

## **BBH Luxembourg ICLAAP – Pillar III Disclosure**

### **Brown Brothers Harriman (Luxembourg) S.C.A. Pillar III Disclosure for the year ended 31 December 2022**

#### **Introduction**

The regulatory framework pertaining to the capital adequacy of internationally active banks published by the Basel Committee on Banking Supervision in 2004 and 2015 (Basel II and Pillar III) outlines three pillars to ensure stability of the banking system.

Pillar I: Establishes rules for the calculation of minimum capital requirements for credit, market and operational risk

Pillar II: Requires firms and supervisors to establish a position on the need for additional capital to be held against risks not adequately covered in Pillar 1

Pillar III: Provides for market discipline through public disclosure regarding an institution's capital adequacy and the risk profile.

This document serves as Brown Brothers Harriman (Luxembourg) S.C.A's ("BBH Luxembourg") Pillar III public disclosure requirement as set forth in Part Eight of Regulation (EU) No. 575/2013 of 26 June 2013, as amended, ("CRR") as well as CSSF Circular 17/673 relative to the EBA/GL/2016/11. The Pillar III document is intended to allow market participants to assess key information related to BBH Luxembourg's capital, risk exposures and risk assessment process.

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*Disclaimer:*

*In accordance with para. 7 and 8 of the EBA/GL/2016/11, BBH Luxembourg must only comply with the requirements set forth in EBA/GL/2016/11 section 4.2 (general requirements for disclosures), Section B (non-material, proprietary or confidential information) and Section E (timing and frequency of disclosures); section 4.3 (risk management, objectives and policies), Section C (information on governance arrangements); section 4.5 (own funds); section 4.7 (macroprudential supervisory measures); section 4.12 (unencumbered assets); section 4.14 (remuneration) and section 4.15 (leverage ratio).*

	Information to be disclosed	Location	CRR Articles	EBA/GL/2016/11	Additional information
1.	Risk management objectives and policies	Section 3 to Section 12	Article 435	Para. 56 to 60 on governance arrangements	With regards to article 435 (2)(c) BBH has no specific target
2.	Scope of application	Section 1	Article 436		Article 436(b) to (e) are not applicable to BBH Luxembourg, as BBH Luxembourg has no subsidiary
3.	Own funds	Section 13	Article 437	Para. 67	Own funds disclosed according to Annex IV Commission implementing Regulation 1423/2013
4.	Own funds requirements	Section 14	Article 438(c)		None
5.	Exposure to counterparty risk	N/A	Article 439		Not applicable as BBH Luxembourg does not hold instruments which create exposure to counterparty risk.
6.	Capital buffer	Section 14	Article 440	Para. 72	Table re: credit risk distribution.
7.	Indicators of global systemic importance	N/A	Article 441		Not applicable to BBH Luxembourg as BBH Luxembourg is not a G-SII
8.	Credit risk adjustments	Section 15, Section 12	Article 442		None.
9.	Liquidity coverage ratio	Section 18, Section 12 sub-section 6	Article 435(1)(f)		None.
10.	Unencumbered assets	Section 19	Article 443	Para. 124	Excel spreadsheet template provided by EBA/GL/2014/03
11.	Use of ECAs	Section 15	Article 444(a)		None.
12.	Exposure to market risk	Section 12 sub-sections 3, 4 and 5, Section 17	Article 445		None.
13.	Operational risk	Section 12 sub-section 1, Section 16	Article 446		None.
14.	Exposures in equities not included in the trading book	Section 15	Article 447		Not material, full disclosure not necessary in accordance with 432 CRR
15.	Exposure to interest rate risk on positions not included in the trading book	Section 12 sub-section 4, Section 17	Article 448		Not material, full disclosure not necessary in accordance with 432 CRR
16.	Exposure to securitisation positions	N/A	Article 449		Not applicable to BBH Luxembourg as BBH Luxembourg is not engaged in securitisation operations
17.	Remuneration policy	Section 20	Article 450	Para. 133	EBA/GL/2015/22 Please refer to attached remuneration policy disclosure
18.	Leverage	Section 21	Article 451	Para. 134	None.
19.	Qualifying requirements for the use of particular instruments or methodologies	N/A	Articles 452 to 455		Not applicable to BBH Luxembourg, as BBH Luxembourg does not use particular instruments or methodologies

## **Section 1. Scope of Application**

In accordance with CRR Part VIII Pillar III disclosure requirements, BBH Luxembourg produces a formal disclosure on an annual basis in conjunction with its year-end financial reporting. This Pillar III disclosure consists of a qualitative disclosure summarizing management's objectives, policies and procedures for managing risks as well as a quantitative disclosure detailing risk exposures and capital adequacy. Consistent with BBH Luxembourg's Internal Capital and Liquidity Adequacy Assessment Process ("ICLAAP") the Pillar III disclosure is produced by a BBH Luxembourg team comprised of BBH Luxembourg's senior management, Enterprise Risk Management and Finance Department. In addition, BBH Luxembourg's Internal Audit and Compliance Departments carry out periodic independent assessments of the ICLAAP and Pillar III programs.

In accordance with best practice governance standards, this document has been reviewed and approved by the Board of Managers (the "BBH Luxembourg Board") of Brown Brothers Harriman (Luxembourg) S.à.r.l. as the general partner of BBH Luxembourg.

## **Section 2. ICLAAP Methodology**

BBH Luxembourg calculates its capital adequacy ratio as the ratio between own funds eligible to cover risks, and the sum of Credit Risk, Operational Risk and Market Risk capital requirements.

The Pillar I Capital Requirement Regulation ("CRR") calculation adopted by BBH Luxembourg utilises the Standardised Method for calculating the Credit Risk Capital requirement and the Basic Indicator Approach for calculating the Operational Risk Capital requirement. As BBH Luxembourg has no proprietary trading activities, Market Risk is limited to the foreign exchange risk associated with payables and receivables denominated in currencies other than United States Dollars.

In addition to the Pillar I capital calculation, BBH Luxembourg has conducted a comprehensive risk assessment in accordance with Pillar II, to identify potential additional risks and associated capital requirements.

## **Section 3. Risk Management Objectives and Policies**

As from 1 January 2022, BBH Luxembourg's capital exceeds the minimum capital requirements prescribed under Pillar I and adequately covers all risks identified through the Pillar II assessment. This determination is supported by the results of the Pillar I capital calculation and Pillar II analysis conducted by a BBH Luxembourg team comprised of BBH Luxembourg's senior management, Enterprise Risk Management and Finance Department. ICLAAP results are supported by both internal and external risk reviews including a formal Risk and Control Self-Assessment ("RCSA") process, Legal Entity Risk Dashboard, BBH Luxembourg Compliance Monitoring Program, analysis of historical errors, omissions and risk events, and the results of internal audits and external audits, as well as regulatory reviews and reports. The ICLAAP assessment resulted in the following summary conclusions:

- Based upon a comprehensive assessment of BBH Luxembourg's overall risk profile, it was concluded that no additional capital is warranted to supplement the Pillar I CRR.
- BBH Luxembourg is a well-managed and controlled institution. The business strategy set by the BBH Luxembourg Board reflects a conservative risk profile and an aggregate low risk appetite
- BBH Luxembourg's Enterprise Risk Management programme is effective in the timely identification, quantification, monitoring and management of risks associated with business operations.
- As of 31 December 2022, BBH Luxembourg's Pillar I and Pillar II risk exposure amounts to USD 395.2 Mio. Total Own Funds at BBH Luxembourg amount to USD 94.2 Mio, resulting in a capital ratio of 23.83%; exceeding the minimum regulatory requirement of 11%.

- BBH Luxembourg has conducted stress testing and scenario analysis as part of the ICLAAP process. Stress tests conducted relate to significant market declines, the loss of a major client, large growth in gross income, a large operational error, liquidity matters and an aggregation of the recession, loss of a major client and operational error, and restitution of assets scenarios. Results of stress testing indicate that BBH Luxembourg is well positioned, resilient and appropriately capitalised to withstand the effects of stress events.
  - In all scenarios tested, capital levels remain above the minimum regulatory capital/MREL requirement excluding the buffer requirements during 2023, 2024 and 2025,
  - In all scenarios tested, except the growth scenario, the minimum regulatory capital/MREL requirement including the buffer requirements is met over the 3 years horizon,
  - The growth scenario, stressing a significant increase of the gross income, would require additional own funds in 2024 and 2025 to meet the minimum regulatory MREL requirement including the buffer requirement.
- BBH Luxembourg closely monitors its operating environment and capital requirements and would take the actions necessary to both mitigate risks and minimize the impact to capital as appropriate.
- Liquidity risk at BBH Luxembourg is low as evidenced by the balance sheet structure and the high quality of assets. The assets of BBH Luxembourg consist mainly of short-term assets; overnight deposits placed with BBH & Co. and short-term deposits placed with credit institutions (approved by BBH Luxembourg Credit and Risk Committee and Institutional Credit and Risk Committee), receivables and tangible assets (including leased assets following the implementation of IFRS 16 – Lease, which are largely funded by financial liabilities at amortized cost).
- It is noted that the stress tests included in this document are based on a market environment reflecting market conditions as at the end of 2022. These market conditions also encompass the COVID-19 operating environment that BBH Luxembourg has been operating within during 2021.
- From March 2020 on, the COVID-19 pandemic had a significant impact on the day to day operational running of the business. The Bank closely monitored the COVID-19 situation and adjusted client services and operations to ensure the wellbeing of its employees and continuity of its business. As part of BBH's response to COVID-19, BBH had reduced staff presence at all offices, reduced travel to a very strict minimum, cancelled visitors and events, implemented self quarantine, and maintained social distancing within our offices. Our primary mitigation strategy was remote work for over 95% of our employees. A specific stress test related to a pandemic is not included in the scenarios but is considered to be included in the existing scenario (Recession scenario). The Bank continued to operate successfully in a structure designed to meet its business objectives, the continuous delivery of its services to clients and meeting regulatory expectations and requirements. The valuation of the Bank's financial assets as at December 31, 2022 as disclosed in the annual accounts, reflects the economic conditions in existence at that date. The COVID-19 pandemic had not had a material impact on the results or financial position of the Bank, and the Bank continuously assesses how the pandemic affects its exposure to financial and business risks.
- BBH Luxembourg has implemented a Voluntary Return to Office option for all employees from 28 February 2022, followed with three months of progressive Return to Office implementation for all the employees. The BCP situation was concluded and a mandatory return to Office began on 1 July 2022 and this was implemented successfully in line with BBH Luxembourg Hybrid Work Policy, designed by Human Resources. Since 1 July 2022, BBH Luxembourg is operating business as usual.

#### **Section 4. Risk Governance**

BBH Luxembourg's ownership and organisational structure, with an ultimate parent that is organized as a partnership and partners who are personally liable for the Firm's obligations, is a significant driver of BBH Luxembourg's risk management strategy, culture and mindset. The BBH Luxembourg risk management and control framework is governed by policies and procedures approved by BBH Luxembourg Authorised Management and the business strategy of BBH Luxembourg approved by the Board. BBH Luxembourg has an integrated and well-developed governance, risk and internal control infrastructure. Formalised policies and procedures associated with risk identification and assessment are designed to ensure that capital is more than adequate to address regulatory requirements and business objectives.

BBH Luxembourg's Risk Management Policy is designed to support the implementation, administration and execution of BBH Luxembourg's risk management activities so that BBH Luxembourg operates within the boundaries it has set through its Risk Appetite Statement, while providing support in meeting its business objectives, protecting its staff and business assets and ensuring its financial stability. Risk management activities are managed and monitored by Enterprise Risk Management ("ERM") and implemented by dedicated risk management teams at BBH Luxembourg. ERM facilitates the development of best practice risk mitigation strategies across the Firm, as well as enhancing the monitoring, measuring and reporting of risk considerations.

BBH's First, Second and Third Lines of Defense all have a focus on the management of risks and controls. The First Line of Defense is business management. Second Line of Defense consist of Enterprise Risk Management and Compliance, both of whom are independent of the business. The Third Line of Defense, Internal Audit, is independent from both the First and Second Lines of Defense and reports directly to the audit committee.

BBH's governance structure includes oversight committees that are comprised of executives and BBH & Co. partners who represent the business as well as the oversight and control groups. A strong committee framework with well-defined roles and responsibilities is essential to the successful development of a firm's strategy and execution of strategic objectives as well as the implementation of a firm's risk management and corporate governance duties and responsibilities. At the parent level, the BBH & Co. partnership has delegated supervisory oversight, business management responsibility and decision-making authority to a framework of BBH senior committees, which include firm-wide governance and oversight committees and line of business ("LOB") oversight committees, as well as boards of directors and governing bodies at the subsidiary levels. BBH's oversight committees play a critical role in the Firm's risk management process and are chartered with the goal of providing management and oversight of all business lines and functions. Cross business area senior executive participation coupled with oversight and control membership provides these committees with peer review capability as well as a robust and comprehensive overview of all businesses and activities conducted by BBH globally. Committee charters provide detail on delegation authority, roles and responsibilities, quorums and provide the Chair the ability to appoint voting members and invited guests as appropriate.

BBH Luxembourg's governance structure includes oversight and specialised committees which are comprised of BBH Luxembourg executives and BBH&Co. partners with the requisite business acumen to address the business issues of the respective Committee. As such, most committees' membership includes representatives of the business lines as well as representatives from Finance Department, Enterprise Risk Management, Office of the General Counsel, Compliance, Systems, Operations and Human Resources.

BBH Luxembourg's governance structure facilitates risk management oversight via the following:

- **Supervisory Board** - The Supervisory Board is composed of three BBH&Co. Partners who were duly approved by the Commission de Surveillance du Secteur Financier ("CSSF"). The Supervisory Board meets periodically and is responsible for supervising the business of BBH Luxembourg and for approving its Remuneration Policy.
- **Board of Managers of Brown Brothers Harriman (Luxembourg) S.à.r.l. ("BBH Luxembourg Board")** - The BBH Luxembourg Board meets at least three times a year and has overall responsibility for the strategic decisions and management of BBH Luxembourg. The BBH Luxembourg Board ensures execution of activities and business continuity by way of sound central administration and internal governance arrangements, as well as establishment of the business risk appetite, strategy and guiding principles. The BBH Luxembourg Board monitors the implementation by Authorised Management of internal governance strategies and guiding principles and critically assesses the ICLAAP; specifically, the approach and methodology applied, risk assessment results, the overall risk profile of BBH Luxembourg as well as the adequacy of capital resources.

- **BBH Luxembourg Audit & Compliance Committee** - meets at least semi-annually and provides oversight through review of Internal Audit and Compliance reports designed to assess the effectiveness of internal controls, the audit process, Compliance Monitoring Program and the accounting and financial reporting functions. The committee is responsible for ensuring the timely preparation and accuracy of BBH Luxembourg's financial statements and disclosures. The External Auditor reports annually to the Audit & Compliance Committee and its report includes a review of audited financial statements, findings and other matters as required. The committee reports to and is a committee of the BBH Luxembourg Board.
- **The Authorised Management** - is composed of five members ("Direction Autorisée") who are in charge of the effective, sound and prudent day-to-day business and risk management of BBH Luxembourg. The Authorised Management implements, through internal written policies and procedures, the strategies and guiding principles set by the BBH Luxembourg Board in relation to central administration and internal governance and ensures that BBH Luxembourg is in compliance with legal and regulatory requirements taking into account the reports/comments of the internal control functions. The decisions taken by the Authorised Management in these areas are duly documented. Authorised Management has veto rights on any decision made by any BBH Luxembourg specialised committees ("comités spécialisés")
- **BBH Luxembourg Executive Committee** - has primary oversight responsibility for BBH Luxembourg in the name of the Authorised Management. The committee is accountable to Authorised Management and is comprised of Managing Directors and senior executives from BBH Luxembourg. Authorised Management has veto rights on any decision made by the committee. The committee is chaired by one of the members of Authorised Management, normally meets at least monthly and is responsible for matters of client service, relationship management, financial condition and regulatory status of the bank, risk management, regulatory compliance, product strategy and development, regulatory initiatives and market developments, outsourcing arrangements and administrative matters pertaining to the daily management of BBH Luxembourg. Meeting minutes are produced and summarised to the BBH Luxembourg Board by the Authorised Management.
- **BBH Luxembourg Risk and Credit Committee ("LRCC")** - is responsible for the oversight and monitoring of risk matters for BBH Luxembourg. Responsibilities of the committee include the review/ratification of the approval of new clients, services, and accounts for BBH Luxembourg, review of policies and procedures as applicable, and, in coordination with the BBH Institutional Risk and Credit Committee, overseeing the due diligence performed on, and the ongoing monitoring of, the network of subcustodians utilized by BBH Luxembourg for its clients. The Authorised Management has veto rights on any decision made by the committee. This committee reports to BBH Luxembourg Executive Committee.
- **BBH Depositary and Investment Fund Compliance Committee ("DIFCC")** - is responsible for the oversight and monitoring of depositary matters for BBH Luxembourg. Responsibilities of the committee include the periodic review of investment fund compliance breaches, review of depositary duties with respect to regulatory, legal and market developments and oversight of activities relating to third party service providers, client-directed prime broker arrangements and third party bank arrangements utilized by the fund clients. The Authorised Management has veto rights on any decision made by the committee. This committee reports to BBH Luxembourg Executive Committee.



- **BBH Luxembourg Systems Oversight Committee (“LSOC”)** - is responsible for the oversight of Information Technology (IT) and Systems security in accordance with CSSF Circulars 12/552 (as amended) and 13/554 and is chaired by its IT and Information Security Officer. Responsibilities of the committee include (but are not limited) reviewing of exceptions to normal operations (for example an IT-system outage), ensuring that a backup solution in line with business continuity and recovery plans is established, ensuring that BBH Luxembourg data and/or information is protected by having sufficient safeguards to avoid non-authorised access to its system, ensuring that any outsourced activity is clearly documented and complies with the applicable regulatory and legal requirements, reviewing and ratifying the approval/revision of BBH Luxembourg IT infrastructure and organization, including policies and procedures, annual budget, IT programs, and reviewing the list of system projects for BBH Luxembourg. The Authorised Management has veto rights on any decision made by the committee. This committee reports to the BBH Luxembourg Executive Committee.
- **BBH Luxembourg Outsourcing Oversight Committee (“LOOC”)** - is responsible for oversight of BBH Luxembourg’s global model arrangements and for ratifying any enhancements and/or further developments of the global model. Responsibilities include reviewing the performance of business outsource providers, status and appropriateness of contractual arrangements and monitoring compliance with Luxembourg regulatory and internal requirements as well as internal requirements relating to the outsourcing of activities. The Authorised Management has veto rights on any decision made by the committee. This committee reports to BBH Luxembourg Executive Committee.

## **Section 5. Risk Management Infrastructure**

BBH Luxembourg’s risk management infrastructure is supported by First, Second and Third Line of Defence control functions including Enterprise Risk Management, Compliance, Office of the General Counsel and Internal Audit.

### *Sub-section 1. Risk Management*

As noted, Enterprise Risk Management facilitates the development of best practice risk mitigation strategies across the Firm as well as enhancing the monitoring, measuring and reporting of risk. The primary elements of the Enterprise Risk Management program are to:

- Facilitate the continuous assessment, communication and understanding of the Firm-wide risk tolerance and appetite;
- Promote enhanced risk transparency and management reporting to enable informed decision-making; and
- Enhance the ability of personnel to focus on proactively balancing risk and return to create partnership value.

In order to accomplish the above, the responsibilities of the Enterprise Risk Management group include, but are not limited to:

- Coordinating enterprise-wide risk oversight activities;
- Managing the Regulatory Examination Management program;
- Manage and continuously enhance the enterprise wide RCSA Programme;
- Managing the central enterprise-wide database for tracking and reporting risk events, risk issues and incidents;
- Management and implementation of programs designed to identify, report and manage key risks Firm-wide.

BBH Luxembourg has a Chief Risk Officer, who is based in Luxembourg and registered with the CSSF in accordance with regulatory requirements. The BBH Luxembourg Chief Risk Officer provides reports on a regular basis to the BBH Luxembourg Executive Committee, the BBH Luxembourg Board and the Supervisory Board. Additional risk managers are based in Luxembourg and provide risk management coverage to the business areas, products and services.

Key risks and controls are continuously monitored by line management supported by risk manager(s) with oversight provided by business line senior management committees comprised of partners and senior executives. Members of management are required to establish, implement and maintain an effective risk management programme for their business to ensure the ongoing effectiveness of controls. This includes continuous monitoring and evaluation of the business unit's primary activities and major processes in order to identify, document, and implement appropriate control mechanisms for all material risks. It also includes promoting an environment that encourages employees to promptly identify and escalate any risk issues to be addressed in a timely fashion. Managing risk is a continuous process whereby Enterprise Risk Management and business management are identifying and evaluating risks, establishing limits for those risks and building controls to remain within those limits.

### *Sub-section 2. Compliance*

The Compliance function's role is to protect BBH Luxembourg from any consequence that might result from the failure to comply with legal and regulatory rules and to contribute to the efficient management of ensuing risks. The Compliance Department satisfies this objective through the establishment and performance of their annual Compliance Monitoring Program and Compliance Training Plan at BBH Luxembourg. Progress with respect to the annual Compliance Monitoring Program and Compliance Training Plan as well as the status of corrective actions taken by management to address compliance recommendations is reported on a regular basis to BBH Luxembourg Executive Committee, the members of the Audit & Compliance Committee, the BBH Luxembourg Board and the Supervisory Board.

BBH Luxembourg's Compliance Program is designed to identify and mitigate regulatory risks. Where practical, the BBH Compliance Department develops and implements global compliance policies across the Firm. In accordance with BBH's philosophy, responsibility for compliance rests directly with each line of business, with oversight and guidance provided by the Compliance Department.

The mission of Compliance Department includes: (i) serving in an advisory capacity to BBH Luxembourg departments/functions with respect to the structure, conduct and management of their business activities; (ii) educating BBH Luxembourg personnel regarding the laws and regulations applicable to their businesses; and (iii) conducting periodic assessments to ensure that BBH Luxembourg's compliance program continues to remain effective.

Compliance policies are designed to address and mitigate BBH Luxembourg's compliance risks. Compliance policies and relevant procedures are made available to all BBH Luxembourg employees via the BBH Intranet. Compliance training and annual attestations by BBH Luxembourg employees helps to ensure knowledge of and compliance with the Compliance policies.

Compliance also maintains risk assessment and testing policies to ensure that compliance risk is identified, assessed and reported consistently across BBH Luxembourg. On an annual basis, Compliance personnel conduct reviews to ensure that line of business personnel understand the regulatory framework applicable to their business and conduct their activities in conformity with applicable law and regulation. An annual testing plan is developed based on the risk ratings assigned to the compliance obligations set forth in the BBH Luxembourg's compliance risk matrices. In developing a testing plan, Compliance considers findings reported by Internal Audit, comments received from the regulators and auditors, if any, control gaps identified by the line of business through the RCSA process, regulatory pronouncements and actions, litigation and market and regulatory developments. The results of Compliance's reviews are communicated to senior managers in each line of business, Risk Management, Internal Audit and the BBH Governance, Risk and Compliance Oversight Committee.

BBH Luxembourg has a Chief Compliance Officer, who is based in Luxembourg and registered with the CSSF in accordance with related regulatory requirements. The Chief Compliance Officer has full and free access to all members of BBH Luxembourg Governance Committees. The Chief Compliance Officer is entitled to raise concerns, if any, directly to the CSSF.



### *Sub-section 3. Office of the General Counsel (OGC)*

OGC provides legal and regulatory support for the Firm and BBH Luxembourg's global businesses. This group facilitates contract negotiations with clients, counterparties and service providers and provides legal support for the development of new products and services. The group also monitors legal developments and provides guidance to lines of business with respect to legal risks and developments affecting BBH Luxembourg's standing products and services. OGC has dedicated resources based in Luxembourg to support BBH Luxembourg.

### *Sub-section 4. Internal Audit*

Internal Audit provides an independent assessment function over all the Firm's activities to ensure that controls are adequate and continues to be effective in mitigating risks in BBH Luxembourg and across BBH. Internal Audit is independent from the other internal control functions which are subject to audits.

Internal Audit has unrestricted access to all records, documents and facilities necessary for the optimal performance of its duties. All areas of the Firm can be subject to an audit review. Internal Audit has the authority to allocate resources, set audit review frequency, select auditable areas/entities, determine scope of work, and apply the required internal audit techniques to accomplish its objectives. The department operates in accordance with the Institute of Internal Auditors (IIA) standards and industry best practices.

Using a risk-based methodology, the Audit Plan includes a review of those areas that play key roles in supporting BBH Luxembourg's business objectives. Open communication between the audit team and the business line is an important component of the audit process. The Internal Audit team works closely with the management of the various business units to understand business objectives and goals, confirm key risk areas, and identify emerging issues, if any. Communication with management is continuous throughout the audit review process.

Each audit review includes, where applicable, an evaluation and test of the key systems, procedures and controls related to the operating and control environment. The results of each audit are summarised in a report which is presented to BBH Luxembourg's Executive Committee, the BBH Luxembourg Audit & Compliance Committee, and the BBH Luxembourg Board and Supervisory Board. Any corrective actions arising from these reports are tracked and monitored with the status of unresolved issues regularly reported to BBH Luxembourg Executive Committee and the BBH Luxembourg Audit & Compliance Committee at their regularly scheduled meetings.

Internal Audit has full and free access to all members of BBH Luxembourg Governance Committees. Chief Internal Auditor is entitled to raise concerns, if any, directly to the CSSF.

## **Section 6. BBH Luxembourg Board recruitment and selection process and number of directorships**

### *Sub-section 1. BBH Luxembourg Board recruitment and selection process*

BBH Luxembourg has implemented a governance infrastructure which provides for the effective, accountable and prudent management of business activities in accordance with regulatory guidance and industry best practices. With respect to the recruitment, selection and appointment of senior management, BBH Luxembourg has incorporated policies and procedures, which ensure that all members of management possess appropriate qualification and respectability in line with CSSF 12/552 as amended. Formal screening procedures for all candidates include a background investigation comprised of identification verification, employment history for the previous 5 years and an education verification. For high level employment candidates, a credit/bankruptcy check and criminal check is performed as well so as to employ individuals of good background and standing. On-going assertions are required relative to outside business obligations so as to maintain the appropriate level of independence in compliance with the Firm's Conflict of Interest Policy. In addition, BBH Luxembourg is committed to attracting, developing, rewarding and retaining employees to ensure that the Firm has a strong, diverse workforce capable of addressing all current and future business needs. BBH Luxembourg has achieved relatively low turnover levels through employee development and maintaining a challenging, supportive and creative work environment. Additional strategic retention efforts include a robust performance management process, innovative leadership training and targeted development for key talent. BBH Luxembourg strives to continually improve diversity across all levels of management and its employee population. While BBH Luxembourg does not set out formal diversity targets, it believes that the workplace, business and clients are greatly enriched by diversity in the Firm's workforce. Different perspectives and disparate backgrounds provide valuable input to our decision making, maintaining a positive culture and enhancing the Firm's industry standing. BBH Luxembourg, is committed to the principles of diversity and equal employment opportunity for all employees and applicants at all levels.

### *Sub-section 2. Number of directorships held by the members of BBH Luxembourg Board*

Please find below the number of directorships held by members of the BBH Luxembourg Board and Authorised Management:

<b>Name</b>	<b>Number</b>
Jean-Marc Crépin	9
Geoffrey M. Cook	6
Seán Páircéir	8
Kevin W. Stone*	16
Christopher Adams	1
Manuel Dienhart	2
Henri Hackenberg	1
Joseph E. Hendry III	1
Nicholas Graybrook	1

\* 5 of these directorships are for non-affiliated entities of BBH

## **Section 7. Risk Culture**

The BBH Luxembourg Board and senior management work diligently to cultivate an environment that instills in all employees their responsibility for pro-actively identifying, assessing, and mitigating operational, cyber, regulatory, and other business risks, including emerging risks. This culture is foundational in nature, underlying all of the BBH Luxembourg's hard and soft controls.

The culture and infrastructure emphasise compliance and the escalation and mitigation of issues. Employees are encouraged to speak up when they identify a risk issue. This is embedded in the employee's performance evaluation process: employees are assessed on their risk and control mindset and activities. In addition, BBH Luxembourg's remuneration policies and practices are consistent with and promote sound and effective risk management.

While dedicated risk management functions exist, each employee is considered a 'risk manager,' and is expected to ensure that activities and processes are executed in accordance with best practices and regulatory expectations and that they are continuously monitored, evaluated, and enhanced. This aligns with the BBH Luxembourg's Core Values, which requires that all employees act in a principled manner, using teamwork (succeeding through partnership and collaboration), integrity (acting in an ethical and principled manner), and excellence (achieving outstanding performance and results).

BBH Luxembourg is committed to fostering a culture of inclusion, creating an environment where employees feel safe and supported to "speak up" and raise any risks, issues or concerns, and improving the diversity of its workforce. BBH Luxembourg's ability to draw on all dimensions of diversity – race, gender, abilities, cultures, education, personality, backgrounds, and life experiences – ensures it brings more brainpower, insight, and creativity to generate innovative products and solutions while creating the best place to work for its employees.

The Employee Development and Performance (EDP) process and programme supports the risk management programme, as employees are assessed on their performance relating to risk and control matters, such as compliance with BBH Luxembourg's Risk Appetite Statement, policies and ethical standards, conduct risk matters and whether they identify, escalate and resolve risk issues. BBH Luxembourg has also a Risk Culture Case Studies Program in place.

## **Section 8. Statement of Risk Appetite**

BBH is the oldest and largest privately-owned bank in the United States. The partnership structure, in which partners are jointly and severally liable for all business activities at BBH, is a significant motivator in the risk management culture and infrastructure of the Firm. The partners are committed to preserving the long-term value of the Firm, have active involvement in daily management activities, and continuously communicate the Firm's risk appetite and approach.

BBH's 'tone at the top' promotes a collaborative and transparent structure, where the best ideas and collective concerns rise quickly to the top. BBH expects all BBH Personnel to act in a principled manner in alignment with this Risk Appetite Statement and the Firm's Core Values (i.e., Teamwork, Integrity, and Excellence).

BBH Luxembourg's business model and risk profile is conservative in nature, which translates into an overall low risk appetite.

BBH Luxembourg uses the Financial Stability Board definition of Risk Appetite for a shared understanding of its risk appetite: the aggregate level and types of risk BBH Luxembourg is willing to assume within its risk capacity to achieve its strategic objectives and business plan. Setting BBH Luxembourg's risk appetite is not about the elimination of all risks; rather it is about managing risks to acceptable levels in areas where BBH Luxembourg has the appropriate skills, knowledge and experience to take advantage of the opportunities presented. This Risk Appetite Statement is designed to provide a framework to properly align BBH Luxembourg, personnel and business activities with the risk appetite: it facilitates the management of what BBH Luxembourg does and does not want to do, to provide that BBH Luxembourg takes only the appropriate amount of manageable risk in order to achieve its strategic objectives.

Risk management is a fundamental, highly important aspect of everything BBH Luxembourg does; it is a continuous process whereby BBH Luxembourg Personnel are responsible for identifying and evaluating risks, operating and building controls to remain within those defined levels, and for escalating where defined levels are breached. BBH's low risk appetite is a key component of its risk culture, its decision-making and escalation processes, and the understanding of its own performance.

- a. BBH Luxembourg Personnel are aware of the existence of the defined levels of acceptable risk, are formally assessed on their ability to operate within the framework of this Risk Appetite Statement in their Year-End Employee Development and Performance (EDP), and understand the associated consequences (i.e., among other things, subject to local laws, may be disciplined, up to and including termination, for conduct that is in contravention of the Statement). Specifically, BBH Personnel are assessed on: Operating within the framework of BBH Luxembourg's Risk Appetite Statement, including (i) being aware of and complying with laws, regulations, BBH policies and ethical standards applicable to that person's business activities and job responsibilities, including policies and procedures maintained by Compliance, Human Resources, Office of the General Counsel (OGC), Systems and the Lines of Business (LOB); and (ii) ensuring all clients, products and services are subject to a robust risk assessment and appropriate approval processes.
- b. Taking appropriate steps to ensure BBH Luxembourg policy violations and risk management issues are promptly identified, appropriately escalated to, and worked on with, management, Enterprise Risk Management (ERM) and/or Compliance, as applicable, so that matters are resolved in a timely fashion.
- c. Completing mandatory BBH training and certifications (for self and staff, as applicable) within the mandated timeframes, as required by Compliance, Human Resources, Systems and LOBs, and/or obtaining and maintaining applicable registrations, licenses, and other relevant professional certifications.

The Risk Appetite Statement leverages Line of Business and Firmwide oversight and governance structures and their policies and procedures in setting qualitative and quantitative limits and monitoring compliance therewith. This Risk Appetite Statement outlines BBH Luxembourg's risk appetite in each of the following risk categories to arrive at an overall low risk appetite:

- Compliance Risk
- Strategic Risk
- Reputational Risk
- Credit Risk
- Market and Interest Rate Risk
- Liquidity Risk
- Operational Risk
- Technology, Cyber and Electronic Data Management Risk

The risk appetite statement is reviewed and approved by the BBH Luxembourg Executive Committee and Board at least annually. Enterprise Risk Management facilitates the continuous review and updating of this statement as well as reporting as appropriate.

BBH Luxembourg's risk appetite can be summarized as follows:

**Compliance Risk:** BBH Luxembourg's appetite for Compliance Risk is low. To protect BBH Luxembourg and its clients from legal, financial, operational and reputational risks, all BBH Luxembourg personnel act in a principled manner aligned with the Risk Appetite Statement for Risk, Statement of Principles Regarding Anti-Money Laundering and Sanctions, and Core Values. To this end, employees and Partners are evaluated in their Year-End EDP in relation to the compliance with policies, procedures and ethical standards and identification and prompt escalation of risk matters.

**Strategic and Reputational Risk:** All BBH Luxembourg associates are committed to preserving the reputation and long-term value of one of the oldest privately-owned banks in the United States. As previously noted, the Partners are jointly and severally liable for all business activities, inherently leading to a low appetite for Strategic Risk and Reputational Risk.

BBH Luxembourg recognizes the need to support a clear linkage among business strategy, reputational risk and risk management to be able to effectively identify and manage risks globally. BBH Luxembourg strives for mutual trust in relationships with clients, counterparties and third-party providers and manages Strategic Risk and Reputational Risk through a comprehensive governance, risk and compliance framework. BBH Luxembourg has also a low risk appetite for Climate Risk.

**Climate Risk:** BBH Luxembourg has a low risk appetite for Climate Risk due to the limited nature of BBH Luxembourg's business activities; BBH Luxembourg does not engage in lending, investment banking or investment activities that could potentially be impacted by climate change.

**Credit Risk:** BBH Luxembourg's appetite for Credit Risk is low as BBH Luxembourg does not extend credit. Credit Risk is primarily inherent in exposures resulting from client receivables/accruals, funds placed with financial institutions

**Market and Interest Rate Risk:** BBH Luxembourg's appetite for Market Risk is low. BBH Luxembourg has no proprietary trading activities. Market Risk at BBH Luxembourg is comprised of Interest Rate Risk and Foreign Exchange Risk. Interest Rate Risk is low and associated with interest-bearing assets that are short term in nature. On the liability side, the financial liabilities measured at amortised cost are leasing liabilities. Foreign Exchange Risk is low and is associated with payables and receivables denominated in a currency other than the United States Dollar.

**Liquidity Risk:** BBH Luxembourg's appetite for Liquidity Risk is low as evidenced by the balance sheet structure and the high quality of assets. The assets of BBH Luxembourg consist mainly of short-term assets (receivables and overnight deposits placed with BBH & Co. and short-term deposits placed with credit institutions approved by Luxembourg Risk and Credit Committee.

**Operational Risk:** BBH Luxembourg has a low appetite for Operational Risk. Operational Risk is defined, utilizing the Basel standards, as the risk of loss resulting from inadequate or failed internal processes, people, systems and/or external events. The definition includes legal risk, which is the risk of loss resulting from failure to comply with laws, prudent ethical standards and contractual obligations.

While Operational Risk cannot be completely eliminated, it is the objective of BBH Luxembourg to minimize, to the extent possible, the occurrence of operational losses and operational risk events. BBH Luxembourg's internal control infrastructure, including policies, procedures and systems, are designed to mitigate the impact and/or probability of the occurrence of operational risks inherent in its activities.

**Technology, Cyber and Enterprise Data Management Risk:** BBH Luxembourg increasingly relies heavily on technology to carry out our core mission. Information systems and policies surrounding technology must support BBH Luxembourg functions with sufficient capability, capacity, resiliency, and security from internal and external threats. BBH Luxembourg will ensure that a robust technological infrastructure with effective and enforceable controls meet the operational needs while maintaining a low to moderate risk profile. Cybersecurity Risk is inherent in BBH Luxembourg activities. BBH Luxembourg's cyber risk management program is continuously evolving to meet the constantly changing and increasingly sophisticated, cyber risk environment. While cyber risk cannot be fully mitigated, BBH has implemented a global program that is designed to proactively address threats and the changing global cyber landscape through mitigating activities including technology solutions, policy and procedural controls as well as on-going training and awareness of all associates. In addition, BBH Luxembourg has a regulated client base that is required to maintain appropriate cyber defenses as well.

As a summary, BBH&Co. and BBH Luxembourg has no external financing or borrowing requirements. BBH Luxembourg does not trade on its capital base or take principal trading positions. The overall appetite of BBH Luxembourg for credit, market (including interest rate risk), liquidity and operational (including technology, cyber and electronic data management) risks is low and the main drivers for all these risk types are detailed in the relevant sections of the ICLAAP document.



BBH Luxembourg targeted maintenance of an internal target capital ratio of 14% and a Minimum Requirement for own funds and Eligible Liabilities (“MREL”) ratio of 21.75%. This approach is designed to provide both a buffer for unexpected events or financial results as well as to accommodate future business growth and expansion.

Enterprise Risk Management provides the framework for and ongoing guidance associated with the risk management. At a strategic level, the Program is designed to identify risks that may affect BBH Luxembourg to ensure that these risks are being managed in line with the BBH Luxembourg’s risk appetite.

## **Section 9. Risk Assessment and Analysis**

BBH Luxembourg, working with Enterprise Risk Management, have reviewed and assessed the risks inherent in the business. This included an analysis of the results of the RCSA process, BBH Luxembourg’s Compliance Monitoring Programme and an analysis of BBH Luxembourg’s metrics. As a result of this assessment and analysis, BBH Luxembourg is considered not to have significant residual risk exposures requiring additional capital in any risk category. A descriptive analysis of BBH Luxembourg’s main risk exposures follows.

## **Section 10. Overall Risk Assessment**

### *Sub-section 1. Risk and Control Self Assessment Process (“RCSA”)*

The business activities discussed in detail in the ICLAAP are subject to the RCSA process. The RCSA is a key component in the identification, assessment and management of business operational risks by business management. Significant business operational risks are identified and assessed initially on an inherent risk basis. The design and effectiveness of existing internal controls is then evaluated, taking into consideration relevant Internal Audit, Compliance, regulatory, and external audit findings; financial and non-financial risk events related to a control limitation or deficiency are also evaluated. Finally, a residual risk rating is determined. Moderate, Elevated and High residual risk ratings may require further evaluation, specifically to identify if escalation of a control gap and remedial action plans are required.

The RCSA is updated on an ongoing basis to reflect changes to the business operations and associated risks and control environment and are required to undergo a formal review by business management and various independent areas at least annually. A rollup of the results of the RCSAs are presented to the Executive Committee annually for review and approval. The Risk & Credit Committee (via its Luxembourg Risk, Control and Governance Forum) monitors progress of open RCSA control gaps, and the Executive Committee receives periodic status updates of control gaps.

### *Sub-section 2. Risk Dashboard, Metrics and Reporting*

Risk related matters and risk related metrics are reported monthly to the BBH Luxembourg Executive Committee and quarterly to BBH Luxembourg Board. Risk Dashboards include reporting on risks relating to the regulatory environment, production availability & cyber security, data governance / incidents, the workforce, Anti-Money Laundering Know-Your-Customer matters, outsourcing, new clients/products/services, and operational matters. These risk categories are aligned to global risk reports and are reviewed periodically to ensure they remain relevant. Additional items are also discussed during and reported to the LRCC; with the LRCC having met 11 times during 2019.

Material risks are also escalated to the BBH Luxembourg Board and/or other relevant oversight committees by various functions, including Enterprise Risk Management via the following means:

- Management information reporting by departments
- Audit observations and remedial action plans;
- Enterprise Risk Management reporting;
- Compliance reports
- Finance Department reports including Large Exposures reports.

### *Sub-section 3. Stress Testing Framework*

BBH Luxembourg has implemented a Board-approved Stress Testing Framework. The Stress Testing Framework is reviewed on an ongoing basis to consider and reflect operating conditions and relevant stress testing requirements. The Stress Testing Framework was presented to and approved by the BBH Luxembourg ICLAAP and BRRD (“Banking Recovery and Resolution Directive”) Working Groups, Authorised Management/BBH Luxembourg Executive Committee and the BBH Luxembourg Board in March 2022 and 2023.

The Stress Testing Framework includes:

- Background information
- Detail related to Scenarios, Sensitivity Analysis and Reverse Stress Tests
- Responsibilities, Authorities and Delegated Authorities
- Timing and Frequency for Stress Testing
- Stress Testing/Scenario Generation Process
- Reverse Stress Testing Process

Stress tests are considered an important part of BBH Luxembourg’s risk management practices and are seen by senior management as a means to better understand the potential risks facing BBH Luxembourg. BBH Luxembourg’s stress tests are forward looking, employ multiple scenarios and inform decision-making. They assist in providing BBH Luxembourg the ability to spot emerging risks, may highlight areas in need of attention and allow management to take appropriate preventative actions, where appropriate.

BBH Luxembourg stress tests facilitate a determination as to whether BBH Luxembourg has sufficient capital that could result from adverse situations and/or stressed economic conditions. BBH Luxembourg views stress testing as one source of forward-looking information that can help identify downside risks and assess the potential impact of adverse outcomes on capital adequacy.

The BBH Luxembourg Board, as well as senior management, use the results of the stress tests when conducting capital planning, assessing capital adequacy and liquidity, evaluating risk management processes/practices and making strategic decisions. Senior management might also use the stress test results to determine whether additional analytical techniques and exercises are appropriate to employ in identifying, measuring, and monitoring risks. The Board and senior management are engaged in the stress testing process and there is ongoing collaboration with various governance groups and business functions. Business/strategy planning of BBH Luxembourg takes into account, and is aligned with ICLAAP, where applicable. The stress testing and scenario process also inform decisions relating to risk appetite and de-risking. BBH Luxembourg continuously enhances its stress testing/scenario modeling process.

The BBH Luxembourg Board and senior management also use stress testing as a risk management and oversight tool. While senior management reviews and challenges the final results, they are also actively involved in the process, including scenario design, assumptions, implications and results, understanding model limitations and formulation of potential management actions where applicable.

ICLAAP is subject to the review of senior management, as well as independent review by other control functions including Internal Audit, Compliance and Enterprise Risk Management. Senior management and the Board have the necessary experience and knowledge to provide robust input into the stress testing process.

BBH Luxembourg’s Stress Testing Framework is administered under the joint guidance of the Chief Risk Officer and Finance Department. There is integration between the stress testing process and other disciplines, such as business/strategy planning and risk management. Stress testing is also aligned to other strategic management processes such as competitive positioning, asset growth, pricing and distributions and risk appetite.

#### *Sub-section 4. Stress Test Scenarios*

As evidenced through actual financial results and the ICLAAP process, BBH Luxembourg's business model and risk profile is conservative in nature, which translates into an overall low risk appetite. BBH Luxembourg's business strategy is focused on core Custody, Depositary, Fund Accounting, Fund Administration and Transfer Agency services; activities that are relatively stable in different market environments as evidenced by recent performance.

BBH Luxembourg has conducted stress analysis using multiple scenarios that include:

- a significant and unexpected growth in revenues and income;
- a significant recession;
- the loss of a major client and loss of multiple clients;
- a large operational loss;
- aggregation of the significant recession, loss of client and operational loss scenarios;
- client receivables not received over an extended period; and
- restitution obligation of the depositary set out under AIFMD and UCITS V Directive.

BBH Luxembourg's minimum regulatory capital requirement is estimated to be 11%. Corresponding to an 8% minimum requirement, an additional conservation buffer of 2.5% and a countercyclical buffer of 0.5% on Luxembourg exposures). BBH Luxembourg's internal capital planning includes an additional capital buffer of 3% to the minimum regulatory capital requirement, bringing the internal target capital ratio to 14%. The Minimum Requirement for own funds and Eligible Liabilities for 2022 amounts to 16.23%, with the additional countercyclical and conservation buffers requirements reaching 19.23%. BBH Luxembourg's internal MREL requirement is set at 21.75% for 2022.

Results of stress testing indicates that BBH Luxembourg is well positioned, resilient and appropriately capitalised to withstand the effects of stress events. In all scenarios tested, capital levels remain above the minimum regulatory capital and MREL requirements excluding the buffer requirements over a 3-year horizon. When including the buffer requirements, additional capital would be required in 2024 and 2025 under an extreme growth scenario. BBH Luxembourg closely monitors its operating environment and capital requirements and would take the actions necessary to both mitigate risks and minimize the impact to capital, where appropriate.

BBH Luxembourg has the following frameworks/documents reviewed, updated and approved by BBH Luxembourg Board on an annual basis:

- BBH Luxembourg Stress Testing Framework
- BBH Luxembourg Concentration Risk Management Framework
- BBH Luxembourg Asset Encumbrance Risk Management Framework
- BBH Luxembourg ICLAAP and Pillar III Procedure

### **Section 11. Adoption and Review of the ICLAAP**

Utilisation of the ICLAAP methodology relates to enhanced capital planning, scenario analysis, and risk management practices and continues to evolve to accommodate both regulatory and market changes.

As a result of the continuous enhancement of the ICLAAP process, BBH Luxembourg conducts a RCSA at the legal entity level. This exercise supplements the various business and product level RCSAs. In addition, the ICLAAP process and methodology is being continually integrated into BBH Luxembourg's overall decision-making process; specifically, as it relates to new business review and approval, and capacity planning. Management continues to explore opportunities to leverage the ICLAAP to align strategic objectives with the risk appetite and influence related behaviours.

Testing and review of the ICLAAP processes have taken place on multiple levels. The management team of BBH Luxembourg, in conjunction with Finance Department and the Enterprise Risk Management, have reviewed all components of the ICLAAP. BBH Luxembourg's Compliance function provides on-going oversight of changes to ICLAAP regulatory guidance to ensure that BBH Luxembourg continues to comply with requirements and best practice guidelines. Presentations and update of capital calculations are provided to the BBH Luxembourg Board on a quarterly basis.

The Firm's Internal Audit group has developed an audit plan as detailed within the ICLAAP requirements. Internal Audit has provided independent oversight and testing of critical components of the ICLAAP program and provided formal reports to the BBH Luxembourg Board and to the BBH Luxembourg Audit and Compliance Committee. In addition, BBH Luxembourg has engaged external consultant groups to review its ICLAAP methodology and provide feedback related to best practices.

BBH Luxembourg cultivates an environment that ensures all BBH personnel take responsibility for managing risk, including ensuring that effective risk management policies and procedures are implemented within their respective areas of responsibility and that such policies, procedures and controls are continually monitored and assessed. This includes annual update and approval of risk related policies and procedures, as well as the continuous monitoring and evaluation of the business unit's primary activities and major processes in order to identify, document, and implement appropriate control mechanisms for all material risks.

BBH Luxembourg has processes in place to ensure all Risk Events (error and omissions that may or may not have a financial impact, including 'near misses') are recorded in the Firmwide Risk Event Database in line with the Risk Event Management Policy. The Risk Event Programme is a foundational component of BBH Luxembourg's risk management program and is designed to provide a process to (i) capture and report identified Risk Events in a consistent and timely basis and (ii) identify, analyse and minimise risks and control deficiencies to prevent reoccurrence. Risk Event data summary updates are reported to senior management on a monthly basis within the Legal Entity Risk Dashboard and quarterly to the Board. Details are also discussed in various risk and governance related forums.

In addition, escalation protocols are in place to ensure timely communication and resolution of Risk Events, Fraud Attempts and Data Incidents.

Monthly reports produced by Enterprise Risk Management that include metrics and trends, as well as causal factors and risk mitigation action plans, if required, are provided to the BBH Luxembourg Executive Committee and Board, Enterprise Risk Management, Compliance and Internal Audit.

## **Section 12. Material Risks and Risk Mitigation**

The risks inherent in BBH Luxembourg's business activities are primarily Operational Risk and Credit Risk. Market Risk is relatively immaterial due to the limited scope and nature of related exposures. Liquidity Risk is low due to the nature of activities conducted and structure and composition of the balance sheet.

### *Sub-section 1. 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. This definition includes legal risk but excludes strategic and reputational risk. Subcategories of Operational risk are defined as follows:

- Process: The risk of loss resulting from a lack of processes, inadequately designed processes or ineffectively implemented process.
- People: The risk of loss resulting from insufficient staff resources, inadequately skilled staff, ineffectively managed staff, unethical or illegal staff behaviour (including internal fraud) or staff health and safety issues.
- Systems: The risk of loss resulting from inadequately designed systems, inadequate capacity of systems, ineffectively implemented or maintained systems, system intrusion or unauthorised access or information security violation.
- External Event / Business Continuity Planning (BCP): The risk of loss resulting from natural disasters, human initiated damage or disasters, external fraud or theft or vendor/supplier interruption, withdrawal, or termination of service. The Event Response Management Process focuses on monitoring significant events that may impact investment or related activities in a given market.
- Legal Risk: The risk of loss resulting from: failure to comply with laws as well as prudent ethical standards and contractual obligations, product defects or flaws, improper business or market practices or breach of fiduciary, suitability, or disclosure obligations.

Operational Risk is monitored on a continuous basis by line of business management, dedicated risk managers, the responsible oversight committee(s) and through the RCSA process for each business and area of operations. Policies and procedures have been established for various operational functions/activities and they are updated continually in response to changes in the operating environment. The adequacy and effectiveness of policies and procedures are also tested on an ongoing basis through the internal audit process, the internal Compliance Monitoring Program, the Report on Controls over Custody and Securities Lending Services, the Report on Controls over Fund Accounting and Fund Administration Services and the Report on Controls over Transfer Agency Services.

Operational Risk is inherent in the primary businesses of BBH Luxembourg (Custody and Depositary, Fund Accounting, Fund Administration and Transfer Agency). These are also the primary business activities conducted by BBH & Co. on a global basis. In an effort to leverage operational efficiencies, as well as the risk and control infrastructure in place at BBH&Co., BBH Luxembourg is supported in executing certain processes relating to these primary businesses by BBH&Co. The ICLAAP includes a detailed analysis of Operational Risk, including Outsourcing Risk, and includes a review of BBH Luxembourg's risk infrastructure, and an overview of the RCSA process, Legal Entity Risk Dashboard, Internal Audit and Compliance Monitoring Programs. Results of this assessment, including the controls and processes in place at BBH & Co., indicate that residual Operational Risk is considered low and that no additional capital is required to support it. An analysis of historical operational loss data validates this conclusion.

Operational Risk is one of BBH Luxembourg's principal risks with timeliness and accuracy key within the daily deliverables. Operational risk failures can lead to the inability to exercise control over fund assets, including failure to perform cash flow monitoring, verification of ownership of fund assets, and safekeeping of fund assets. Operational risk failures can lead to the requirement to replace, or compensate the market value of, financial instruments lost from its safekeeping. Suitably designed processes and controls are implemented to reduce operational risk. Outsourcing is a key element of Operational Risk within BBH Luxembourg, as a number of processes relating to daily deliverables are outsourced to various locations, including other BBH entities.

BBH Luxembourg incurs Legal, Regulatory and Fiduciary Risk in its provision of regulated depositary services. The Depositary is responsible for cash flow monitoring, verification of ownership of fund assets, and safekeeping of fund assets. It is subject to near strict liability on loss of financial instruments held by it in custody, responsible for returning identical financial instruments or the corresponding value to the Fund without undue delay, even if the instruments were held in custody by a sub-custodian.



BBH Luxembourg recognizes the potential threat of cybercrime to its business and has therefore engaged the extensive Cyber Security Program of its parent company, BBH&Co (the Firm). In order to meet the objective of increased cyber resiliency, the Firm established and continues to enhance its Cyber Security Program, which follows the core tenets of govern, protect, detect, respond and recover. The program coordinates a broad range of constituents across the bank, such as Systems, Systems Risk, Cyber security, Security Operations Team, the Privacy Officer, Compliance, Office of General Counsel, Enterprise Risk Management, and the lines of business globally to maintain and enhance cyber security policy, procedures and functions.

The Cyber Security program was designed to proactively address new threats and a quickly changing global regulatory landscape. Industry best practices, guidance and regulations are used as benchmarks by the cyber security program to assess and improve the Firm's posture.

BBH manages cyber risk as a business risk, not purely as an IT risk. There is consistent and coordinated communication of the Cyber Security Program across the lines of business and offices globally, resulting in awareness and common strategy. BBH consider cyber risks during many of our business processes such as, but not limited to, the New Product Launch Process (NPLP), Vendor & Network management, and Firm-wide training and awareness. BBH Luxembourg has a regulated institutional client base, which are also required to have appropriate cyber defences.

#### *Sub-section 2. Credit Risk*

Credit risk is low and primarily inherent in exposures resulting from client receivables/accruals and funds placed with Banque et Caisse d'Epargne de l'Etat ("BCEE"), Banque Internationale à Luxembourg ("BIL"), Hong Kong and Shanghai Banking Corporation ("HSBC") Continental Europe, Banque Centrale du Luxembourg ("BCL") and BBH & Co, and lastly, exposures resulting from tangible assets (including leased assets following the implementation of IFRS 16 – Leases).

Deposits placed with BCEE, BIL, BCL, HSBC Continental Europe and BBH & Co: Monitoring the creditworthiness of these counterparties and/or related risk matters is performed by Institutional Risk Analysis and Administration. The creditworthiness is monitored by a combination of credit reviews and the inclusion of relevant issues in an internal weekly publication, as applicable. This work is overseen by IRCC and LRCC.

#### *Sub-section 3. Market Risk*

BBH Luxembourg has no proprietary trading activities. Market Risk at BBH Luxembourg is comprised of Interest Rate Risk and Foreign Exchange Risk.

Interest Rate Risk is associated with interest-bearing assets that are short term in nature. On the liability side, the financial liabilities measured at amortised cost are leasing liabilities.

Market Risk is also comprised of Foreign Exchange Risk associated with payables and receivables denominated in a currency other than the United States Dollar.

For the purpose of the Pillar I capital assessment, only Foreign Exchange risk is included in the Market Risk calculation. Interest Rate risk is addressed in the Bank's Interest Rate Risk Management Framework as well as in the capital planning activities as detailed in the ICLAAP document.

An assessment of Market Risk indicates that inherent and residual Market Risk is not considered material and no additional capital is required to support it.

#### *Sub-section 4. Interest Rate Risk*

Interest-bearing assets mainly consisted of overnight balances and short-term balances with credit institutions. Given the short-term nature of interest-bearing assets, fair value valuation of these items due to a shift in interest rates was not considered significant. On the liability side, the financial liabilities measured at amortised cost are leasing liabilities.

#### *Sub-section 5. Foreign Exchange Risk*

Net exposures in currency other than the USD are mainly made of fees receivable, fee accruals as well as of financial lease liabilities in Euro.

BBH Luxembourg does not trade in foreign exchange or otherwise maintain foreign exchange positions other than to pay for foreign currency related expenses.

#### *Sub-section 6. Liquidity Risk*

Liquidity Risk is the risk to earnings or capital arising from the Firm's inability to meet obligations when they come due, without incurring unacceptable losses. Liquidity Risk includes the inability to manage unplanned decreases or changes in funding sources. Liquidity Risk also arises from the Firm's failure to recognise or address changes in market conditions that affect the ability to liquidate assets quickly and with minimal loss in value.

Liquidity risk at BBH Luxembourg is low as evidenced by the balance sheet structure and the high quality of assets. The assets of BBH Luxembourg consist mainly of short-term assets; receivables, overnight deposits placed with BBH & Co., short term deposits placed with credit institutions (approved by LRCC) and tangible assets (including leased assets following the implementation of IFRS 16 – Lease).

Short term liabilities mainly consist of payables to BBH & Co. for services rendered, and various staff/vendor payables and accruals. On the liability side, the financial liabilities measured at amortised cost are leasing liabilities resulting from the implementation of IFRS 16 – Lease.

In addition, risks associated with US dollar denominated funding are considered low as related funding is provided by BBH & Co. and considered long term in nature to support primarily short-term assets.

BBH Luxembourg does not extend or receive loans.

### Section 13. Capital Structure (12/2022) – Quantitative Disclosures

Own funds eligible to cover risks as well as the reconciliation of own funds with the audited financial statements are as follows:

	CRR/CRD V fully loaded in USD / in % (as at 31/12/2022) (*)
<b>Common Equity Tier 1 capital: instruments and reserves</b>	
1 Capital instruments and the related share premium accounts	36,500,000
2 Retained earnings	8,160,251
3 Accumulated other comprehensive income (and other reserves)	49,026,560
<b>6 Common Equity Tier 1 (CET 1) capital before regulatory adjustments</b>	<b>93,686,811</b>
<b>Common Equity Tier 1 (CET 1) capital: regulatory adjustments</b>	
25 Deferred tax assets arising from temporary differences	(119,640)
28 Total regulatory adjustments to Common Equity Tier 1 (CET 1)	(119,640)
<b>29 Common Equity Tier 1 (CET 1) capital</b>	<b>93,567,171</b>
<b>45 Tier 1 capital (T1)</b>	<b>93,567,171</b>
<b>Tier 2 (T2) capital: instruments and provisions</b>	
46 Capital instruments and the related share premium accounts	590,000
51 Tier2 (T2) capital before regulatory adjustments	590,000
<b>58 Tier 2 (T2) capital</b>	<b>590,000</b>
<b>59 Total capital (TC = T1 + T2)</b>	<b>94,157,171</b>
<b>60 Total risk weighted assets</b>	<b>395,201,296</b>
<b>Capital ratios and buffers (%'s)</b>	
61 Common Equity Tier 1	23.68%
62 Tier 1	23.68%
63 Total capital	23.83%
64 Institution specific buffer requirement	2.99%
65 of which: capital conservation buffer requirement	2.50%
66 of which: countercyclical buffer requirement	0.48%
<b>Audited Financial statements</b>	<b>95,233,594</b>
<b>Own funds (excl. result of the year)</b>	
Subscribed Capital (inclusive share premium)	37,090,000
Reserves	48,752,287
Retained Earning	9,391,307
<b>Reconciliation of difference between audited financial own funds and eligible own funds for the capital ratio</b>	
Cumulative IFRS adjustments (excl. current year result adj) (**)	(956,783)
Deferred tax assets deduction	(119,640)
	<b>(1,076,423)</b>

(\*) CRR/CRD V phased in and fully loaded are identical

(\*\*) IFRS adjustments consist of adjustments regarding IFRS 9 Financial instruments, defined benefit pension plan, provisions and IFRS 16 Leases.

Paid up capital instruments included in common equity Tier 1 are ordinary shares. Paid up capital instruments included in Tier 2 capital are preference shares.

BBH Luxembourg has no subsidiaries and there is no accounting consolidation. No prudential filters pursuant to articles 32 to 35 of the CRR are applicable to BBH Luxembourg. The Bank deducts all deferred tax assets from eligible own funds and has no other item to deduct.

BBH Luxembourg does not calculate ratios on a basis other than the one set by the CRR.

## Section 14. Risk weighted assets and capital ratio

Risk weighted assets and minimum capital requirements as of 31 December 2022 are further detailed below:

<i>in USD</i>	RWAs	Minimum capital requirements
<b>1 Credit risk (excluding CCR)</b>	<b>102,412,974</b>	<b>8,193,038</b>
2 of which the standardised approach	102,412,974	8,193,038
<b>6 Counterparty credit risk</b>	-	-
<b>13 Settlement risk</b>	-	-
<b>14 Securitisation exposures</b>	-	-
<b>19 Market risk</b>	<b>24,132,116</b>	<b>1,930,569</b>
20 of which the standardised approach	24,132,116	1,930,569
<b>22 Large exposures</b>	-	-
<b>23 Operational risk</b>	<b>268,656,206</b>	<b>21,492,496</b>
24 of which basic indicator approach	268,656,206	21,492,496
<b>29 Total</b>	<b>395,201,296</b>	<b>31,616,104</b>

The total capital ratio as of 31 December 2022 is 23.83%.

## Section 15. Credit risk capital requirements as at 31 December 2022 – Standardized Approach

Exposure class (in USD/%)	Gross exposures	Value adjustments	Net Exposure	Risk Weight	Risk Weighted Exposure	Capital requirement (8%)
Central Governments/Central Banks	22,730,376	-	22,730,376	0%	-	-
Institutions	26,489,520	-	26,489,520	20%	5,297,904	423,832
Corporate	71,499,471	-	71,499,471	100%	71,499,471	5,719,958
Exposures in default	2,253,921	(13,033)	2,240,888	150%	3,361,333	268,907
Other items	38,061,004	(15,806,738)	22,254,266	100%	22,254,266	1,780,341
					<b>102,412,974</b>	<b>8,193,038</b>

Other items are mainly composed of tangible fixed assets including leased assets following the implementation of IFRS 16 – Lease.

Value adjustments on “exposures in default” consist of IFRS 9 impairment for KUSD 13 on Luxembourg domiciled exposures. Value adjustments on “other items” are made of depreciation on tangible fixed assets (including Lease assets) for USD 15.8 mio.

BBH Luxembourg does not use credit risk mitigation technique.

BBH Luxembourg does not use any Internal risk-based approach for calculating the credit risk capital requirement.

The distribution of credit risk by location by exposure class as at 31 December 2022 is as follows:

Exposure class (in USD)	Net Exposure	Net exposure by country			
		LU (0.50%)	US (0%)	GB (1%)	Other (without Countercyclical buffer)
Central Governments/Central Banks	22,730,376	22,730,376	-	-	-
Institutions	26,489,520	20,292,650	6,196,871	-	-
Corporate	71,499,471	69,645,980	224,496	890,030	738,965
Exposures in default	2,240,888	2,093,118	5,351	41,750	100,669
Other items	22,254,266	22,254,266	-	-	-
<b>Total</b>	<b>145,214,522</b>	<b>137,016,390</b>	<b>6,426,718</b>	<b>931,780</b>	<b>839,634</b>
<b>Weighted Assets for CcyB purposes</b>	<b>95,994,625</b>	<b>93,993,364</b>	<b>229,847</b>	<b>931,780</b>	<b>839,634</b>
<b>Weighted Countercyclical buffer (CcyB) rate</b>	<b>0.499%</b>	<b>0.4896%</b>	<b>0.000%</b>	<b>0.097%</b>	<b>0.000%</b>

<b>Total Risk Weighted Assets (in USD)</b>	<b>395,201,296</b>
<b>Weighted CcyB rate excluding Central Gov/Central Bank and Institutions (%)</b>	<b>0.499%</b>
<b>Countercyclical buffer requirement (in USD)</b>	<b>1,973,172</b>

The 2022 quarterly average exposures (net of value adjustments) by exposure class are as follows:

Exposure class	in USD
Central Governments/Central Banks	13,271,904
Institutions	51,655,933
Corporate	68,475,612
Exposures in default	3,686,923
Other items	23,080,395

Additional credit risk information on industry sector, maturity and location is disclosed hereafter:

- Corporate exposures and exposures in default are made of fees receivables from clients (investment funds sector) and related accruals for 98% of the amount.
- Exposures in default are defined as such when the balance is due for more than 90 days. The total past due exposures as at 31 December 2022 amounts to USD 2.3 Mio. IFRS 9 value adjustments on exposures in default amount to USD 13K as at 31 December 2022 which is considered not significant (USD 26K as at 31 December 2021).
- The net value adjustment recorded in 2022 amounts to USD 13K. Past due exposures, impaired exposures and related impairment are not considered significant given the global amount of fees receivables from clients.
- The below table summarizes the situation of performing financial instruments (phase I and II) vs nonperforming financial instruments (Phase 3) as of 31 December 2022:
- The Bank does not extend any loans to its clients.
- All cash balances placed with the Central Bank of Luxembourg and with credit institutions are performing; as are the majority of client receivables as indicated on the table below.
- While a portion of client receivables are aged beyond 90 days and thus classified as nonperforming, the history of actual losses for the Bank is de minimis as these exposures are ultimately being paid to the Bank.



		Gross carrying amount/nominal amount (in USD)								
		Performing exposures			Non-performing exposures					
			Not past due or past due ≤ 30 days	Past due > 30 days ≤ 90 days		Unlikely to pay that are not past due or are past due ≤ 90 days	Past due > 90 days ≤ 180 days	Past due > 180 days ≤ 1 year	Past due > 1 year ≤ 2 years	Of which defaulted
1	Loans and advances	73,671,478	57,171,441	16,500,037	2,253,921	-	1,493,196	516,699	244,026	-
2	Central banks	21,321,608	21,321,608	-	-	-	-	-	-	-
4	Credit institutions	21,307,733	21,307,733	-	-	-	-	-	-	-
5	Other financial corporations	31,042,137	14,542,100	16,500,037	2,253,921	-	1,493,196	516,699	244,026	-
15	Off-balance-sheet exposures	280,830			-					-
19	Other financial corporations	278,923			-					-
21	Households	1,907			-					-
22	<b>Total</b>	<b>73,952,308</b>	-	-	<b>2,253,921</b>	-	-	-	-	-

		Gross carrying amount/nominal amount (in USD)						Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions (in USD)						Accumulated partial write-off	Collateral and financial guarantees received	
		Performing exposures			Non-performing exposures			Performing exposures – accumulated impairment and provisions		Non-performing exposures – accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions					On performing exposures	On non-performing exposures
		Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3		Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3				
1	Loans and advances	73,671,478	57,171,441	16,500,037	2,253,921	-	2,253,921	-	-	-	- 13,033	-	- 13,033	-	-	-
2	Central banks	21,321,608	21,321,608	-	-	-	-	-	-	-	-	-	-	-	-	-
4	Credit institutions	21,307,733	21,307,733	-	-	-	-	-	-	-	-	-	-	-	-	-
5	Other financial corporations	31,042,137	14,542,100	16,500,037	2,253,921	-	2,253,921	-	-	-	- 13,033	-	- 13,033	-	-	-
15	Off-balance-sheet exposures	280,830	280,830	-	-	-	-	-	-	-	-	-	-		-	-
19	Other financial corporations	278,923	278,923	-	-	-	-	-	-	-	-	-	-		-	-
21	Households	1,907	1,907	-	-	-	-	-	-	-	-	-	-		-	-
22	<b>Total</b>	<b>73,952,308</b>	<b>57,452,271</b>	<b>16,500,037</b>	<b>2,253,921</b>		<b>2,253,921</b>	-	-	-	- 13,033	-	- 13,033	-	-	-

- Exposures to central banks and to institutions consist of cash accounts on demand. Fees receivables from clients (Corporate exposures) are due at the reception of the invoice.
- BBH Luxembourg utilizes External Credit Assessment Institutions (Fitch, Standard and Poor's and Moody's) in the context of institution exposure ratings. Institutional overnight credit institution exposures are assigned a 20% risk weighting.
- As at 31 December 2022, the equity position is not material (USD 3K).

## **Section 16. Operational risk capital requirements as at 31 December 2022 – Basic Indicator Approach**

BBH Luxembourg applies the Basic Indicator Approach for calculating Operational risk capital requirements.

3 years average gross income (In USD)	Weighting	Total risk exposure (In USD)	Capital requirement (8%) (in USD)
143,283,310	15%	268,656,206	21,492,496

## **Section 17. Exchange risk capital requirements as at 31 December 2022– Standardized Approach:**

BBH Luxembourg has no trading book and is not subject to settlement or commodity risk and is not active in securitization.

The CSSF Circular 08/338 as amended in 2016 and 2020 requires multiple stress tests to assess interest rate risk on the non trading book. The results of these new stress tests as of 31 December 2022 indicate minimal exposure to interest rate changes; the only interest sensitive instruments held by the Bank are bank balances at sight (The financial liabilities all relate to leasing liabilities and are excluded from these stress tests as purely driven by IFRS 16 accounting requirements). In accordance to the EBA guidelines, the estimated outcome of the Risk to Earnings test ranges from USD -1.4mio to USD +1.1 mio while the Economic Value stress tests' results range from USD -3k to USD +0.9k. As such, Interest Rate Risk is not considered material for capital purposes. The below table summarizes the foreign exchange risk calculation under the standardized approach.

Exposure type (in USD)	Currency Exposures	Total Risk Exposure	Capital requirement (8%)
Net Long currency positions	24,132,116	24,132,116	1,930,569
Net Short currency positions	4,786	4,786	383

## **Section 18. Liquidity (as of 31 December 2022) - Quantitative disclosures**

The Liquidity Coverage Ratio assesses the ability of BBH Luxembourg to maintain sufficient levels of liquidity buffers which are adequate to face any possible imbalance between liquidity inflows and outflows under significantly stressed conditions over a period of thirty days.

The table below details the Liquidity Coverage Ratio at 31 December 2022:

	in USD
Total high-quality liquid assets (withdrawable central bank reserves)	21,321,607
Liquidity outflows (other liabilities - others)	8,331,925
Liquidity inflows (monies due from other financial customers)	21,307,733
Liquidity inflows capped at 75% of the outflows	6,248,944
Net cash outflow	2,082,981
<b>Liquidity Coverage Ratio</b>	<b>1024%</b>

## **Section 19. Asset Encumbrance Disclosure**

As per the BBH Luxembourg Asset Encumbrance Framework, it is assessed that BBH Luxembourg does not have material encumbered assets (USD 11K). As detailed in the BBH Luxembourg ICLAAP, BBH Luxembourg's balance sheet structure is noncomplex in nature due to the high quality and marketability of assets. The assets of BBH Luxembourg consist mainly of overnight deposits placed with BBH & Co, Short term liabilities consist mainly of payables to BBH & Co. for services rendered and various accruals.

The BBH Luxembourg Board is responsible for establishing a risk framework in relation to asset encumbrance. To facilitate this process, the BBH Luxembourg Board has appointed and ICLAAP Working Group.

Given the relatively limited exposure BBH Luxembourg to asset encumbrance risk, the Board has determined that it is prudent for the ICLAAP Working Group and Finance Department to review this risk on a regular basis and update the Board, where required, or at least annually.

	Carrying amount of encumbered assets (In USD)	Carrying amount of unencumbered assets (In USD)
<b>10 Assets of the reporting institution</b>	<b>11,318</b>	<b>145,042,015</b>
20 Loans on demand	-	42,629,341
30 Equity instruments	-	2,646
100 Loans and advances other than loans on demand	-	33,283,026
120 Other assets	11,318	69,127,002

## **Section 20. Remuneration Policy**

BBH Luxembourg has also assessed its remuneration practices in accordance with guidelines promulgated by the CSSF. The results of this assessment indicate that BBH Luxembourg's remuneration program is in compliance with guidelines and promotes a sound business environment with no inappropriate risk taking. The Remuneration disclosure is available on <https://www.bbh.com/en-us/contact-us/office-locations/luxembourg-office>.

**Section 21. The leverage ratio as at 31 December 2022 is as follows:**

Leverage ratio		USD
Other assets		144,814,052
Other off balance sheet items		280,830
<b>Total Exposures</b>		<b>145,094,882</b>
<b>Tier 1 Capital</b>		<b>93,567,171</b>
<b>Leverage ratio</b>		<b>64.5%</b>

Audited financial statements		USD
<b>Total balance sheet</b>		<b>126,485,160</b>
<b>Total off balance sheet</b>		<b>280,830</b>

The difference between the balance sheet exposures included in the leverage ratio and the audited financial statements is made of IFRS 16 adjustment between Lux GAAP and IFRS for USD 17,948,224 and IFRS 9 adjustments between Lux GAAP and IFRS for USD 500,308.

The numerator of the leverage ratio is made of fully phased in Tier 1 Capital.

The leverage ratio as of 31 December 2022 amounts to 64.5%.

Fiduciary operations recognized in the off-balance sheet amount to USD 11.1 bio as of 31 December 2022.