

Banque Invik S.A.

Disclosure Policy

Pillar III Disclosure Requirements in accordance to CSSF Circular 06/273

Introduction

The purpose of this document is to collate a checklist of all the necessary regulatory disclosure requirements of the Commission de Surveillance du Secteur Financier (hereinafter the “CSSF”) Circular 06/273 part XIX, commonly named the Pillar III of the Basel II rules.

Furthermore this document will stipulate what activities, procedures, approaches, products are not used / traded / adopted by the Bank in order to ensure that the checklist itself comprises of applicable, wholly or partly, disclosure requirements.

As set out by the Basel Committee on Banking Supervision, “The purpose of Pillar III - market discipline is to complement the minimum capital requirements (Pillar I) and the supervisory review process (Pillar II). The Committee aims to encourage market discipline by developing a set of disclosure requirements which will allow market participants to assess key pieces of information on the scope of application, capital, risk exposures, risk assessment processes, and hence the capital adequacy of the institution. The Committee believes that such disclosures have particular relevance under the Framework, where reliance on internal methodologies gives banks more discretion in assessing capital requirements.”

This checklist will create the framework for preparing a suitable disclosure report in accordance with CSSF Circular 06/273.

The Bank has always adopted the Standardised Approach to reporting Basel II for credit risk, due to its low complexity business. Therefore all disclosure requirements regarding the Internal Rating Basis Approach (hereinafter “IRB”) will not apply to the Bank. The use and adoption of the Standardised Approach has been approved by the external auditors and CSSF.

The Bank does not hold or trade in Credit Derivatives, the only OTC derivatives held and traded in are Foreign Exchange contracts. Therefore all disclosure requirements regarding credit derivatives will not be applicable to the Bank.

In order to properly apply the Standardised Approach for credit risk, the Bank uses ratings for securities of its own portfolio and the association of those ratings complies with the mapping established by the CSSF in Annex 1 of the Circular 06/273.

The Bank will disclose the exposure values where ratings have been used, before and after credit risk mitigation, associated with each credit quality step.

The Bank as described above will use Credit Risk Mitigation (CRM) techniques as specified in Part IX of CSSF Circular 06/273 in order to reduce its capital requirement. The Bank uses the Financial Collateral Simple Method for assessing the appropriate risk weighting for which it receives cash as collateral.

With regards to Operational Risk management, the Bank does not use the Advanced Measurement Approach (hereinafter “AMA”) as it does not have approval from the CSSF to apply this. Instead the Bank uses the Basic Indicator Approach. Furthermore it does not currently meet with the necessary minimum requirements to adopt this approach. Therefore any disclosure requirements regarding the AMA will not be applicable for the Bank.

The Bank does not hold any securitization positions in accordance with the Circular 06/273 and therefore any disclosure requirements relating to this will not be applicable to the Bank.

Where a specific requirement is not disclosed and therefore marked as either NO or N/A (Not Applicable), a brief explanation will be given to support the reason for the departure or non-disclosure in the main body of the disclosure.

It should be noted that the Circular 06/273 allows the CSSF to place specific requirements upon any credit institution to:

- Make one or more of the disclosures referred to in Circular 06/273 Chapter 4;
- Publish one or more disclosures more frequently than annually, and to set deadlines for publications;
- Use specific media and locations for disclosures other than the financial statements;
- Use specific means of verification for the disclosures not covered by statutory audit.

In the exceptional cases the Bank shall decide not to disclose specific items of information where these are items are regarded as either sensitive so as to adversely impact the Banks competitiveness or confidential due to obligatory reasons that are binding on the Bank, this is in accordance with the criteria set out in Part XIX of the Circular 06/273.

The Bank shall adopt a formal policy for assessing the appropriateness of their disclosures, including their verification and frequency on an annual basis by the Management Committee of the Bank and any recommendations will be formally approved by the Board each February prior to publication.

Disclosure frequency and media

Frequency

The Bank will comply with the minimum required frequency for publishing disclosures on an **annual basis** as soon after the Annual General Meeting of the Board of Directors approves the Annual Accounts. This date is subject to change based on exceptional circumstances. The disclosures will be based on the financial information used for the 31 December reporting of the year under review and will be made in May each year.

The scale of the Banks operations is centered on Wealth Management as a primary service with the provision of Credit & Prepaid Card Services as a complimentary product for its wealth management clients but also as another business division providing a similar service to other credit institutions and non-credit institutions.

The Bank has its principal place of business in Luxembourg with a smaller presence in Sweden and The Netherlands to manage all of its operating activities.

Except for the above activities, the Bank has remained a relatively non-complex organization without having any significant involvement in other financial sectors.

The stable and conservative operating environment, in which the Bank serves in, supports the fact that its risk exposure and other factors associated to its activities are not subject to volatility or rapid change, therefore the Bank does not deem it necessary to publish any disclosures more frequently other than annually.

Media

The Circular allows credit institutions to determine an appropriate “medium, location and means of verification to comply effectively with the disclosure requirements” set out.

Furthermore “to the degree feasible, all disclosures shall be provided in one medium or location.”

The Bank will disclose the information required in accordance with CSSF Circular 06/273 in a separate report not attached to the Annual Financial Statements.

This report will be available on the Banque Invik S.A. internet site.

Approval

From 2010 onwards the independent verification process of this disclosures contained in this document will be set within the Internal Audit annual program. The Compliance Officer will nevertheless always review the document independently.

This procedure will be approved by the Board of Directors at the next meeting Board Meeting.

Pillar III Disclosure Checklist in accordance to CSSF Circular 06/273

Reference	Disclosure requirement	YES	NO	Not Applicable (N/A)
1	RM objectives and policies of the Bank shall be disclosed for each separate category of risk			
1.1	Credit risk			
1.2	Operational risk			
1.3	Market risk			
1.4	Strategies and processes to manage these risks			
1.5	Structure and organization of the relevant RM function or other appropriate arrangements			
1.6	Policies for hedging and mitigating risk and the strategies and processes for monitoring the continuing effectiveness of hedges and mitigants			
2	Disclose the following regarding the scope of the application of the requirements of this Directive			
2.1	Name of credit institution			
2.2	Outline differences in basis of consolidation for accounting and prudential purposes, with brief description of entities that are: fully consolidated and deducted from own funds			

2.3	Any current or foreseen material practical or legal impediment to the prompt transfer of own funds or repayment of liabilities among the parent undertaking and its subsidiaries			
2.4	Aggregate amount by which the actual own funds are less than the required minimum in all subsidiaries not included in the consolidation and names of such subsidiaries			
3	Following shall be disclosed by the credit institutions regarding their OWN FUNDS :			
3.1	Summary information on the terms and conditions of the main features of all own funds items and components thereof			
3.2	Amount of original own funds, with separate disclosure of all positive items and deductions			
3.3	Total amount of additional own funds and super-additional own funds			
3.4	Total eligible own funds, net of deductions and limits laid down in Sub-Chapters 3.5 and 3.6 of Part IV			

4	Following shall be disclosed regarding compliance by the Bank with CAPITAL REQUIREMENTS for credit, operational and market risk and with requirements concerning the internal process for assessing internal capital requirements:			
4.1	Summary of the Bank's approach to assessing internal capital requirements with respect to current and future activities			
4.2	Credit institutions calculating RWA in accordance with Standardized Approach set out in Chapter 2 of Part VII, 8% of the RW exposure amounts for each of the exposure classes specified in Sub-Chapter 2.1 of Part VII			
4.3	Minimum capital requirements for MARKET RISK on the trading book and minimum capital requirements for foreign exchange risk and commodity risk on the trading and non-trading book			
4.4	Minimum capital requirements for operational risk			

5	Following shall be disclosed regarding the Bank's exposure to COUNTERPART CREDIT RISK as defined in Chapter 4 of Part VIII			
5.1	Discussion of the methodology used to assign internal capital and credit limits for counterpart credit exposures			
5.2	Discussion of policies for securing collateral and establishing credit reserves			
5.3	Discussion of policies with respect to wrong-way risk exposures			
5.4	Discussion of the impact of the amount of collateral the credit institution would have to provide given a downgrade in its credit rating			
5.5	Measures for exposure value under the methods set out in Sub-Chapter 4.2 of Part VII			
6	Following shall be disclosed regarding the Bank's CREDIT RISK and DILUTION RISK:			
6.1	Definitions for accounting purposes of PAST DUE and IMPAIRED			

6.2	Description of the approaches and methods adopted for determining value adjustments and provisions			
6.3	Total amount of exposures after accounting offsets and without taking into account the effects of credit risk mitigation and the average amount of the exposures over the period broken down by different types and exposure class			
6.4	Geographic distribution of the exposures, broken down in significant areas by material exposure class and further detailed if appropriate			
6.5	Distribution of the exposures by industry or counterparty type, broken down by exposure class and further detailed if appropriate			
6.6	Residual maturity breakdown of all exposures, broken down by exposure class & further detailed if appropriate			

6.7	<p>By significant industry or counterpart type, the amount of:</p> <ul style="list-style-type: none"> i) Impaired exposures and past due exposures, presented separately; ii) Value adjustments and provisions; iii) Charges for value adjustments and provisions during the period 			
6.8	<p>Amount of impaired exposures & past due exposures, presented separately, broken down by significant geographical area and, if practical, the amounts of value adjustments & provisions related to each geographical area</p>			
6.9	<p>Reconciliation of changes in value adjustments and provisions for impaired exposures, presented separately. The information shall comprise:</p> <ul style="list-style-type: none"> i) Description of the type of value adjustments and provision ii) Opening balances iii) Amounts taken against the provisions and value adjustments recorded during the period 			

	<p>iv) amounts set aside or reversed for estimated probable losses on exposures during the period, any other adjustments including those determined by exchange rate differences, business combinations, acquisitions and disposals of subsidiaries, and transfers between provisions</p> <p>v) Closing balances</p> <p>Value adjustments and recoveries recorded directly to the income statement shall be disclosed separately</p>			
7	<p>Credit institutions calculating their capital requirements for market risk on the trading book and for foreign exchange risk and commodity risk on the trading book and the non-trading book shall disclose those requirements separately for each risk referred to in those provisions.</p>			
8	<p>Following information shall be disclosed by the credit institutions on OPERATIONAL RISK:</p>			

8.1	The approaches for the assessment of own funds requirements for operational risk that the credit institution qualifies for;			
8.2	Description of the Advanced Measurement Approaches, if any, used by the credit institution, including a discussion of relevant internal and external factors considered in the credit institution's measurement approach. In the case of partial use, the scope and coverage of the different methodologies used.			
9	Following shall be disclosed regarding exposures in EQUITIES in the NON-TRADING BOOK:			
9.1	Differentiation between exposures based on their objectives, including for capital gains relationship and strategic reasons, and an overview of the accounting techniques and valuation methodologies used, including key assumptions and practices affecting valuation and any significant changes in these practices			

9.2	Balance Sheet value, fair value and for exchange-traded, a comparison to the market price where it is materially different from fair value			
9.3	The type, nature and amount of the exchange-traded exposures, private equity exposures in sufficiently diversified portfolios, and other exposures			
9.4	The cumulative realized gains and losses arising from sales and liquidations in the period			
9.5	The total unrealized gains or losses, the total latent revaluation gains or losses and any of these amounts included in the original or additional own funds			
10	Following information shall be disclosed by credit institutions on their exposure to INTEREST RATE RISK (IRR) on positions in the non-trading book:			
10.1	Nature of the IRR and the key assumptions (including assumptions regarding loan prepayments and behaviour of sight deposits) and the frequency of measurement of the			

	IRR			
10.2	The variation in earnings, economic value or other relevant measure used by the management for upward and downward rate shocks according to management's method for measuring the IRR, broken down by currency.			

Banque Invik S.A.

2009 Pillar III

Disclosure Document

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1. Introduction

Banque Invik S.A. (“the Bank”) was incorporated as a “Société Anonyme” in the Grand Duchy of Luxembourg on January 25, 1989. The Bank is principally active in the following areas: private banking; corporate finance; credit and prepaid cards; corporate advice and domiciliation services.

The purpose of this report is to document the necessary regulatory disclosure requirements of the Commission de Surveillance du Secteur Financier (hereinafter the “CSSF”) Circular 06/273 part XIX, commonly named the Pillar III of the Basel II rules.

As set out by the Basel Committee on Banking Supervision, “The purpose of Pillar III - market discipline is to complement the minimum capital requirements (Pillar I) and the supervisory review process (Pillar II). The Committee aims to encourage market discipline by developing a set of disclosure requirements which will allow market participants to assess key pieces of information on the scope of application, capital, risk exposures, risk assessment processes, and hence the capital adequacy of the institution. The Committee believes that such disclosures have particular relevance under the Framework, where reliance on internal methodologies gives banks more discretion in assessing capital requirements.”

This is the inaugural year in which the Bank will comply with the CSSF Circular 06/273 Pillar III disclosures.

This report will be published once a year on the Bank’s website: www.banqueinvik.lu

The disclosures in this report are based on the figures as at December 31, 2009.

2. Risk Management Policies and Objectives

2.1 Strategies and Process

The Bank has 3 distinct business lines. Traditional private banking with a focus on high net worth individuals, this service is aligned to the corporate and trust business which predominantly sets up tax efficient company structures in both on and off shore jurisdictions for its clients. The Bank has a Card business which involves both the issuing and acquiring of credit cards but also prepaid cards. Although this business is mainly B2B, the service is provided to the Bank’s own clients as part of an all encompassing service.

The strategy of the Bank is to grow each business area efficiently and profitably whilst always maintaining a conservative approach to risk and opportunities.

The Bank is continually committed towards strengthening its control environment by investing appropriately in systems and manpower in order to support growth in a measured

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way. The Bank's approach to risk is to ensure that they are identified and analyzed in accordance with guidance and recommendations set out by the banking supervisory authorities, CSSF and best market practices.

The Bank has a policy to automate all areas of risk monitoring and reporting in each business area using dedicated business systems where available. This policy also looks to address credit and operational limits where applicable.

2.2 Structure and Organization

The monthly Management Information Report is provided to the Management Committee of the Bank and the parent company.

This report contains a high level overview of the Capital Adequacy, Liquidity and other key indicators. Furthermore the report provides a high level analysis of the balance sheet assets and liabilities and the level of risk associated with any mismatches, where applicable.

2.3 Scope and Nature of Risk Reporting and Measurement Systems

Risk Management reports are compiled by the Legal, Compliance & Risk department. The bulk of the underlying analysis and raw data used for these reports are system generated, used by the business. The reports and analysis are reviewed and discussed with business owners and shared with the Management Committee of the Bank on a monthly basis and also the Board of Directors on a quarterly basis.

The regulatory reporting with regards to COREP, incorporating the Capital Adequacy calculation and the Large Exposure reporting are produced by Finance using a specific reporting tool that uses the data from the accounting system.

2.4 Policies for Hedging and Mitigating Risk

The policies for hedging and mitigating risk, and the strategies and process for monitoring the continuing effectiveness of hedges and mitigating techniques are the responsibility of the Management Committee of the Bank. All risk policies are approved by the Board of Directors.

The Credit Policy sets out the policy and procedure for renewing and approving loans and credit lines to customers.

The Bank adopts a tiered approval process for loans and credit lines above a certain value. Depending on the threshold, approvals can be required by the Credit Committee and one or two Board members as well.

The Bank uses an internal collateral framework on which loans or credit lines are set to give a maximum ceiling that a client can obtain. The collateral values are either based on the quality of the assets contained in the client's portfolio as well as level of liabilities or alternatively assets pledged outside the client portfolio or by another counterpart.

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Any other guarantee type such as; personal, insurance etc. are dealt with on a case by case basis after a thorough review. Asset quality is derived by using the rating system provided by any of the large rating agencies, Moody's, Standard & Poor's or Fitch.

The following table may be considered as a guideline for granting credit lines and loans. It defines how the quality of the assets offered as a pledge by the customer should be viewed and valued at the time of granting a credit. Loans granted to clients are to be covered in full by the collateral value of assets pledged to the bank. As far as geared investment lines are concerned, the ratio of gross assets to liabilities should always be 140% or higher.

Credit decision – collateral valuation	
Type of asset	Credit/Collateral value (basis for determining max. size at time of application):
Cash deposits (1)	100% (2)
Bonds rated AAA – AA (3)	80%
Bonds rated A – BBB (4)	70%
Listed & liquid equities (5)	70%
Other equities, preference shares and convertible bonds (6)	50%
Cash & MM funds	70%
Other qualifying investment funds (7)	40%
All derivatives (8)	
Precious metals & coins	

¹ In the form of matching cash deposits with the bank in a major currency : EUR, GBP, SEK, NOK, CHF, USD, CAD, AUD, JPY ...)

² Provided the currency of deposits matches the currency of the credit line or loan, otherwise a margin of between 10 to 20% can be applied.

³ Equivalent rating by Moody's S&P or Fitch

⁴ As rated by Moody's, S&P or Fitch and offering daily liquidity.

⁵ Eligible equities must be listed on the main lists of official, regulated markets in a country forming part of the MSCI developed countries list: [AUSTRALIA](#), [AUSTRIA](#), [BELGIUM](#), [CANADA](#), [DENMARK](#), [FINLAND](#), [FRANCE](#), [GERMANY](#), [GREECE](#), [HONG KONG](#), [IRELAND](#), [ITALY](#), [JAPAN](#), [NETHERLANDS](#), [NEW ZEALAND](#), [NORWAY](#), [PORTUGAL](#), [SINGAPORE](#), [SPAIN](#), [SWEDEN](#), [SWITZERLAND](#), [USA](#).

⁶ Listed equities not listed on the main list, or listed on other regulated and acceptable exchanges, satisfying price frequency and turnover criteria. OTC-listed or unlisted equities must be reviewed and approved case-by-case by the credit committee to become eligible for collateral. If these equities pertain to the Scandinavian countries, advice on the issuer can also be sought from or via the Stockholm branch. The Credit Committee can decide to attribute to such shares lower collateral values (e.g. 30%-40%).

⁷ Investment funds must have their major investments in liquid, listed shares, bonds or qualifying investment funds (fof) and calculate their NAV daily or at least weekly; Valuation will be made based on the weakest asset type (from collateral point of view) that the fund may invest in. Group-managed funds, including the Graal fund can be considered as qualifying investment funds.

⁸ Derivatives, including but not limited to options and futures, as well as precious metals and coins, whether listed or not, cannot receive any collateral value

The maximum gearing factor permitted by the Bank for the purpose of leveraging investments is 2.5 times net assets. Maximum weighted risk exposure toward any one customer or group

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of customers may at no time exceed 25% of the Bank's own capital. Accordingly, maximum, geared facilities may be capped, at the discretion of the Bank, at levels lower than the maximum gearing factor of 2.5.

The collateral valuation process, in particular for equities, will also take into account exposure in terms of sector (max of 33% in one sector as a standard), market capitalization and average daily turnover as well as risk diversification: In particular, the maximum collateral value attributed to one single position cannot exceed 20% of the overall collateral value of the portfolio.

Any instruments or positions not falling within one of the above table's categories or not satisfying the criteria set out for these categories are deemed to be valued at 0% for collateral purposes by default. This inter alia applies to real estate, derivatives as well as hedge funds. Approval of any such instruments as collateral for credit lines or loans can be granted on a case-by-case basis and after individual review by the Risk Manager and the Credit Committee only.

The Bank does trade in foreign currencies on behalf of clients. The daily currency positions are covered using foreign exchange contracts and similar hedging instruments. However the Bank does sell down exposures using spot rates.

The Bank, through its Card business does have exposure to currencies as a result of the various card set up and settlement process with its merchants, Visa and MasterCard. These exposures are not significant but are still managed separately outside of the Banks foreign currency positions and sold down on a daily basis.

The Bank maintains a ceiling limit to carry forward foreign currency exposures which are monitored on a daily basis.

The Bank has a dealing limit for its largest counterparty credit institutions which are also enforced on a daily basis in order to minimize its exposure. These limits have been set by the Credit Committee but approved by the Board of Directors. All counterparties are rigorously vetted prior to approval by the Credit Committee.

In relation to Market Risk, the Bank is currently monitoring its exposure to interest rate risk in line with the regulatory requirements set out by the CSSF.

The Bank has developed several controls and looking to enforce this through more efficient use of the Bank system in order to capture the inherent operational risk in order to better monitor and mitigate it.

The Bank has undertaken to perform a quarterly stress test analysis, using a worst case scenario to assess the critical gap and impact on liquidity levels, applying no mitigants or risk weighting limits.

Each year the Bank goes through a rating process with Fitch rating agency, in order to achieve an acceptable rating so as to satisfy MasterCard trading terms and conditions.

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The Bank's unpublished Fitch rating for 2009 is as follows:

Long-Term IDR: BB

Short-term IDR: B

3. Scope of Requirements

The Bank is a fully owned subsidiary of Scribona Nordic AB which in turn is a fully owned subsidiary of Scribona AB, a company listed on the Swedish Stock Exchange. Neither company falls under the consolidated supervision of the CSSF

The Bank established a Branch in Stockholm, Sweden on September 15, 1996. The Branch figures are sub-consolidated within the Bank's regulatory reporting and therefore form part of the Bank's Pillar III disclosures.

The Bank is a significant subsidiary and as a consequence of the above scope the requirements of the CSSF Circular 06/273 are wholly applicable to the Bank (including the Branch) on a stand alone basis.

Below is a brief description of the entities treated as Participations of the Bank:-

Reference	Participations	Registered Office	Percentage of Participation	Net Book Value as at 31.12.2009	Total Shareholders' Equity Unaudited as at 31.12.2009
1.	Modern Treuhand B.V.	The Netherlands	100%	18 400	275 349
2.	Modern Treuhand S.A.	Luxembourg	99.9%	30 969	19 807
3.	Modern Processing S.A.	Luxembourg	99.9%	30 969	31 000
Total				80 338	326 156

All values stated in EUR

All the above Participations are deducted from the Bank's own funds calculation. The Bank does not prepare any consolidated financial statements.

Modern Treuhand B.V. services the Corporate Trust & Domiciliation business. It acts as a relationship manager for all the Bank's Dutch entities which it manages on behalf of its clients.

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Modern Treuhand S.A. is a non-trading entity used by the Bank as part of the service it provides its clients with the Trust & Domiciliation structures, often acting as a company director but also as a holding company for various structures set up in Malta and Cyprus. Client billing is made through the Bank directly.

Modern Processing S.A. is a service company used for processing the Bank's Card business. It is not used to service other third parties. All its costs are paid by the Bank and its revenues are its reimbursed costs.

4. Regulatory Own Funds

The following table provides a breakdown of the regulatory own funds of the Bank as at December 31, 2009.

	EUR
Original Own Funds	
Eligible Capital	14 955 209
Eligible Reserves	20 424 698
	35 379 907
Elements to be deducted from own funds:	
Intangible Assets	(3 750 270)
Participations	(80 338)
Total Original Own Funds for General Solvency Purposes	31 549 299
Capital Requirements	11 100 491
Surplus Own Funds	21 570 321
Solvency ratio (%)	23.55

The original own funds, also referred to as "Tier 1 Capital" includes the subscribed capital and eligible reserves (including profits brought forward). The deductions from own funds are linked to intangible assets and several participations in other group companies which are not consolidated with the Bank's results, only at group level.

Based on the above elements, the Bank's surplus own funds as at December 31, 2009, amounted to EUR 21 570 321 and the solvency ratio is 23.55%.

The Bank has unrealised gains as at December 31, 2009 amounting to EUR 1 121 513. These gains relate to its Participations and Available for Sale Equity Instruments. This amount has been deducted from the Bank's Own Funds.

The Bank's subscribed share capital as at December 31, 2009 amounted to EUR 13 170 000 whilst the share premium reserve as at December 31, 2009 amounted to EUR 1 785 209.

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- The Bank has an authorised capital of EUR 40 158 751 divided into 21 900 000 A shares and 5 100 000 B shares without any par value.
- The Bank has an issued corporate capital of EUR 13 170 000 divided into 8 780 000 A registered shares without any par value, fully paid in. In addition the Bank has at its disposal a share premium for a value of EUR 1 785 209.
- The Class A shares entitle holders thereof to dividends. The Class B shares entitle the holders thereof to a cumulative preferential dividend of 0.1% of the nominal value of the Class B shares and to a dividend equal to the dividend declared for the Class A shares.
- Each Class A share is entitled to one vote. The Class B shares do not carry a right to vote except in the circumstances as provided by the law.

5. Capital Adequacy

The CSSF Circular 06/273 permits a bank to calculate a simplified solvency ratio provided their trading activity represents a small proportion of all their activities. In fact the Bank does not hold any trading portfolio and has been granted the authority to apply the simplified ratio methodology by the CSSF.

As at December 31, 2009 the Bank calculated the simplified solvency ratio using the Standard Approach for:

- Credit Risk;
- Exchange Rate Risk.

As at December 31, 2009 the Bank calculated Operational Risk using the Basic Indicator Approach.

The following table provides a breakdown of the capital requirements per risk type as at December 31, 2009:

	EUR
Capital Requirements	11 100 491
Total Capital Requirements For Credit, Counterparty Credit, Dilution and Delivery Risks	7 114 512
Institutions	2 863 102
Corporate	1 788 004
Retail	1 765 917
Secured by Residential Real Estate Property	107
Other items	697 382
Total Capital Requirements for Position, Foreign Exchange and	68 155

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Commodity Risks	
Foreign Exchange	68 155
Total Capital Requirements for Operational Risks	3 917 824

The capital requirements linked to foreign exchange reported in the above table are due to residual uncovered foreign exchange positions as at December 31, 2009.

A more thorough Internal Capital Adequacy Assessment Process (“ICAAP”) analysis has been carried out and documented by the Bank in 2008/2009 and a global risk policy including ICAAP analysis and conclusions will be submitted for approval to the Board of the Bank during 2010.

This risk policy should set overall risk limits by defining what the risk appetite of the Bank should be, area by area, and allocating capital and reserves against the relevant risks identified in order to ensure the Bank has adequate capital for the risks run on a daily basis. The draft ICAAP has been submitted to the CSSF and comments were received and will be incorporated into the updated version.

The ICAAP risk analysis has focused on the following risk areas:

1. Credit risk is one of the most significant risks that the Bank is exposed to. The Bank has included hereunder loan defaults, bad debt on cards, the settlement and counterparty risk, client derivatives risk as well as the country risk. In particular the client loan default risk as well as the country risk (owing to the global financial crisis) have been weighted heavily in the analysis, with the probability of default increasing on customer loans, while at the same time the loss from default arising from country risk materializing, could have been very high.
2. Market risk is estimated as low risk owing to the Bank’s limited activity and exposure to interest and foreign exchange rate fluctuations.
3. Liquidity risk has become a key focus area and the subject of several stress tests during the year. The scenario considered was that of a worst case if the Bank had a run on its deposits. This is in keeping with best practice.
4. Operational risk arises mainly in connection with the Wealth Management and Card businesses. The risk can be considered as being both likely and potentially with a high impact. Although operational risk continues to be of a high concern in an essentially manual environment, strict procedures, controls and a four eyes principle are enforced to contain operational risks.
5. Legal risks arise in all of the Bank’s business areas, but above all in the Bank’s credit card business, which operates internationally in many different jurisdictions and is very contract-driven. Despite its limited size, the Bank is a forerunner in the credit card industry, recognized across the industry for its innovative solutions.

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6. Business risks are mitigated because the Bank is relatively well-diversified.

6. Counterparty Credit Risk

As explained in Section 2.4 above, loans to customers are approved in accordance with the Credit Policy. The majority of lending operations are with private customers; either individuals or corporate entities. In all cases a thorough Know Your Client (“KYC”) process is performed and the risks pertaining to each client are mitigated through the account opening and approval process. Additional guarantees are obtained both at inception of a loan and during the life of the loan.

The Bank calculates credit risk associated with OTC derivative instruments using the initial method to calculate the risk exposure. The Bank does not use credit risk mitigations techniques for such instruments.

The Bank requires that all clients wishing to engage in derivative trading with the Bank, have sufficient funds or liquidity with the Bank to pay any required premiums for long positions. Conversely, any short positions require the client to have sufficient assets with the Bank to cover any commitments. The Bank’s asset valuation principles explained below must always be adhered to.

The Bank may also require margin deposits from the client, to be retained at the Bank, in accordance with its margin requirement policy.

The margin requirement in respect of any position must amount to the aggregate of:

1. 5% of the market price of the option times the number of options, in respect of all option positions held. Daily margin calls/returns are calculated based on price changes of the option.
2. For options that are “in the money” the full difference, in absolute terms, between the strike price of the option and the market price of the underlying, times the number of options and times the ratio between option and underlying. Daily margin calls / returns are calculated based on the price changes in the underlying.

Additional margin requirements may be applied by the Bank in respect of specific positions which the Bank judges to be of higher risk.

Clients are restricted to trade in only:

- Authorized derivative markets & contracts;
- Listed stock options;
- Other derivatives may require authorization from the Bank and be subject to additional, different margin requirements.

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The Bank uses the Banque Et Caisse D'Epargne ("BCEE") in Luxembourg as the bank of choice for trading derivatives on behalf of clients. This is because of its low risk profile, high international reputation and credit standing. This is owned by the State of Luxembourg. Standard & Poor's and Moody's, the international rating agencies, have awarded it AA+/A-1+ and Aaa/P-1 respectively, the best of any financial institution in Luxembourg.

The following table represents the exposure at default of the foreign exchange derivative contracts as at December 31, 2009. At that date, the Bank did not have credit default swap or interest rate derivative contracts.

Derivative Non-Trading Instruments	EUR
Notional Amount	192 780 185
Credit risk exposure – weighting at 2%	3 855 603
Positive Fair Value of the Contracts	1 929 210
Total Exposure Value :	192 778 689
Of which with a residual maturity < 3 months	173 119 689
Of which with a residual maturity > 3 months < 1 year	19 659 000

The purpose of the Fitch rating for the Bank is a requirement from MasterCard regarding the Bank's card issuing and acquiring business. At present the current rating is sufficient for the Bank to operate without any additional collateral guarantees or letter of credit in favour of MasterCard.

In the event of a rating downgrade, this would predominantly affect the Card business. The MasterCard risk matrix sets out certain thresholds which its members must adhere to in order to do business, in particular high risk business. The Bank's own internal assessment of the collateral requirement from MasterCard would be in the range of EUR 5 Mio - EUR 15 Mio, in the event of a downgrade. This is based on the level of volumes relating to issuing and acquiring traffic but also the level of chargeback exposure.

The guarantee could be in the form of physical cash, which would clearly impact the liquidity of the Bank but also restrict its ability to grow organically in other business areas.

Alternatively, MasterCard may require the Bank to have a "Letter of Credit" for a similar value as a guarantee but with a well rated bank.

7. Credit Risk and Dilution Risk

All the exposures reported in this section are based on the default exposure of counterparties of the Bank as at December 31, 2009.

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The exposure value of an asset is equal to its balance sheet value (net of value adjustments and other specific reserves) and the exposure value of an off balance sheet item is equal to its value multiplied by a risk percentage as defined in Chapter 2, Part VII of the CSSF Circular 06/273.

7.1 Distribution by Exposure Classes and Residual Maturity

The following table presents the Exposure Classes and Residual Maturity

	Primary non-trading instruments					EUR
	< 3 months	> 3 months < 1 year	> 1 year < 5 years	> 5 years	No maturity	Total
Instrument class (financial assets)						
Central Banks & Governments	3 974 567	-	-	-	-	3 974 567
Institutions	210 553 166	13 954 766	160 925 685	-	48 982 953	434 416 570
Corporates	24 876 822	2 785 560	-	3 336 356	150 799 017	181 797 755
Real Estate Residential Mortgages	-	2 675	-	-	-	2 675
Retail	13 333 373	14 604 750	839 312	-	48 335 839	77 113 274
Other	-	-	-	-	-13 190 771	13 190 771
Total	252 737 928	31 347 751	161 764 997	3 336 356	261 308 580	710 495 612

7.2 Distribution by Exposure Classes and Geographic Areas

Geographic zone	OECD (*)	Non – OECD	Total
	EUR	EUR	EUR
Central Banks & Governments	3 974 567	-	3 974 567
Institutions	427 705 018	6 711 552	434 416 570
Corporates	163 322 641	18 475 114	181 797 755
Real Estate Residential Mortgages	2 675	-	2 675
Retail	71 421 434	5 691 840	77 113 274
Other	13 190 771	-	13 190 771
Total	679 617 106	30 878 506	710 495 612

(*) The Organization for Economic Co-operation and Development (“OECD”) is an international economic organization of 31 countries. These are countries committed to democracy and the market economy. Most members are high-income economies and are regarded as developed countries.

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7.3 Past Due Exposures

The Bank has a policy to establish specific value adjustments in respect of past due, doubtful and or irrecoverable debts, as deemed appropriate by the Board of Directors.

Value adjustments, if any, are booked in the same currency as the underlying assets and are deducted from the assets to which they relate.

The Bank measures Past Due Exposures differently for each business division. The Corporate & Trust business is predominantly centred on annual services. Therefore it is appropriate to assess outstanding balances once a year on a client by client basis.

The Card business operates in a different way and therefore the methodology has been adapted in line with how the business assesses past due debts. The normal trigger threshold for bad debts is more than 90 days old. The exposures are calculated based on historical annual write offs and non-recovery rates. These past historical statistics are used as a basis for arriving at an average non-recovery rate based on the current total open cases. Debts that are over 90 days old are forwarded onto a debt collection agency in order to recover the full amount of the debt less commission. The non-recovery rate is arrived at by excluding all monies received pertaining to the outstanding debts or by the sale of bad debts.

The Wealth Management business assesses exposures on past due credits on a case by case basis and is reviewed on a quarterly basis. The Bank has only a handful of these cases. The exposures are calculated by comparing the loan principal and interest outstanding against the assets of the customer portfolio.

As at December 31, 2009 the Bank recorded an amount of EUR 1 066 094 value adjustments in relation to either past due exposures and or doubtful / irrecoverable debts.

7.4 Approaches and Methods Adopted for Determining Value Adjustments and Provisions

Asset impairment is recognized when the assets' carrying value amount exceeds its recoverable amount.

A financial asset or a group of financial assets is considered to be impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset. Loss events or events that have an impact on the estimated future cash flows from the financial asset or group of financial assets, which can be reliably estimated. The carrying amount of an impaired asset is reduced to its estimated recoverable amount. The amount of the change in the current reporting period is recognized in the Profit & Loss account.

Impairment tests are regularly performed by the Bank and as at December 31, 2009, these amounted to EUR 1 124 131.

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	Gross value	Impairment	OECD	No maturity
	EUR	EUR	EUR	EUR
Central Banks & Governments	-	-	-	-
Institutions	-	-	-	-
Corporates	206 756	189 737	189 737	189 737
Real Estate Residential Mortgages	-	-	-	-
Retail	2 285 014	921 154	921 154	921 154
Other	13 240	13 240	13 240	13 240
Total	2 505 010	1 124 131	1 124 131	1 124 131

8. Credit Risk Mitigants

Credit risk mitigation is a technique used by a financial institution for the limitation of credit linked to one or more risk positions that the institution has. The Bank will use this technique as specified in Part IX of CSSF Circular 06/273 in order to reduce its capital requirement. The Bank uses the Financial Collateral Simple Method for assessing the appropriate risk weighting for which it receives cash as collateral.

The following table presents a breakdown of the fully adjusted exposure value by risk weighting and exposure classes as at December 31, 2009.

Exposure Class	Risk Weight	Gross Exposure Amount	Fully Adjusted Exposure Value	Risk Weighted Exposure Amount	Capital Requirement
		EUR	EUR	EUR	EUR
Banks	0%	165 231 728	165 231 728	-	-
	20%	273 244 683	178 935 768	35 787 147	2 862 972
	50%	8 749 966	8 749 966	4 374 983	349 999
Corporates	0%	66 223 620	66 223 620	-	-
	20%	93 699 948	4 684 997	936 999	74 960
	100%	26 229 718	474 379	25 755 339	2 060 427
Retail	0%	51 569 776	51 569 776	-	-
	50%	2 850 950	59 641	29 825	2 386
	100%	22 695 223	22 045 471	22 045 471	1 763 638

As the Bank has an association with Fitch rating agency it has decided to nominate Fitch as its Export Credit Agency (“ECA”) in order to rate and assess its counterparties and instruments in accordance with the credit quality steps and risk weights set out in Annex 1 of the Circular.

9. Operational Risk

The total capital requirement for operational risk is calculated by the Bank using the Basic Indicator Approach. As at December 31, 2009 the capital requirement in relation to the operational risk amounted to EUR 3 917 824.

10. Disclosures Linked to the Equity Exposures Not Included in the Trading Book

This section describes the exposures of the Bank in equities from credit institutions and other commercial companies not included in the trading book and therefore classified in the “Available for Sale Financial Assets” category.

These securities are residual positions that are consequently not relevant for the management of the own securities portfolio of the Bank.

As at December 31, 2009 the fair value presented in the FINREP Balance Sheet regarding the Available for Sale equity instruments amounted to EUR 2 647 357, all of which is represented by unlisted securities.

The Available for Sale equity instruments consists of a combination of Participations, as described above in Section 3 amounting to EUR 326 156 plus various other shareholdings amounting to EUR 2 321 239 which are listed in the table below.

Equity Instrument	Value of Shareholding
	EUR
SWIFT	19 250
VISA Class “C”	1 289 952
MasterCard Class “B”	1 012 037
Total	2 321 239

The Bank’s policy regarding its Participations is long term and strategic in terms of business use and development. The valuation methodology is based on the shareholders equity of each entity as at December 31 every year.

The Bank is a member of SWIFT, VISA and MasterCard. As a consequence these respective organizations have gifted various shareholdings to all members globally in accordance with their own internal criteria.

The VISA shares cannot be traded in the open market except within the VISA membership circle. The shares if not sold to another VISA member must be retained for three years until October 2011 thereafter they will convert into A Class shares and can be sold. Being “Grey” market shares, the guidance from VISA to value the cost of the free shares was to use the

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market value of the “A” Class shares but applying a discount to the price of 35% to account for the restrictions imposed on the retention and trading conditions set by VISA. The valuation of these shares each December 31 will be based on the current market value as indicated on Bloomberg.

The MasterCard shares also have similar restrictions to VISA in terms of trading and retention. The shares can only be sold to other MasterCard members. The valuation is based on the market value of the “A” Class shares but applying a discount rate of 6% being an average norm applied by members trading their shares. The valuation is revised each December 31 to take account of changes in market prices, as indicated on Bloomberg. The MasterCard shares can be converted into “A” Class shares after May 31, 2010 and thereafter must be sold. There is no obligation to convert the “B” shares into “A” class shares.

There are no restrictions on the sale of the SWIFT shares. The valuation is based on the market value as at December 31 each year, as indicated on Bloomberg.

The Bank has no set strategy regarding the sale or retention of these shareholdings. It should be noted that the Bank does receive dividends from VISA and MasterCard on a quarterly basis, based on the ‘A’ class share performance.

As at December 31, 2009 the unrealized revaluation gains for these securities amounted to EUR 1 507 209 and the unrealized revaluation losses amounted to EUR 11 162, resulting in a net unrealized revaluation gain amounting to EUR 1 496 047.

During the fiscal year of 2009, the Bank made a realized profit of EUR 207 802 linked to the proceeds and sale of equity instruments classified as Available for Sale.

As at December 31, 2009 the equity exposures not included in the trading book have been disclosed in the COREP calculation under ‘Corporate’ amounting to a capital requirement of EUR 85 678 using the standardized approach.

11. Disclosures Linked to Interest Rate Risk Exposures on Positions Not Included in the Trading Book

The Bank applies the requirements of the CSSF Circular 08/338 in relation to the performance of a stress test in order to monitor the interest rate risk exposures on positions not included in the trading book.

The objective of the stress test is to determine the impact on the own funds of the Bank by an increase or decrease of 200 basis points of the interest rates on the market value of the Bank’s exposures on positions not included in the trading book. The test is performed on a monthly basis and the results are reported to the CSSF on a bi-annual basis.

The risk faced by the Bank is based on the inter-bank lending rate, EURIBOR and LIBOR.

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As at December 31, 2009 an increase of 200 basis points on the interest rates would have a positive impact on the result amounting to EUR 647 717 and a decrease of 200 basis points on the interest rates would have a negative impact on the result amounting to EUR 4 787 636.

12. Disclosures Linked to Securitization

The Bank does not have any securitization positions as at December 31, 2009.