CATELLA BANK S.A.

Pillar 3 disclosures (as at 31/12/2013)

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Signature	

INDEX

1 Overview

1.1 Background- purpose of Pillar III

The European Union Capital Requirement Directive introduced in 2007 consistent capital adequacy standards and an associated supervisory framework in the EU based on the Basel II rules.

Basel II differentiates between three so-called pillars, which are expected to be mutually reinforcing:

1. Pillar I : sets out minimum capital requirements, by providing rules for the measurement of credit risk, market and operational risks
2. Pillar II : establishes a process for assessing capital adequacy in relation to the Bank's actual risk profile and for determining whether additional capital is required to cover these risks. This is achieved through the Internal Capital Adequacy Assessment Process (ICAAP), and the requirement for the CSSF to undertake a supervisory review to assess the robustness of the Bank's assessment
3. Pillar III : as it aims to complement the minimum capital requirements (pillar I) and supervisory review process (pillar II) by developing a set of disclosure requirements which will allow the market participants to gauge the capital adequacy of Catella Bank.

   This market discipline supplements regulation :

   As sharing of information facilitates assessment of the Bank by others (analysts, partner banks, customers : PSP, future merchants clients)

   Leads to improve the corporate governance as the requirements required to disclose details:

   - On the scope of application
   - Capital
   - Risk exposures
   - Risk assessment processes
   - Capital adequacy
   - Everything in line with how the senior management including the Board, assess and manage the risk of the institution

1.2 Basis for preparation

The Board of Directors (the 'Board') of Catella Bank S.A. adopts this policy to comply with disclosure requirements laid down in the Part XIX of the CSSF Circular 06/273 (as amended by Circulars CSSF 07/317, CSSF 10/450, CSSF 10/475, CSSF 10/496 and CSSF 11/501) and for assessing the appropriateness of the Bank's Pillar III disclosures, including their verification and frequency.

In this matter, the following terms apply:

- The information in Pillar III is prepared solely to meet the Basel II disclosure requirements and to provide certain specified information about capital and other risks and details about the management of those risks and for no other purpose. The disclosures are not constituting any form of financial statement on the business nor constituting either any form of contemporary or forward-looking record or opinion about the business
- These disclosures are subject to internal review, challenge and approval. An audit trail to support disclosures is maintained
- Wherever possible and relevant, the Board is ensuring consistency between Pillar III disclosures, Pillar I reporting and Pillar II ICAAP content e.g disclosure about risk management practices and capital resources at year end

1.3 Scope

Catella Bank S.A. is wholly owned by Catella Holding AB, a Swedish holding company and a fully owned subsidiary of Catella AB (publ), listed on OMX's First North (hereafter referred to as "the Catella Group") and based in Stockholm, Sweden.

The Bank has one foreign Branch established in Stockholm with offices in Sweden (Gothenburg, Malmö and Växjö) specialized in Wealth Management services for which it received a license from the Swedish authorities.

The Bank has its headquarters at 38, rue Pafebruch, L-8308 Capellen, Luxembourg.

The core business of the Bank is to provide card and payment solutions to a large panel of clients ranging from corporates to institutions. In parallel of this activity, Catella provides customised wealth management services to clients requiring active independent advice and management.

1.4 Frequency of disclosures

The disclosures are required to be made on an annual basis at a minimum. The Bank will assess at any time the will to publish some or all disclosures more frequently than annually in the light of the relevant characteristics of its activity.

1.5 Verification, media and location

These disclosures have been reviewed by the Board of Directors of the Bank and are published on the on the Catella Group website :

WWW.catella.com/Bank

1.6 Interaction with accounting disclosures

In order to not conflict with requirements under accounting standards and ease the validation process, the quantitative basis of the Pillar III disclosures are extracted from the mandated set of reporting explaining the annual financial statements unless otherwise.
All figures as such, are as at 31 December 2013.

1.7 Materiality

The regulatory rules provide that any Bank may decide which disclosures are relevant based on the materiality concept and may omit one or more required information if it believes that the information is immaterial.
An information is seen as material if its omission or misstatement could change or influence the assessment or decision of a user relying on that information for the purpose of making economic decisions.

2 Risk management framework

2.1 Risk objectives

Catella Bank, through its operating entities seeks to proactively manage and minimise risk.

Catella Bank operates within 2 core activities :

1. By providing card and payment solutions to a large panel of clients ranging from corporate to institutions
2. By providing customised Wealth Management services to clients requiring active independent advice and management.

Risk controls intervene on different levels within the Bank with first the active involvement of the business operation units (first line of defence) as they are responsible for ensuring that for a given risk a control environment is established as part of day-to-day operations. They are supported by the risk control functions (second line of defence) represented by the risk department and legal & compliance team. This oversight functions are responsible for ensuring also guidance and recommendation to the business units by setting direction, introducing best practices, adapting the organisation to the coming regulatory constraints and provide assurance oversight for Board Members, Authorised Management as well as groups, committees or any other decision making bodies involving the management line or board of Directors of the Bank.

The third line of defence, represented by the internal audit function is responsible for providing reliable and timely information to the Board and Authorised Management regarding the Bank's effectiveness in identifying and appropriately controlling risks.

The Bank's approach to risk management is so to ensure that material risks in each business unit are effectively identified, assessed, monitored and controlled by a specific self-assessment overseen by an independent risk management function.

The Bank has material exposure to the following risks:

- Credit risk
- Liquidity risk
- Market risk
- Operational risk

2.2 The governance structure and organization of Risk Management

2.2.1 Catella Bank Board of Directors

The Board of Directors has ultimate responsibility for both the management and the oversight of risks together with the quality and effectiveness of internal controls. The Board has adopted policies and procedures in order to ensure that an appropriate level of risk management is applied to its business. The Board, in consultation with the Authorised Management and internal auditors, reviews significant financial and other risk exposures.

The Board meets at least four times a year and receives reports from control functions, Finance, internal and external auditors to evaluate the effectiveness of the existing control environment.

2.2.2 Catella Bank - Credit risk management Committee

Catella Bank credit risk committee acts as a formal governance committee overseeing the credit risk management arising from the Wealth Management (loans and advances to customers), the Treasury portfolio and the issuing activities. Even in absence of exposure of the asset side of the balance, the acquiring activities are also under scrutiny of credit risk analysis and as such are covered by the Credit risk Committee.

The Committee typically meets on a weekly basis and is organized and managed by the Head of Credit and its membership includes the Managing Director, the Deputy Managing Director, the Chief Risk Officer, the Chief Financial Officer, the head of Legal & Compliance with the respective heads of operating departments (Cards and Wealth Management). This weekly Committee concludes the independent risk analysis performed by the risk functions before accepting any new clients or services generating credit risk exposures for the Bank (Compliance and credit risk reviews as a pre-requisite for approving during the Credit Committee any on-boarding process).

In addition, the credit Committee on a monthly basis is monitoring the quality of the credit portfolio and takes as such actions in case any substantial negative trend that could interfere in the creditworthiness of the portfolio.

However, any credit granting/ extending that stands out of the credit policy criteria is systematically escalated for approval to the ad-hoc Board Credit Committee consisting of two members of the Board of Directors. This ad-hoc Credit Committee is headed by the Board's chairman and the CEO of Catella Group. Regarding the specificity of some credit requests submitted, they may decide to involve for consideration the other Board members.

2.2.3 Catella Bank Board Audit, Legal, Compliance, Risk Committee

This Committee has the objective to consider issues and/or make recommendations to the Board concerning the arrangements with the external auditor, the disclosures contained in the external financial reports, the adequacy of internal controls, and risk management policies, practices and procedures.

This Committee meets every 6 weeks and is chaired by one member of the Board of Directors dedicated to Compliance specific topics.

2.2.4 Catella Bank, Asset & Liability Committee

Is representing the primary vehicle for achieving the objectives of the asset and liability management. It has the overall responsibility for the capital allocation, financing strategies, Internal Pricing Mechanism (IPM) and balance sheet and liquidity management.
This Committee meets every 6 weeks and is co-chaired by two members of the Board of Directors one dedicated to Compliance specific topics and the Board's Chairman.

3 Own fund resources

As at 31 December 2013, the capital resources of Catella Bank were as follows :

Tier 1 capital (original own funds)	In €
Subscribed capital	14,955,209
Legal reserves	1,317,000
Special reserves	12,458,775
P&L brought forward	3,917,281
Net result	-5,359,753
Less intangible assets	-548,959
Less participation	-18,400
Total Tier 1 capital- Capital resources	**26,721,153**

During the year, Catella Bank complied all times with all of the externally imposed regulatory capital requirements.

4 Capital adequacy

4.1 Capital requirement – (Pillar 1)

The measurement of the minimum capital requirement is based on the Circular CSSF 06/273 as amended. The following table details each risk approach used by the Bank for the assessment of the regulatory capital at 31 December 2012.
The Bank's risk profile is currently assessed using the Pillar I plus approach, as it takes the Pillar I capital requirements calculation as a starting point and then considers whether this results in an adequate amount of capital to cover the Bank's actual risk profile.

- Credit risk : standardised approach, applying the simple method based on substitution as credit risk mitigation. However, in order to better align the current approach for the management of the financial collateral with the capital allocation and large exposure regulatory mechanism, the Bank is implementing in 2014, the Comprehensive approach based on regulatory haircuts
- Operational risk : Basic indicator approach but from a qualitative standpoint, the Bank is developing the foundation of a sound risk control framework based on the ' Principles for a sound Management of Operational Risk' from the Basel Committee in applying the risk and control self-assessment (RCSA) practice to analyse its risk profile as well as the adequacy of its control to cover it.
- Market risk : no trading activities for own account, therefore boils down to Foreign Exchange risk and interest-rate risk in the Banking book

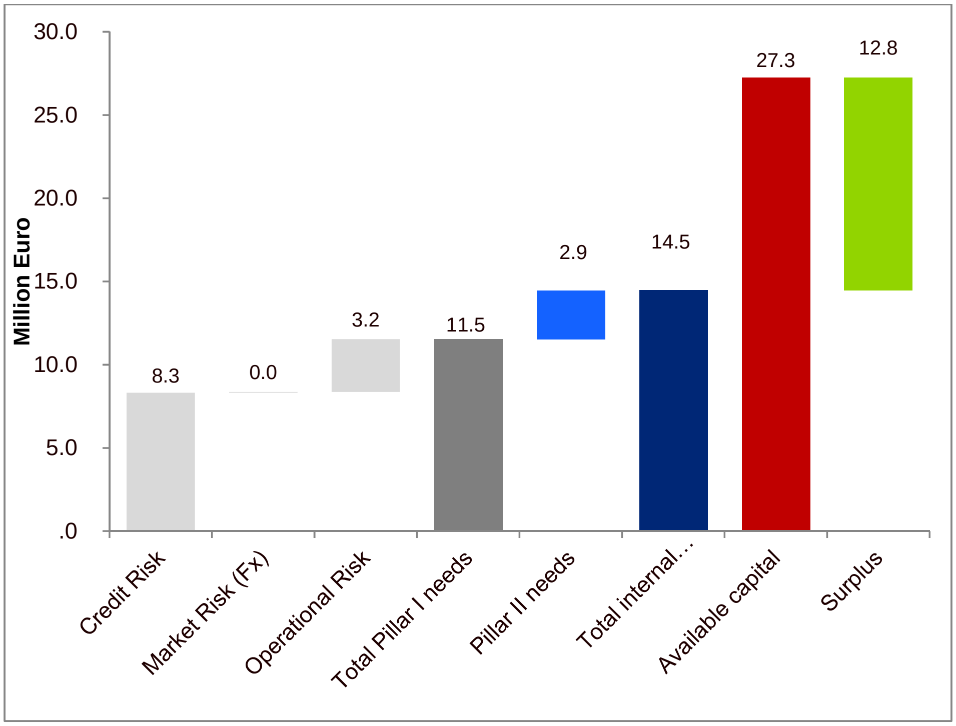
Pillar 1 quantification (in million €)

(in million EUR)	*Pillar I*	*Pillar II (ICAAP)*
Eligible capital [a]	27.3	27.3
Minimum capital requirements [b]	11.5	2.9
Credit risk	*8.3*	*1.8*
Operational risk	*3.2*	*0.7*
Market risk (Fx)	*0.0*	*0.0*
Other risks		*0.4*
Internal capital requirement		**14.5**
Capital surplus [a]-[b]	15.7	12.8
Pillar I solvency ratio (min. 8%)	18.9%	15.07%
Internal solvency target (risk appetite)	13%	

4.2 Internal Capital Adequacy Assessment Process – (Pillar 2)

The ICAAP has been validated by the Management in May 2014 and subsequently approved by the Board of Directors on 12th May 2014.

In context of the ICAAP, the Bank also conducts stress tests and assesses to which extent the outcome of these tests requires changes in its risk and internal capital management to ensure its internal capital adequacy. As such the Bank submits its non-trading book activities to a stress test to assess its interest rate risk (Circular CSSF 08/338), as well as performs liquidity stress tests in accordance with Circular CSSF 09/403. A broader stress-testing framework is also applied in line with Circular CSSF 11/506.



5 Risk measurement and mitigation

5.1 Credit risk

Credit risk represents the single largest risk within the Bank and may be define as the risk of financial loss to the Bank if a customer or counterparty fails to meet its contractual obligations.

End of 2013, the Bank reports a balance sheet of EUR 262 Mio broken down as following :

	ASSETS	
1.1	Cash and cash balances with central banks	1.877.227
1.2	Financial assets held for trading	0
1.3	Financial assets designated at fair value through profit or loss	580.124
1.4	Available-for-sale financial assets	5.680
1.5	Loans and receivables (including finance leases)	242.147.770
1.5.1	Debt instruments	5.003.428
1.5.2	Loans and advances	237.144.342
	Financial Institutions	*172.991.447*
	Corporate	*28.848.965*
	Retail	*35.303.930*
1.6	Held-to-maturity investments	0
1.7	Derivatives – Hedge accounting	229.806
1.8	Fair value changes of the hedged items in portfolio hedge of interest rate risk	0
1.9	Tangible assets	1.136.876

1.10	Intangible assets	548.959
1.12	Tax assets	1.180.225
1.13	Other assets	14.113.767
1.14	Non-current assets and disposal groups classified as held for sale	0
1.15	**Total assets**	**261.820.434**

5.2 Market risk

Market risk is defined as the potential reduction in net income, or decrease in value of the Bank balance sheet, arising from adverse market movements. Market risk includes risks in relation to interest rate risk and foreign exchange.

The Bank is not performing any trading activities on its own account and therefore is not subject to Pillar I requirements to cover market risk. Yet Catella is exposed to some form of market risk through its exposures to FX risk and interest rate for non-trading activities.

5.3 Operational risk

Regarding its cards processing activities on both the issuing and acquiring business, Catella considers operational risk as a major risk source it is exposed together with credit risk. All departments concerned by an operational error or client claim communicate a mistake report to the Finance department for management accounting purposes. However no centralisation of the operational risk is taking place via a specific log monitored by any department. The Bank has been made aware by its Internal Auditor that it needs to put in place a procedure to monitor operational risk by centralising all operational errors occurred during the year via a specific log. In order to tackle this issue, the Bank is implementing begin of 2014 a sound operational risk framework including among others the selection and implementation of a dedicated operational risk tool. The core module of this application will manage the day to day ORM activities with integrated functionality for risk control assessments across the Bank activities but includes also the capability to capture and store easily for all employees within the organizations, loss / incident events.

5.4 Liquidity risk

Thanks to the diversification of the Catella business activities, the liquidity risk profile of the Bank is limited and complementary. The Bank is benefiting from a large liquidity surplus coming from the Wealth Management and acquiring activities through clients deposits, transaction and position accounts as well as retention reserves. The liquidity excess is invested by the Treasury function into short-term maturities positions with banking counterparties under speculative grades.
Moreover, the introduction of the CRDIV and more specifically the Liquidity Coverage Ratio reinforces the obligation for a sustainable liquidity risk framework within the Bank.