coverage for individual incidents by a general insurance.

The adequacy of the controls in place to address operational risks identified is regularly challenged, conducting to an ongoing improvement of internal processes and controls.

The Group applies the *Basic Indicator Approach* (BIA) for calculating its regulatory capital charge for operational risk following Pillar I under Basle III, which amounted to EUR 16 017 792 as of 31 December 2019.

Breakdown of regulatory capital charge for operational risk at December 31, 2019 is as follows:

ENTITY	CAPITAL CHARGE In EUR thousands
CBPQ	7 593
QVS	5 341
QBP	2 149
QUAM	934
QWM	16 017

During 2019, the operational incidents reported at Group level amounted a financial loss of EUR 129k, considered as immaterial as it represents less than 1% of the Group's regulatory Pillar I capital requirements for operational risk. The financial impact of operational errors is taken into account at entity level. Moreover, the Group has subscribed, for all its entities, a general banking insurance policy covering all losses stemming from operational errors. The Group's professional liability is covered up to EUR 20 million per civil year with an incident damage excess (*franchise*) of EUR 250 000 and incidents related to cybercrime are included in the coverage.

QWM has also performed a stress test related to a theoretical operational loss during the yearly ICAAP/ILAAP exercise and concluded that the Group's regulatory capital charge is appropriate considering the potential losses stemming from such stress test.

## ARTICLE 447 CRR – EXPOSURES IN EQUITIES NOT INCLUDED IN THE TRADING BOOK

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Investments in equity are exceptional and very limited and bear capital charge for EUR 139k.

At 31 December 2019, the Group holds few equity positions for an insignificant amount.

## ARTICLE 448 CRR – EXPOSURE TO INTEREST RATE RISK ON POSITIONS NOT INCLUDED IN THE TRADING BOOK

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The Group is exposed to interest rate fluctuations, both on its financial assets and liabilities positions, resulting in possible losses or capital gains. In order to monitor the Group's interest rate risk exposure, the Group Chief Risk Officer quarterly calculates the Group's sensitivity of interest rate moves and reports the results to the Group's Executive Committee.

The interest rate sensitivity, using the *Basis Point Value* method, measures the change in the net economic value of the Group's balance sheet should interest rates increase or decrease by 2% across the interest rates curve, in accordance with CSSF circular 08/338.

As of 31 December 2019, the impact of an increase in interest rates by 2% would result in a loss of EUR 4 764 367 for the Group, whereas in case of a decrease of 2%, the Group would realize a profit of EUR 2 133 329.

The following table summarizes the results of the stress test per entity as of 31 December 2019:

in EUR thousands	QWM	CBPQ	QVS	QBP
200 bp increase	-4 764	-3 041	-872	-851
200 bp decrease	2 133	1 423	415	295

The following table shows the potential impacts for the Group per main currency as of 31 December 2019:

in EUR thousands	+200bp	-200bp
EUR	-950	-1 134
USD	-2 870	2 909
GBP	-430	232
CHF	-489	104
Other currencies	-25	22
<b>Total QWM</b>	<b>-4 764</b>	<b>2 133</b>

## ARTICLE 449 CRR – EXPOSURE TO SECURITIZATION POSITIONS

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The Group does not invest in securitization positions.

## ARTICLE 450 CRR – REMUNERATION POLICY

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The Group has a Remuneration Policy in accordance with the CRD IV/CRR directive.

The Remuneration Policy describes the principles and rules related to remuneration of staff of the QWM Group and has been fixed by the BoD upon recommendation from the Group's Remuneration and Appointment Committee.

Even if QWM has no obligation to set up a Remuneration Committee following the application of the proportionality principle (cf. section 2.a.), QWM chose to establish one as it considers that this a good practice in term of governance.

### 1. QWM REMUNERATION AND APPOINTMENT COMMITTEE

QWM's Remuneration and Appointment Committee (RAC) has three or more permanent members appointed by the BoD, who must be non-executive Board members with the necessary skills and knowledge to perform the associated duties.

### Members of the RAC (as of December 31<sup>st</sup>, 2019):

A. Sainz de Vicuna	Chairman
N. Becker	Member
C. Baillet	Member
R. Filmer-Wilson	Member
F. Pauly	Member
M. Hoffmann	Secretary

The RAC assists the BoD with the selection, appointment, provisional appointment and removal from office of Board members, and the appointment and removal from office of the Chairman of QWM's Exco.

It reviews QWM's remuneration policy and submits recommendations to the BoD.

The RAC provides the BoD with an opinion on the remuneration budget for members of the Exco, as submitted by the Chairman of the Executive Committee. Likewise, it provides the BoD with an opinion on the remuneration paid to the Chief Executive Officer and Chairman of the Exco.

The RAC also supervises remuneration paid to managers in charge of the control functions.

During 2019, the RAC met on March 14<sup>th</sup>, October 23<sup>rd</sup> and December 19<sup>th</sup>.

## 2. REMUNERATION POLICY PRINCIPLES

### a. *Application of the proportionality principle*

QWM has decided to apply the proportionality principle on the basis of criteria defined in CSSF Circular 11/505, given that the Group's total balance sheet is below €5 billion and the Group's total capital requirement is less than €125 million (100% base).

Application of this proportionality principle allows QWM to 'neutralize' certain requirements contained in CSSF Circular 10/496 and in the CRD IV. These requirements relate to:

- the payment of part of the variable remuneration in the form of financial instruments;
- the retention policy;
- the deferral of part of the variable remuneration.

More specifically, this concerns the principles stated in n), o) and p) of subsection 4-1, section 12 of CSSF Circular 10/496. However, in accordance with point (7) in CSSF Circular 11/505, the neutralization of the aforementioned requirements is only possible if this is consistent with QWM's risk profile, risk appetite and strategy. Accordingly, neutralization is never automatic and must be justifiable.

### b. *Definition of "risk takers"*

The Group has listed all functions considered as "risk takers" in accordance with CSSF circulars 10/496 and 11/505 as well as with the Delegated Regulation (EU) n°604/2014 dated March 4<sup>th</sup>, 2014 of the European Commission, as follows:

- all members of the Group's Executive Committee,
- all staff exercising a control function,
- all staff susceptible of having an impact on the risk profile of one of the Group's entities, including members of the local Executive Committees as well as Team Leaders and IT Managers,
- all staff whose yearly variable remuneration exceeds EUR 500,000.

Client Relationship Managers do not qualify as material risk-takers within the meaning of CSSF Circulars 10/496 and 11/505 and the CRD IV since their professional activities are closely supervised and associated risks are properly managed,

### *c. Principles of the remuneration policy*

The policy is based on the following principles:

- **Competitive remuneration:** The policy must enable the QWM Group to attract and retain the best talent within the industry;
- **Performance and accountability:** Variable remuneration is paid in recognition of the performance of QWM Group employees, not their length of service. It may be reviewed to reflect individual and collective short-, medium- and long-term performance. Performance is measured in terms of both quantity and quality, with a specific focus on associated risks considered and undertaken individually and collectively;
- **Proportionality and limited risk taking:** As a general rule, QWM applies a policy of limited and measured risk-taking in all its business activities. The Group has decided to align its remuneration policy with this approach, and assesses the level of its internal capital through a comprehensive assessment of risks as part of the annual ICAAP exercise.
- **Creating long-term value:** The remuneration policy aims to be consistent with QWM's strategy, objectives, values and long-term interests and to comply with the principles designed to protect clients and investors during the provision of services.
- **Compliance:** The policy complies with all applicable laws and regulations.

### **3. REMUNERATION PACKAGE**

The remuneration package includes fixed remuneration, variable remuneration and benefits, as described below. The proportion of variable remuneration compared with fixed remuneration may vary depending on the employee, the market conditions and the specific context in which QWM operates. However, a fair balance must be struck between the fixed and variable remuneration.

**Fixed remuneration:** For all QWM Group employees, the base remuneration is calculated in view of the employee's level of responsibility and the complexity of his/her job. Remuneration levels are consistent and in line with market practice.

**Benefits:** In addition to their fixed and variable remuneration, employees may also be entitled to benefits, which are not performance-related (e.g. supplementary pension plan).

**Variable remuneration:** Each Group entity is responsible for setting annual variable remuneration caps for each category referred to in the CRD IV, subject to requirements imposed by the local regulator. For each of the categories referred to in Circulars 10/496 and 11/505 and CRD IV, QWM has set the following annual variable compensation caps:

- For members of the Executive Committee, the annual variable remuneration cannot exceed 200% of their fixed annual remuneration;
- For employees working within a control function, the annual variable remuneration cannot exceed 100% of their annual fixed remuneration;
- For all other employees, the annual variable remuneration cannot exceed 200% of their fixed annual remuneration.

When the variable remuneration is paid in the form of deferred instruments over a period of at least five years, QWM may apply a discount rate corresponding to 25% of the total variable remuneration.

**Options:** The remuneration paid to members of the Executive Committee includes options (the "Long-Term Incentive Plan"). The Long Term Incentive Plan allows the executive management team to benefit from the growth in the Group's value but does not allow them to acquire a stake in its capital as options are eventually settled in cash.

The allocation of options is not dependent upon the identity of the beneficiary, or upon his/her performance or that of the Group. It is based solely on the category corresponding to the beneficiary's position. The allocation of stock options is predetermined, transparent and permanent.

QWM's Chief Executive Officer determines the number of options to be allocated to each category. The number of options to be allocated to the Chief Executive Officer is determined by QWM's RAC.

#### **4. CONSIDERATION OF PERFORMANCE FOR THE ALLOCATION AND STAGGERING OF VARIABLE REMUNERATION**

The budget for variable remuneration of each Group entity is linked to the financial performance of the Group. It is then apportioned among the departments by each entity's Management Committee on the basis of the achievement of individual quantitative and qualitative performance criteria.

The commercial teams' performance is linked to the profitability of their individual profit center as well as other factors which are in compliance with healthy risk management principles. These other factors will be essentially applied through a penalty system when calculating variable remuneration.

The amount of the overall variable remuneration allocated to non-commercial functions is based on gross operating income, while factoring in quantitative and qualitative criteria such as motivation, volume of work (back office), quality of execution, feedback from employees and achievement of specific projects (IT, HR, Accounts).

Calculation of the overall variable remuneration budget takes into account the financial situation of the QWM Group taken as a whole, and payment of variable remuneration must not jeopardize its financial survival. In the event of any significant deterioration in the QWM Group's financial situation, and in particular in the event of any doubts as to its capacity to continue operating, or if certain performance criteria are not achieved by the operational department or the employee in question, or in the event of his/her departure (Bad Leaver), QWM may decide to withhold all or part of any variable remuneration that has not yet been paid.

The QWM Group carries out annual employee performance reviews. For the purpose of the annual review, criteria and objectives are considered that factor in risks and are designed to ensure the Group's continuity.

##### ***a. Members of the Executive Committee***

The QWM Board of Directors determines the variable remuneration to be paid to members of the Group Executive Committee and to members of QWM subsidiaries' Management Committees.

The performance of each Executive Committee member and each member of local Executive Committees is assessed once a year through a process based on the achievement of pre-weighted quantitative and qualitative criteria. These criteria correspond to different 'themes', defined annually by drawing reference to budget objectives relating to results, deposits, synergies and risks at group level or as assigned to the entities or business lines. Examples of themes are listed below, but these are determined on a case-by-case basis:

- economic performance (e. g. improvement in results, increase in AuM);
- performance of the business line, measuring the executive manager's achievement of his/her duties in terms of the development of skills centers, activities or a business line. Performance is measured qualitatively and quantitatively on the basis of criteria such as enhancement of the product and service mix, issue of structured products, management of portfolios and client management mandates, investment of the group's capital and cash, etc.;



- control of risks associated with the entities' activities and the above-mentioned activities. This is assessed qualitatively and quantitatively on the basis of criteria such as compliance with limits, protection of capital, control of operational risks in the broad sense, compliance, disputes, monitoring of audit recommendations, etc.

Each theme is assigned a weightage in the variable remuneration calculation process. In line with the European directives on risk management, the weightage of economic criteria must remain predominant compared to criteria focusing on risk management and discretionary criteria concerning management of the business line.

Quantitative indicators measure economic performance (using a 'formulistic' approach) and may also measure all or part of 'risk' performance. They are applied to the group as a whole, to the entity to which the executive manager being assessed is assigned, and to the activities for which he/she is responsible.

Qualitative or discretionary criteria can also be applied to 'risk' themes, and when measuring performance of the business line. These are defined ex-ante, at the start of each year, by the Group's CEO, who will also look at performance achieved by the executive manager in light of these criteria. They apply to the group as a whole, to the entity to which the executive manager being assessed is assigned, and to the activities for which he/she is responsible.

A reference annual bonus is defined on a case-by-case basis for each member of the Group's Executive Committee and local Executive Committees. This amount is revised every three years. It is multiplied by a global performance rate, defined as the weighted average of the performance indicators and weighting rates agreed for that individual.

The variable remuneration ultimately paid to the executive manager also factors in criteria associated with the general financial health of the group and the operational entities. Should any exceptional economic or reputational event occur that affects QWM as a whole or an entity or activity, QWM's Board of Directors may decide, at its sole discretion and on the basis of a proposal by the Remuneration Committee, to cancel all or part of the variable remuneration for the members of the Executive Committee and members of local Executive Committees as an exceptional measure.

#### ***b. Client Relationship Managers and Team Leaders***

Each entity is responsible for determining the criteria for allocation of variable remuneration to specific categories of employees such as Client Relationship Managers and Team Leaders.

##### **Quantitative criteria:**

The model used to determine the variable remuneration for CRM is intrinsically linked to the QWM Group's operational model. It is based on a mathematic formula which integrates income generated and costs and risks incurred by the employees during the course of their business activities.

The variable remuneration for employees belonging to this category consists of in principle:

- For Client Relationship Managers: a variable bonus.
- For Team Leaders: a variable bonus and a variable incentive payment.

##### **Qualitative criteria**

In a second phase, a performance measurement based on objective qualitative criteria determined by the Management Committee is also factored in to determinate the variable remuneration of CRMs and TLs.

The Management Committee continuously reviews and adapts these criteria to ensure they remain relevant to the QWM Group's business activities and the associated risks. When determining these criteria the Management Committee considers, inter alia, the following points:

- the quality of files (e.g. missing documents).
- missing account verification slips.
- compliance with regulatory obligations.

Quarterly detailed reports on compliance with qualitative criteria by each CRM and each TL are provided to the Management Committee. In the event of non-full compliance with the above qualitative criteria, the subsidiary's Management Committee can decide, on the basis of the quarterly detailed report, on a reduction in the variable remuneration paid to the CRM or the TL. This reduction will be expressed as a percentage calculated on the basis of the weight of each specific criterion which is determined by the Management Committee.

For Team Leaders, the qualitative criteria and the quantitative criteria represent between 30% and 40% and between 70% and 60% respectively of the performance assessment.

Variable remuneration will only be earned and paid if the amount allows the QWM Group as a whole to maintain a healthy financial situation.

#### *c. Control function employees*

Variable remuneration for QWM's control function employees is determined by QWM's Board of Directors on the basis of recommendations by the RAC.

Variable remuneration is allocated to control function employees on a discretionary basis, and is unrelated to the financial performance of the department in which the employee works. The total amount of variable remuneration is determined by combining the results of the QWM Group as a whole and individual performance reviews, which factor in both qualitative and quantitative criteria.

The qualitative and quantitative criteria are weighted at 60% / 40% respectively, and reflect the following skills:

- Qualitative criteria: proficiency in the job, technical skills, management and control of risks (looking in particular at the quality of controls), compliance with relevant regulations and procedures, quality of performance and compliance with deadlines.
- Quantitative criteria: regular submission of reports, completion of control plans, detailed review on the basis of new regulations and analysis of impact for the Bank, respect the applicable regulation

#### *d. Other staff susceptible of having an impact on the risk profile of one of the Group's entities*

The variable remuneration allocated to IT Managers in each subsidiary is decided by the subsidiary's Board of Directors on the basis of recommendations from its RAC.

The qualitative and quantitative criteria are weighted at 60% / 40% respectively, and reflect the following skills:

- Qualitative criteria: proficiency in the job, technical skills, team leadership, management and control of risks, communication skills with internal users and external suppliers, compliance with internal procedures and deadlines.
- Quantitative criteria: elaboration and monitoring of IT budget, communication to the Executive Committee/ COO on potential budget issues, implementation of projects according to project management principles and planning, compliance of IT resources with the rules and applicable regulations, monitoring the security of IT infrastructure, assisting the COO in the execution of his function where possible.

#### *e. Other employees*

For other employees not covered by the provisions described in the previous sections, two different schemes co-exist:

- Certain employees are invited to an annual performance review based on quantitative and qualitative criteria. The criteria used include review of skills common to all employees that are taken into consideration when calculating the amount of variable remuneration.

When considering the achievement of individual qualitative and quantitative targets, the most important criterion is risk management and control.

This criterion is based on a range of indicators specific to the given function, in addition to compliance with regulations concerning the financial sector and with internal procedures. These indicators are listed in the

remuneration policy that specifically applies to the subsidiary and are determined in view of the subsidiary's context. Other indicators may be included and a more detailed wording may be determined and adopted during the annual performance review.

- For other employees, variable remuneration is awarded on a discretionary basis and is unrelated to the employee's financial performance.

However, the results of the employee's annual performance review are taken into consideration when determining his/her variable remuneration. The review covers the following aspects:

- proficiency in the job (e.g.: thorough knowledge of the function, rules, procedures and IT tools, quality of work, reporting, planning and compliance with schedules);
- technical and personal skills (e.g.: professionalism, motivation, availability, integrity, etc.);
- leadership skills (e.g.: leadership, organization and planning).

These employees' annual variable remuneration is paid immediately, in cash.

**f. Quantitative and qualitative criteria weighted according to type of material risk taker**

MATERIAL RISK-TAKERS	QUANTITATIVE	QUALITATIVE
Members of the Executive Committee and the Management Committees	20% to 80%	20% to 80%
Control Functions	40%	60%
Teams Leaders (entities)	60% to 70%	30% to 40%
IT Managers (entities)	40%	60%
Heads of subsidiaries and branches	20% to 80%	20% to 80%

**5. QUANTITATIVE INFORMATION ON 2019 REMUNERATIONS**

The remunerations of material risk takers, split into fixed and variable remuneration, and the number of beneficiaries are as follows:

QUILVEST WEALTH MANAGEMENT - IDENTIFIED STAFF	MANAGEMENT FUNCTION	ASSET MANAGEMENT	INDEPENDENT CONTROL FUNCTIONS	ALL OTHERS
Headcount	20	6	15	7
Total fixed remuneration (€)	8 360 949	1 165 746	2 354 525	1 532 165
Total variable remuneration (€)	4 804 097	1 579 273	461 300	412 900
Of which : variable in cash (€)	1 887 085	354 805	290 300	412 900
Of which : variable in other types of instruments (€)	2 917 012	1 224 468	171 000	0

As of December 31, 2019 there is no outstanding deferred remuneration. No deferred remuneration awarded in 2019 was paid-out and reduced through performance adjustments.

In 2019, 5 persons within the Group received a remuneration exceeding EUR 1 000 000:

TOTAL REMUNERATION	NUMBER OF STAFF
Between EUR 1 000 000 and 1 499 999	4
Between EUR 1 500 000 and 1,999 999	1

## ARTICLE 451 CRR – LEVERAGE

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The leverage ratio as defined by the CRR is not applicable in 2019 although the Group reports its leverage ratio on a quarterly basis to the CSSF, as part of the regulatory COREP reporting.

The numerator is own funds represented solely by Tier 1 capital. The main component of its denominator is represented by client deposits, representing the vast majority of other assets. The quarterly leverage ratio represents the arithmetic mean of the leverage ratios of the three months of the quarter.

The Group's leverage ratio at 31 December 2019 amounted to 5.2%.

EXPOSURE VALUES	IN EUR THOUSANDS
Derivatives	9 680
Off-balance sheet items	68 207
Other assets	2 505 571
OWN FUNDS ADJUSTMENTS	IN EUR THOUSANDS
Tier 1 Capital	125 713
<b>LEVERAGE RATIO</b>	<b>5.2%</b>

A first alert level has been determined in the Group's Recovery Plan when the leverage ratio is below 3.5%. When the ratio is lower than the future regulatory minimum of 3%, an early warning indicator is triggered and the Group's Exco will intervene for corrective actions to avoid excessive leverage.

## ARTICLE 452 CRR – USE OF IRB APPROACH TO CREDIT RISK

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The Group does not use the Internal Ratings Base approach for credit risk.

## ARTICLE 453 CRR – USE OF CREDIT MITIGATION TECHNIQUES

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Credit risk is the risk of financial loss for the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's loans and advances to customers and credit institutions, as well as investments in debt securities.

The Group's exposure to credit risk is mainly concentrated on the following counterparties:

- Credit risk linked to clients through granting of credit facilities;
- Credit risk linked to banking counterparties, deriving from interbank placements and debt securities held in the investment portfolio; and
- Credit risk linked to other counterparties such as corporate or sovereign exposures deriving from debt securities held within the investment portfolio.

Granting of credit facilities is in principal covered by financial collateral and to a lesser extent by first rank mortgages, duly accepted by the Group following the rules laid down in its internal Credit Policy.

QWM's Credit Policy determines the collateral value (Loan to Value) of eligible financial collateral based on the type of assets, its credit rating and other criteria such as the size of the bond issue or the minimum market capitalization of an equity position. Specific rules are also applicable to cover foreign exchange risk for collateral in a different

currency than the covered exposure. Exceptions to the Group Credit Policy are approved on a case by case basis by the Group's Exco and, as the case may be, by the Board.

- The investment portfolio of the Group, is composed of high-quality bonds (investment grade), issued by banking counterparties, governments of OECD countries and multilateral development banks. As of 31 December 2019, the average credit rating of the Group's investment portfolio was "A".

The Group uses the standardized approach for credit risk under Pillar I of the Basle III regulation applying the comprehensive method (FCCM) with regards to risk mitigation techniques.

Total capital requirements amounted to EUR 38.8 million as of 31 December 2019, of which EUR 22.7 million for credit risk. The total gross risk exposure amounted to EUR 2.6 billion.

At 31 December 2019, breakdown of credit risk per main exposure category is as follows:

EXPOSURE CATEGORY IN EUR THOUSANDS	GCROSS EXPOSURE	RISK WEIGHTED AMOUNT	CAPITAL REQUIREMENTS
Administrations and central banks	1 311 264	0	0
Financial institutions	206 382	94 034	7 523
Corporate	726 093	125 930	10 074
Retail clients	91 307	31 621	2 530
Mortgages	34 890	4 912	393
Exposure in Default	15	12	1
Equity	1 193	1 702	136
Other exposures	212 313	25 527	2 042
Total in EUR	2 583 457	283 738	22 699

As of 31 December 2019, the breakdown of received collateral covering client credit exposures within the Group is as follows:

IN EUR THOUSANDS	31.12.2019
Cash and securities	687 422
Real Estate	11 644
Other collateral	77 776
Total in EUR	776 842

The Group did not receive any bank guarantees from external counterparties and did not trade any credit derivatives instruments.

During 2019, the Group did not suffer from any credit losses on client loans.

## ARTICLE 454 CRR – USE OF ADVANCED MEASUREMENT APPROACHES TO OPERATIONAL RISK

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The Group does not apply the Advanced Measurement Approach (AMA) for operational risk.

## ARTICLE 455 CRR – USE OF INTERNAL MARKET RISK MODELS

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The Group does not use internal market risk models.