AMFIE

FINANCIAL COOPERATIVE ASSOCIATION OF INTERNATIONAL CIVIL SERVANTS

Pillar 3 Disclosures

Year Ended December 31, 2017

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1. Overview

1.1. Purpose

The purpose of the Pillar 3 disclosure report is to provide information on the implementation at “Financial cooperative association of international civil servants” (“AMFIE” or “the Association”) of the Basel III framework and risk assessment processes in accordance with the Pillar 3 requirements as described within part XIX “disclosure by credit institutions” of the Commission de Surveillance du Secteur Financier (“CSSF”) circular 06/273 as amended, and Circular CSSF 15/618 transposing EBA guidelines on “Pillar 3 disclosures”. In addition, it follows to meet the regulatory disclosure requirements as laid down in Part Eight of the “Regulation (EU) No 575/2013 on prudential requirements for credit institutions and investment firms” (Capital Requirements Regulation, or “CRR”) and the “Directive 2013/36/EU on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms” (Capital Requirements Directive 4, or “CRD IV”).

With effect from 1 January 2014, the reforms of the accord by the Basel III were implemented in the EU legal framework through two EU legislative acts: the CRR and CRD IV. Their aim is to improve the banking sector’s ability to absorb shocks arising from financial and economic stress, whatever the source, improve risk management and governance, and strengthen banks’ transparency and disclosures. The Basel III framework introduced higher minimum capital requirements, conservation and countercyclical buffers, revised risk-based capital measures, a leverage ratio and new provisions on liquidity risk management to strengthen the resilience of the financial sector.

The disclosures in this document complement the work already undertaken by the bank in their assessment of capital requirements under the Internal Capital Adequacy Assessment Process (ICAAP). The Basel framework established a more risk sensitive approach to capital management and is comprised of three pillars:

- **Pillar 1**: Defines the rules and regulations for calculating risk-weighted assets and regulatory minimum capital requirements for Credit, Market and Operational Risks.
- **Pillar 2**: Addresses a banking organization’s internal processes for assessing its overall capital adequacy in relation to its risks, the process that is also referred to as the Internal Capital Adequacy Assessment Process (ICAAP). Pillar 2 requires CSSF to undertake a supervisory review to assess the robustness of AMFIE’s internal assessment.
- **Pillar 3**: Designed to promote market discipline by providing market participants with key information on a financial organization risk exposure and risk management processes through a set of minimum disclosure requirements. Expanded disclosure about capital and risk enables interested parties to better understand the risk profile of individual institutions and to make comparisons. Pillar 3 requires all material risks to be disclosed, enabling a comprehensive view of a bank’s risk profile.

AMFIE is authorized and regulated by the CSSF and as such is subject to minimum regulatory capital requirements. As a regulated company, the Association is required to disclose certain aspects of regulatory information and certain details of internal processes relating to the structure and operations in place to measure and report risks. As part of this disclosure, details of the capital structure and regulatory capital requirements are required. The disclosures are to be published so they are readily available for any party interested in doing business with the regulated entity and are to be verified as a formal document of the Company.

1.2. Frequency and Location

The Association publishes the Pillar 3 disclosure report on an annual basis, or more frequently if required by significant changes in the business model. AMFIE has an accounting reference date of 31 December. The date of publication of the report is shortly after the date of publication of the Annual Accounts.

The report will be published on the Association’s website, www.amfie.org and will not be subject to external audit, except to the extent that any disclosures are equivalent to those made in the annual accounts. Per regulation it is not required to have Pillar 3 disclosures audited.

The Pillar 3 disclosures have been prepared purely for explanation of the basis on which the Association has prepared and disclosed certain capital requirements and information about the management of certain risks and for no other purpose.

1.3. Significant events

There is no significant event to report.

2. Governance and Organisation of the Risk Management Function

2.1. Governance and Organisation

AMFIE's risk management process and associated governance structure are designed to ensure that there is an effective process and a clear organizational structure with well-defined responsibilities to identify, manage and monitor risk.

The Board of Directors has the ultimate responsibility for limiting and monitoring the Bank's risk exposure as well as for setting targets for the capital ratios and risk appetite. Each Business Area is responsible for managing the risks within its operations, which includes identification, control, mitigating actions and reporting.

The mandate and the composition of the Board of Directors (BOD) are defined in paragraph 8.2.1 to 8.2.8 of the articles of incorporation. The internal regulation lays out the rules of operation of the BOD. The BOD is composed of 8 members (a majority of non-executives of the Association) elected by the General Assembly for a period not exceeding 2 years, renewable.

The Board's central role is to create and deliver value by effectively governing the AMFIE business, while meeting the interests of shareholders and other stakeholders through transparent reporting and active engagement. Risk is measured and reported according to common principles and policies approved by the Board of Directors, which also decides on policies for credit risk, counterparty credit risk, liquidity risk and operational risk management as well as the ICAAP.

The Authorised Managers implement in writing all decisions taken in accordance with the strategies and leading principles laid down by the Board of Directors as well as current laws and regulations. Decisions are taken to preserve the Association's long term financial interests, its solvency and the liquidity situation. The Authorised Managers are permanently present on site. The Authorised Managers are in charge of the daily management and report regularly to the BOD. They act as managers ensuring that the four-eyes principle is applied and to ensure internal control of the Association's operations. Management is required also to strengthen the risk culture within the company and embeds all aspects of the Risk Appetite Statement having regard for the need to improve internal control and minimise risk within the business.

The Managing Director is authorised by the CSSF and is responsible for the daily management at AMFIE. With the approval of the CSSF, AMFIE's Managing Director also acts as Chief Risk Officer. This implies that he is in charge of the internal Risk Control function.

Authorised Management is in charge of the preparation and maintenance of the ICAAP and Risk Management reports. They are reviewed on an annual basis. This frequency is subject to review should the risk profile of the Association change.

AMFIE's internal governance model differentiates accountabilities using a 'three lines of defense' model as follows:

- First line: controls performed at the operating level

- Second line: controls made by the support functions, the risk control function and the compliance function

- Third line: internal audit (who provide independent assurance).

Through this model, the Association aims for an efficient, sound and prudent management of its activities and risks. These three lines of defense are complementary and each assumes its control responsibilities independently from the other lines.

2.2. Risk Management Definitions

The AMFIE Risk Management Policy laid down by the Board of Directors on 19 May 2015 defines the risk exposures and limits of the Association. Both financial and reputational risk levels have been defined in this document. There is no estimate of the financial impact of each reputational risk level, neither of the required effort to re-establish confidence should a reputational risk event materialise.

The term financial risk within the scope of investments made by AMFIE consists of risk of financial losses related to:

1. Market risk introduced by changes to interest- and exchange rates;

2. Sovereign and corporate obligations represent counterparty risk;
3. Liquidity risk, which is the risk of being able to meet short term financial demands. This may be due to the inability to convert a security or asset to cash without a loss of capital and/or income.
4. Investments in multiple currencies through placements in cash, obligations, stocks and investment funds.
5. AMFIE is exempt from credit risk since the Association does not lend money to members or employees;
6. The Association is exposed to Counterparty and Exchange rate risk through deposit holdings on omnibus accounts, and this in several currencies (AUD, CAD, CHF, DKK, GBP, EUR and USD) and bank accounts in credit institutions residing in Luxembourg and abroad (Australia, Canada, Denmark, Italy, Germany, Austria, Spain, The Netherlands, Belgium, France, Great Britain and Switzerland).

Reputational risk is the risk of loss resulting from damages to a firm's reputation, measured in lost revenue, in increased operating, capital or regulatory costs, or in destruction of shareholder value, consequent to an adverse or potentially criminal event - even if AMFIE is not found guilty.

The risk management function at AMFIE addresses the following types of risk:

i. Financial risks incurred through members' savings and investments made through their AMFIE member accounts;

ii. Financial risks embedded in AMFIE's Treasury portfolio management;

iii. Operational risks within the AMFIE's administrative operations;

iv. Reputational risk introduced by the above mentioned areas of risk.

<u>Risk Control Function</u>

The Risk function is an integral part of the Association's control framework. In addition to the regulatory obligations, the Risk function assists the Managing Director and the Board of Directors in the following:

- Promoting proactive management and early identification of risk;
- Avoiding unnecessary risk exposures;
- Overseeing the inventory of operational procedures & controls, and ensure regular review of risk management of these;
- Leads the preparation of a Business Continuity Management system;
- Manages the Incident Management system;
- Prepares regular reporting related to Risk Management. the development and maintenance of the risk control methods and principles of the Association;

<u>Compliance Function</u>

The Chief Compliance Office is designated by the Authorised Management on the basis of objective criteria, and afterwards this decision is validated by the Board of Directors.

The Compliance Function is in charge of the management of the risks of non-conformity towards laws, regulations and professional standards. It also performs anti-money laundering verifications. It contributes, as an integral parts of the internal controls of the second line of defense, to the correct implementation of the rules of conduct applicable to the Financial sector by the Association. Additionally, its contribution to the functioning of the Association improves the quality of the service to the Members and the control of the risks of non-conformity.

<u>Internal Audit</u>

The Internal Audit function acts at the level of the third line of defense. It provides independent advice on the internal control system and verifies and assesses its proper functioning. Its main objective is to give an assurance on the degree of mastery of the operations and to contribute to added value creation within the Association.

The Board of Directors, in agreement with the Authorised Management, has decided to externalise the Internal Audit function. It is externalised at a certified and adapted Luxembourgish audit firm. The contracts are signed for a period of three years.

3. Capital Position

3.1. Capital Management

Capital management and adequacy is performed in an integrated way, seeking to guarantee the Association's solvency and fulfillment of regulatory requirements as detailed in the CRR and CRD IV. It is determined by the strategic objectives and by the risk appetite set by the Board of Directors.

The Board of Directors establishes higher Capital Targets (Limits and Thresholds) in order to mitigate the risk of breaching Minimum Capital Requirements.

Pillar I consists in the calculation of the Minimum Capital Requirements. The Capital Adequacy Ratio (C.A.R.), where R.W.A. are the Risk Weighted Assets, is calculated as follows:

$$\text{C.A.R.} = \frac{\textbf{\textit{Regulatory Capital (Tier 1)}}}{\textbf{\textit{R.W.A. for: Credit Risk + Market Risk + Operational Risk}}} \geq \mathbf{8}\%$$

Tier 1 capital is the core measure of a financial institution's financial strength from a regulator's point of view. It is composed of core capital, which consists primarily of common stock and disclosed reserves (or retained earnings). Credit Risk includes Counterparty Risk according to Basel 2.5 Regulation of 2005. Market Risk concerns Interest rate -, Currency -, and Equity risks.

Capital Targets are intended to ensure the Association remains adequately capitalized under prolonged economic stress conditions. Thresholds function as an early indicator of serious capital adequacy risk. In limited circumstances and for short durations, the Association could operate below the Capital Thresholds. Capital Limits act as outer boundaries that determine the stage at which the Association must assess whether it is still within its risk appetite. The capital position and solvency ratio are frequently reported to the Board of Directors.

3.2. Own Funds

Common Equity Tier 1 (« CET 1 ») is composed of subscribed capital, share premiums, reserves and previous years retained earnings. CET 1 includes deductions for immaterial goods amortization.

The Association does not have any Common Equity Tier 2.

At 31/12/2017, The Association's CET 1 amounted to EUR 8.20 million.

(EUR)	**2016**	**2017**
Paid up capital instruments	868.690	872.390
Share premium	50.025	50.025
Previous years retained earnings	5.663.042	7.088.418
Own CET1 instruments	-11.701	-35.248
Other reserves	257.134	280.681
Other transitional adjustments	-16.991	-60.340
Own Funds - Tier 1 Capital	**6.810.199**	**8.195.926**

3.3. Solvency Ratio

The Association must comply with a minimum of 8% in capital requirement as set in the CRD IV and CRR regulations. To that minimum is added a capital conservation buffer of 2,5% set by the la CSSF (Règlement CSSF 14-01). The following table shows the evolution of own funds, capital requirements (risk exposure) and capital (solvency) ratio over the last two years.

(EUR)	2016	2017
Own Funds - Tier 1 Capital	**6.810.199**	**8.195.926**
Institutions	962.295	1.099.076
Collective investments undertakings	531.391	554.765
Equity	11.701	989.958
Other items	3.868.177	3.106.743
Add. exposure amount	2.099.842	2.082.005
Total Risk Exposure Amount	**7.473.406**	**7.832.547**
Total Capital Ratio	91,1%	104,6%
Surplus (+) / Deficit (-)	6.212.327	7.569.322

At the end of 2017, the Capital ratio of the Association was 104.6%, achieved through the retention of the net results during the last five years. The Association has continued to strengthen its capital base to be able to meet future developments with a capital surplus that reached 7.5 million EUR in 2017.

4. Capital Adequacy

4.1. Credit and counterparty risks

Credit risk is the risk of default on a debt that may arise from a borrower failing to make required payments. The risk is that of the lender and includes lost principal and interest, disruption to cash flows, and increased collection costs.

Credit risk is applied to all assets: deposits with financial institutions (risk weight varies according to credit rating assigned by a nominated external credit assessment institution), loan to members and to other balance sheet assets (risk weighted at 100%).

Counterparty risk is the risk to each party of a contract that the counterparty will not live up to its contractual obligations. In most financial contracts, counterparty risk is also known as "default risk".

The Association

The below figure shows the breakdown Credit-Counterparty risk exposure calculated for the Association (on-balance items):

Credit - Counterparty Risk				
Conversion factor **Risk level**	**Type of Exposure**	**Asset value exposed to Credit Risk before correction factors**	**Risk Weighted Assets R.W.A.**	**Capital requirements for Credit-, Counterparty credit risk**
Total Exposure		**10,146,847 €**	**5,750,542 €**	**460,043 €**
Breakdown of exposures according to weighting				
20% Medium-Low risk	Exposures to institution	5,495,381 €	1,099,076 €	87,926 €
100% High risk	Tangible fixed assets (=> Weighting : 100%)	2,264,533 €	2,264,533 €	181,163 €
	Collective investments undertakings (CIUs)	554,765 €	554,765 €	44,381 €
	Equity	989,958 €	989,958 €	79,197 €
	Exposures to other items	842,210 €	842,210 €	67,377 €

Credit risk represents the Association's largest regulatory capital requirement. It is mainly derived from cash and credit exposure towards third party banks (treasury placements). The Association uses the standardised approach for credit risk when calculating the pillar 1 requirements. The Association does not currently perform lending operations and is therefore not exposed to credit risk linked to lending to members.

Member's assets (off-balance sheet items)

The Association has established omnibus accounts with Luxembourg and international financial institutions. The accounts are held in European currencies (CHF, DKK, EUR, and GBP) as well as AUD, CAD and USD. Members deposit their assets in AMFIE Omnibus accounts in any of the currencies offered, and this from anywhere in the world. Fund deposits in accounts abroad are repatriated to Luxembourg bank accounts within 48 hours. Off-Balance liquidities are exclusively kept in different financial institutions based in Luxembourg. As Member's assets are completely segregated from the Association's assets, the linked counterparty risk is not included in the calculation of R.W.A. for credit risk.

4.2. Market risk: Interest Rate-, Currency- and Equity exposure risks

According to Basel II, market risk defines this risk as the risk of losses in On- and Off-Balance sheet positions arising from movements in values of, or income from, assets or in interest or exchange rates. AMFIE is exposed to these types of market risk:

Type	Concerns	Adverse circumstance
1. Interest rate risk	Association	Insufficient revenues generated from the off-balance sheet assets due to adverse interest rate conditions.
	Off-Balance sheet	Interests earned on Omnibus accounts lower than interests offered to members. Portfolio value as bond prices go down when interest rates go up.
2. Currency risk	Association	None
	Off-balance sheet	Value and profit of funds on foreign exchange accounts going down in parallel with the EUR exchange rate.
3. Equity exposure risk	Association	None
	Off-balance sheet	None, as the mandate does not allow for stock investments.

Notes on market risk:

1. AMFIE offers its members favourable interest rates on current and savings accounts in the major currencies. The interest rate is decided up-front on a quarterly basis. Since the economy is currently going through an exceptionally long period of historically low interest rates, there is less risk to experience even lower interest rates in the upcoming years.
   Exposure to interest rate risk is when the market interest rates go down. Interests paid on member accounts are paid out from profit from investments of member deposits in term placements that pay higher interests. The risk would be that interests earned on bank accounts and investments are lower than the interest offered to members, and the latter would then have to be adjusted downwards.
   For AMFIE, that risk is currently mitigated. The investment portfolio generates sufficient revenues and has a short enough duration allowing the Association to reinvest at better rates when rates will start going up, while ensuring that all costs are covered in the coming years.
2. Market risk has been evaluated, but not included in the calculation of R.W.A. as it concerns off-balance items only and outside events would not affect the Association. Off-Balance sheet investments are potentially exposed to both Interest rate and Currency risks.

It has not been considered necessary to add an additional capital buffer for the market risks in the framework of the Pillar plus approach as no currency risk exists and interest rate risk is minimal in the medium term.

4.3. Operational Risk

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

According to Circular 13/575, investment firms that are authorized to offer one or several investment services and that are authorized to offer the auxiliary service 1 fall within the scope of the CRR and the ITS on Supervisory Reporting. Within these investment firms, the CRR distinguishes 3 sub-categories of investment firms that must provide the following information according to the requirements of the ITS on Supervisory Reporting (new reporting “extended COREP”).

AMFIE is authorized to provide the following investment services: 1, 2, 4 and 5, as well as the following auxiliary services: 1, 4 and 5. It therefore fulfills the conditions of one of the sub-categories identified by the CRR: the one of the entities that are not authorized to provide the investment services 3 and/or 6. It therefore falls under the scope of article 95 (1) of the CRR and must provide information on its own funds and its required capital according article 92 and the first paragraph of article 95 (2) of the CRR.

According to those requirements, AMFIE has chosen to use the risk exposure amount due to fixed overheads. The following calculation is made to evaluate the additional risk exposure that may need to be taken into account in the calculation of the total capital ratio:

COREP December 2017:
Additional Risk Exposure Amount due to Fixed Overheads
Based on the latest audited numbers (2016)

Total charges	2,700,225
- bonuses paid to employees	-193,810
- other variable remunerations paid to employees	
- fees and commissions directly paid related to fees and commissions collected	
- charges paid to clearing houses and other intermediaries	
- interests paid to members in connection with their deposits (if charge for AMFIE)	
- other non-recurring charges	
TOTAL	2,506,415
TOTAL x 25%	626,604
TOTAL x 25% x 12,5	7,832,547
Risk weighted exposure amount credit, counterparty credit and dilution risks and free deliveries	5,750,542
ADDITIONAL RISK EXPOSURE AMOUNT DUE TO FIXED OVERHEADS	**2,082,005**

The main operational risk for the Association, considering the location of its members, would be external fraud. The most frequent fraud attempts are fraudulent transfer of Members' funds to external third party accounts, either through falsified transfer orders or fully-fledged identity thefts. The Association did not suffer any fraudulent transfers 2017. It has however been considered prudent to include an additional capital buffer of EUR 200,000 for the operational risk in the framework of the Pillar plus approach.

4.4. Liquidity Risk

Liquidity risk is the risk that an entity may be unable to meet short term financial demands. This usually occurs due to the inability to convert a security or hard asset into cash without a loss of capital and/or income in the process. The Association's liquidity is made up of the following:

Type	Reference	Adverse circumstance
1. Liquidity risk	Association	Insufficient cash to cover operational expenses.
	Off-Balance sheet	Inability to meet short term demands for cash reimbursement from members.
2. Assets side liquidity	Association	Most liquid is Cash on bank accounts = 5.5 mio €, sufficient to cover operational expenses for almost two years, and Least liquid is Tangible assets = 2.2 mio €
	Off-Balance sheet	Most liquid is Cash on bank accounts = 88.6 mio €, 34% of Debt to members = 257.6 mio € Least liquid is Fixed financial assets = 131,2 mio €, 66% of Debt to members
3. Liability side liquidity	Association	Tax and Other debt = 103 k€
	Off-balance sheet	Total Debt to members = 258 mio €

Notes on liquidity risk:

1. The Association has cash at disposal on bank accounts to cover its operating expenses;
2. Member assets are managed Off-Balance sheet. Should a run on members' accounts occur, it could become necessary to start selling off financial assets but only when withdrawals surpass 34% of the total assets on member accounts.

The definition "liquidity position" is the difference between the sum of liquid assets and incoming cash flows on one side and outgoing cash flows resulting from commitments on the other side. The liquidity position measured over a defined period defines the measure of the liquidity risk.

Liquidity risk is not part of Pillar I calculation of internal capital at AMFIE.

Considering the high level of liquid funds available at the Association and the high level of liquidities available in off-balance, it has not been considered necessary to add an additional capital buffer for the liquidity risk in the framework of the Pillar plus approach.

4.5. Other Risks

Concentration Risk

For the Association, two main types of concentration risk have to be evaluated, both relating to the off-balance sheet positions. The first one would arise if a high volume of the revenues of the Association was generated by only a few members, which is far from the case. The second one would arise if the Association was concentrating its investments in only a few solutions. This risk is however also minimal as the off-balance sheet portfolio is extremely diversified.

Execution Error Risk

AMFIE operates an order transmission service for the Keytrade investment accounts members may open should they want to directly invest in securities. The good execution of transactions is under the responsibility of Keytrade. AMFIE is only exposed to a possible error made in the transmission of the members' instructions to Keytrade. This is a limited activity with low volumes. In 2017, less than 400 transactions were processed and no material errors were identified.

Compliance Risk

Compliance risk is defined as the risk of legal or regulatory sanctions, material financial loss or loss of reputation that the Association may suffer as a result of its failure to comply with laws, including the spirit of the law, regulations, and generally accepted practices and standards.

The Compliance Department is accountable for identifying, assessing, monitoring and reporting on whether AMFIE complies with applicable laws, regulations and internal requirements.

The Compliance department has notably to identify possible money laundering, terrorism financing, customer tax evasion and market abuse.

AMFIE makes substantial efforts to comply with regulation and prevent criminals from exploiting the Association for money laundering or other financial crime activities.

Reputational Risk

Reputational risk is defined as the current or prospective risk to earnings and capital arising from an adverse perception of financial institutions on the part of existing and potential transactional stakeholders, i.e. clients, trading counterparties, employees, suppliers, regulators/governmental bodies, and investors. It is extremely difficult to quantify reputational risks.

Strategic/Business Risk

AMFIE is based in Luxembourg where the financial sector is the largest contributor to the economy. The success of the financial centre is founded on the social and political stability of the Grand Duchy and on a modern legal and regulatory framework that is continuously updated, inspired by regular consultation between the government, the legislator and the private sector. The Luxembourg financial centre is characterised by a strong culture of investor protection and rigorous anti money-laundering policies.

The Associations' business model is based on members being officials from public institutions worldwide and a conservative investment policy of members' savings.

With the two above factors, in addition to well-documented business goals, the Association is likely to continue its business model. Events that may have impact on future results are:

- A high number of members withdrawing their membership and assets managed by AMFIE;
- A substantial reduction in the net profit coming from the investment management of members' assets, with the consequence of transferring lower net profit to the Association, potentially insufficient to cover its operational cost. The current staff number (16 persons in 2017) is the minimum number to cover operational and regulatory compliance.

None of these risks is considered very likely in the near future as the Association business model is considered sound. The Association has a considerable margin for progression as its coverage of the target segment is still quite low.

Macroeconomic Risk

As covered under strategic risk, AMFIE is based in Luxembourg in order to benefit from the strength and safety provided by the social and political stability of the Grand Duchy and its modern legal and regulatory framework. This is the cornerstone of AMFIE's strategy which is to offer a safe haven for the funds of its members, regardless of where they may be located on the planet.

Any significant change to that framework that would lessen the protection that members benefit from could be considered as a major risk to the Association. Additionally, in order for that risk to fully materialize, a concurrent offer to AMFIE that could potentially be more attractive would need to appear elsewhere in the world. Such a risk is very unlikely at this point in time, and would be very difficult to quantify.

4.6. Capital Adequacy according to the Pillar Plus approach

The current regulatory framework for capital requirements is articulated around the below pillars:

- Pillar I sets the minimum capital requirement for credit, market and operational risk. The aim is to make the regulatory requirements more sensitive to the risks actually incurred by financial institutions in carrying out their business activities.
- Pillar II establishes a system of supervisory review, aimed at improving banks' internal risk management and capital adequacy self-assessment in line with their risk profile.

The Association reviews the adequacy of its capital in detail through the Internal Capital Adequacy Assessment Process (ICAAP). This process requires the Association to look in detail at the risks it faces and stresses the amount and quality of capital the Association has against these risks. Should the Authorised Management of the Association determine that an increased amount of capital is required in order to meet perceived risks, then an additional capital requirement would be added (Pillar Plus approach).

The Pillar plus approach include a quantification of risks identified under Pillar 2 that are added to the Pillar 1 calculations. The table below presents Pillar 1 and Pillar 2 capital requirements as defined above and according to CSSF circular 07/301, Annex Point I.2.

The internal Target Ratio has been defined in the document "Principes directeurs" defined and approved by the Board of directors. It has been set at twice the regulatory requirements.

(EUR)	Solvency (Pillar 1)	ICAAP (Pillar 2)	Combined (Pillar 1 & 2)
Capital requirements for coverage of:			
Credit risk	5,750,542		5,750,542
Market risk (reporting threshold of 2% of eligible capital)	0		0
Operational risk (25% of fixed overheads of preceding year *12,5)	2,082,005		2,082,005
Credit & counterparty risk		0	0
Market risk (resulting from interest rate stress test on non-trading book, max. 20% of eligible capital)		0	0
Operational risk		200,000	200,000
Liquidity risk		0	0
Concentration risk		0	0
Execution error risk		0	0
Compliance risk		0	0
Reputational risk		0	0
Business & strategy risk		0	0
Strategic/business risk		0	0
Macroeconomic risk		0	0
Total capital requirements per Pillar	**7,832,547**	**200,000**	**8,032,547**
Eligible capital	**8,195,926**		**8,195,926**
Capital surplus	7,569,322		7,553,322
Pillar 1 ratio	**104.6%**		
minimum ratio to be respected (TCR & capital conservation buffer)	10.5%		
Pillar 2 ratio			**102.0%**
internal Target Ratio (cf. CSSF circular 07/301 Point I.2)			21.0%

As can be seen in the table, Pillar 1 and Pillar Plus ratios are extremely solid.

At the end of 2017, the Pillar 1 Capital ratio of the Association was 104.6%, well above the regulatory requirement of 10.5%. As mentioned earlier, it was achieved through the retention of the net results during the last five years. The Pillar plus Capital ratio was 102.0% at the end of 2017, well above the limit fixed by the Board of Directors at 21.0%.

5. Remuneration Policy

In line with the regulatory requirements of CRD IV, the Association has implemented a remuneration policy promoting a sound and effective management of risks. The remuneration policy is based on the following main principles:

- Alignment of personal objectives with the long term objectives of the Association;
- Evaluation of the employees' individual performance in a yearly and multi-year framework using financial and non-financial criteria;
- A fair balance between the fixed and variable components of the remuneration;
- Competitive remunerations compared to the market while taking into account the results of the Association.

The remuneration policy has been established and approved by the Board of Director, in collaboration with the Compliance and Risk Control functions, as well as the Human Resources department.

The general principles of the policy are applicable to all the employees. The detailed requirements on the variable component of the remuneration are only applicable to the category of personnel having a material impact on the risk profile of the Association ("Identified Staff"). Currently, within the Association, have been identified as such persons the Authorised Directors and the Chief Compliance Officer.

The remuneration of all employees is composed of two elements: a fixed component, which is the annual fixed salary and a variable component, which is the annual bonus that is dependent on certain performance criteria and on the financial performance of the Association.

In all instances, the variable component of the remuneration is linked to the evolution and the performance of the Association in the sense that insufficient financial results may render the attribution of a bonus impossible. A variable component will be granted only if its amount is financially viable for the Association.

Non-identified staff

The Authorised Management defines the remunerations of the staff members, in line with the guidance given by the Board of Directors and in conformity with legal requirements. In addition to the fixed component of the remuneration, staff members may receive a bonus that may not exceed 25% of the fixed component. This variable component is at the discretion of the Authorised management. These empoyees do not have a significant impact on the risk profile of the Association.

Board of Directors

Regarding the Board of Directors, while their activity does have a material impact on the risk profile of the Association, they are not employees of the Association. Additionally, Board members do not receive a variable remuneration and therefore the requirements on variable remunerations do not apply.

The members of the Board of Directors are volunteers and, by default, are not paid for the work done within their respective mandates. However, travel and representative expenses incurred as part of their work for the Association are reimbursed. Board members spending a significant amount of time to the execution of the missions of their function on the Board may receive a fixed compensation, as well as Board members having been charged with a specific mission requiring a regular, significant and important workload.

Compensation paid to the members of the Board is subject to approval by the General Assembly and is subject to a note in the annual accounts of the Association.

Identified Staff

For the members of the Authorised management, the fixed component represents a sufficiently important part of the total remuneration so that their commitment is not linked to their bonus. Their remunerations are defined in their contract and is coherent with their powers, tasks, expertise and responsibilities.

In addition to the fixed remunerations, they may receive a bonus, at the discretion of the Board of Directors. The attribution of this variable remunerations takes into account the adequation between the remunerations, the economic situation and the long term growth of the Association. The variable component of the remuneration may never exceed 50% of the total fixed component of the remuneration of each person.

Particular attention is paid so that these bonuses do not exclusively depend on financial and commercial aspects, but also from qualitative criteria. To that effect a list of performance indicators for the evaluation of the performance of the Authorised Management has been defined by the Board of Directors.

In order to guarantee the independence of the control functions, in this case the Chief Compliance Officer, who have control authority on the operations of the Association, the analysis of the performance of this employee is based on objectives linked to the control function and not the financial performance of the Association. However, the variable component is still dependent of the global performance of the Association, meaning that in order to allocate a bonus, the Association must have the financial resources available in order to do so. This variable component may not exceed 25% of the fixed component and is supervised by the Board of Directors. A list of performance indicators for the evaluation of the performance of the Chief Compliance Officer has been defined by the Board of Directors.

Remuneration Awarded to Identified Staff Employees

The following table summarises the total remuneration awarded to Identified Staff employed by the Association in respect of the performance year ending December 31, 2017. Due to the size of the Identified Staff population, and data protection issues, we are not differentiating between Authorised Managers and other Identified Staff.

Aggregate Remuneration	
Number of Identified Staff	3
2017 remuneration (in € th)	404