# Pillar 3 Report

31st December 2022

TURICUM PRIVATE BANK

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# Introduction

# Introduction

## Purpose

This report comprises the Pillar 3 disclosures on capital and risk management for Turicum Private Bank Limited as at 31st December 2022.

It has two principal purposes:

It provides information on the policies and approach taken by Turicum to manage risks and to maintain its capital resources while giving information on the Bank's exposures and capital resources.

To meet the regulatory disclosure requirements under Part 8 of the Capital Requirements Regulation (CRR).

## Overview

Turicum Private Bank Limited is a registered bank in Gibraltar, authorised and regulated by the Gibraltar Financial Services Commission.

These disclosures are required to be published at least annually and are not subject to external audit; however, some of the information within these Pillar 3 disclosures also appear in the audited 2022 Financial Statements.

This Pillar 3 report should be read in conjunction with the Financial Statements for the year ended December 2022, which are publicly available.

# Introduction

## Regulatory Framework

Turicum is subject to the Capital Requirements Directive (CRD), and the Capital Requirements Regulation (CRR) which provide consistent prudential standards for financial services companies and an associated supervisory framework. The Bank's Pillar 3 Report comprises quantitative and qualitative information required under Pillar 3. These disclosures are made in accordance with part Eight of the Capital Requirements Regulation and Directive.

### Pillar 1

Pillar 1 capital is the Bank's minimum regulatory capital requirement relating to credit, market and operational risk.

### Pillar 2

Pillar 2 requires firms and supervisors to form a view on whether a firm should hold additional capital against risks not fully covered in Pillar 1.

### Pillar 3

Pillar 3 sets out the disclosures that banks are required to make in order to promote market discipline through the external disclosure of their risk management and risk exposures.

# Risk Management

# Risk Management

## Risk Management Strategy

Turicum ('The Bank', 'We') believes sound risk management is key for the achievement of the Bank's overall strategic objectives. The below aims to explain Turicum's approach to risk management, where:

- RISK is defined as 'the combination of the probability of an event and its consequence. Consequences can range from positive (opportunities) to negative (threats)'. *(Institute of Risk Management).*
- RISK MANAGEMENT is defined as 'the process which aims to help organisations understand, evaluate and take action on all their risks with a view to increasing the probability of success and reducing the likelihood of failure'.

The strategy's main objectives are to ensure:

- The Bank can manage risk effectively in order to achieve its overall strategic objectives.
- The Bank has a robust risk culture.
- The Bank's leadership is fully committed to risk management.
- The Bank has a robust Risk Management Framework (RMF) supported by a clear methodology. We consider this as an overarching objective as it contributes to the embedding of the risk culture across the Bank and is fully supported by leadership who has been involved in its development.

In doing so, the Bank will – from time to time – adopt a different approach to risk, based on the specific scenario. This could include assuming and accepting risk; avoiding risk; controlling risk; transferring risk; watching and monitoring risk.

# Risk Management

## Risk Management Framework

Below is a visual representation of the Bank's RMF, which shows the key pillars and principles.

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# Risk Management

## Risk Appetite Statement

Turicum's ('The Bank', 'We') Management and Board of Directors are both ultimately responsible for the effective implementation of the Bank's Risk Management Framework (RMF), which aims to identify, analyse and mitigate all risks involved in growing our business. It is paramount that Management and the Board are conscious of the firm's capacity for and willingness to risk-taking, according to the specific nature of each different risk area. Information needs to flow up to the Board and be presented in a timely way that drives risk conscious decision making.

When determining the Bank's overall approach to risk, and defining specific Risk Appetite Statements (RAS), the Board's vision is that robust and a prudent approach to risk mitigation should be combined with a certain degree of flexibility in order to balance risks and opportunities. Agreed risk appetites should be aligned to the Bank's strategic objectives, whilst allowing a malleable approach in that it can spread the risk in a practical and business minded way.

The purpose of the RAS is to set a healthy risk appetite level rather than an upper limit on what is acceptable. It should combine the main risk categories a firm is exposed to but not deal with them in isolation. The language and understanding of the RMF will need to be engrained within the Bank's culture and across all departments.

Turicum's RAS are based on the levels of risk that, for each specific area, the Bank is willing to take to achieve its strategic objectives alongside the levels of risk that the Bank can afford to withstand within its risk bearing capacity. Risk bearing capacity is defined as the financial and non-financial resources that the Bank has at its disposal. The risk appetite is set to a level within the risk-bearing capacity to ensure that the Bank's risk exposure remains sustainable.

# Risk Management

## Risk Appetite Statement (continued)

Below are Turicum's RAS with regards to those key risks that we consider of strategic relevance.

**Client risk,** namely the risk relating to the profile of client onboarded by the Bank.

- At the centre of the Bank's activity and risk profile, are the kind of clients the Bank wishes to onboard. In this regard the Bank has an overall medium appetite which is the result of not fixing stringent guidelines towards client profiles with a rigorous client acceptance process.

**Strategic and business risk,** namely the risk linked to the possibility of inadequate profits or losses, and therefore inability to achieve strategic objectives, due to changes in the Bank's business profile and/or environment.

- The Bank has historically applied a very cautious approach to its strategy, focusing on private banking services to wealthy individuals as a niche. However, in recent years, we have become more flexible and developed a medium appetite for strategic and business risk, working with clients from – and developing relevant expertise in – newer industries. The Bank believes that in order to be sustainable a more 'universal banking' approach is required. We, however, remain committed to providing services which are within our competencies and risk appetite. Importantly the approach to developing a new business line with the strategic outlook is low risk. By this it is intended that the project phase is given time and focus to ensure the new business line it thoroughly catered for in terms of business preparedness, risk awareness with effective risk mitigation tools in place.

# Risk Management

## Risk Appetite Statement (continued)

**Concentration risk,** namely the risk related to potential for loss arising from a heavily lopsided exposure to a particular group of client(s) or counterparty(ies). (Collateral and property concentration risk covered under 'credit risk').

- The Bank has as low as reasonably practicable (ALARP) appetite for concentration risk. With regards to clients, we promote strong diversification across industries, jurisdictions and so on, which means our client base is highly varied. With regards to counterparties, we ensure we have a range of established relationships with highly reputable counterparties so that our business is unlikely to be disrupted in case of specific issues affecting any of them.

**Credit risk,** namely the risk of financial loss to the Bank by virtue of default on a debt that may arise from a borrower failing to make required payments.

- The Bank has a low appetite for credit risk, which is carefully managed through a conservative approach to the below:
    - Lombard loans: the majority of our loans are from domestic/equivalent jurisdictions and collateralised with exposures and investments that are strictly monitored against a conservative collateral policy.
    - Mortgages: all our mortgages are domestic, based on affordability criteria as well as diversification across properties.

# Risk Management

## Risk Appetite Statement (continued)

**Interest rate risk,** namely the risk that changes in interest rates could reduce the Bank's earnings and even lower its net worth (balance sheet).

- The Bank has a low appetite for interest rate risk and aims to match assets and liabilities in terms of amount, currency, rates and term to maturity whenever possible.

**IT risk,** namely the risk of inadequate information technology systems and processes. It could also capture an inadequate IT strategy and policy or inadequate use of the firm's information technology.

- The Bank has ALARP appetite for IT risk. Our IT function is fully resourced with highly trained staff and strong systems and controls in place, which have undergone significant investments in the last few years. Where we are not able to cater for an IT risk with in-house resources, a third party will be contracted.

**Cyber risk,** namely any risk of financial loss, disruption or damage to the reputation of the Bank from some sort of failure of its information technology systems. This is never a matter for the IT team only, but for the Risk function and all staff too.

- The Bank has ALARP appetite for cyber risk and aims to maintain a clear cyber security strategy with a well-developed cyber security culture, where cyber risks are clearly identified, assessed and managed through the implementation of effective controls.

# Risk Management

## Risk Appetite Statement (continued)

**Legal and compliance risk,** namely the risk of potential exposure to legal penalties, financial forfeiture and material loss, resulting from its failure to act in accordance with industry laws and regulations, internal policies or prescribed best practices.

- The Bank has ALARP appetite for legal and compliance risk, which is strictly monitored and mitigated. The department is fully resourced, with highly trained staff, and robust systems and controls in place. Overall, a strong Anti Money Laundering, Countering the Financing of Terrorism and Proliferation Financing culture is embedded within the Bank.

**Liquidity risk,** namely the risk that the Bank will encounter difficulty in meeting its financial obligations.

- The Bank has a low appetite for liquidity risk and aims to ensure there is always sufficient liquidity to meet its liabilities without incurring unacceptable losses. This is, for example, achieved by holding sufficient cash immediately available, liquefiable assets and by implementing an appropriate asset laddering strategy.

# Risk Management

## Risk Appetite Statement (continued)

**Market risk,** namely the risk associated with changes in the level of, rates of exchange between currencies or the price of securities. The price movement of any of these elements may have an adverse impact on the results of the Bank or its financial position.

- The Bank has ALARP appetite for market risk with a very conservative policy, which involves not taking proprietary market risk positions and holding high quality bonds on its books until maturity. Additionally, trading transactions for clients are dealt with on an agency basis, which makes it highly unlikely for the Bank to suffer from any potential loss. It must also be noted that the current trend of regulatory capital requirements are forcing financial institutions to have a low risk profile towards market risk.

**Operational risk,** namely the risk of loss resulting from inadequate or failed internal processes, people and systems.

- The Bank has ALARP appetite for operational risk and is fully committed to mitigating all its related risk areas. Every function at the Bank has at least two employees able to perform the relevant tasks and all our staff are experienced, trained and they fully embrace the Bank's values. The three line of defence model is at the forefront of our work and we have sound systems and controls in place, which are reviewed and monitored on a regularly basis. The Bank also has a robust business continuity plan, which has been widely tested, and proven effective, during the pandemic.

# Risk Management

## Risk Appetite Statement (continued)

**Reputational risk,** namely the risk of possible damage to the Bank's brand and reputation, and the associated risk to earnings, capital or liquidity, arising from any association, action or inaction which could be perceived by stakeholders to be inappropriate, unethical or inconsistent with the Bank's values and beliefs.

- The Bank has ALARP appetite for reputational risk and adopts a very conservative approach to this regard as reputation can have a very significant bearing on the success, or otherwise, of the Bank. This is strongly embedded in our culture with the Bank's mission statement accurately capturing this approach and the internal Code of Conduct requiring integrity and ethical behaviour from all its employees.

# Capital and Other Disclosures

TURICUM PRIVATE BANK

# Capital and Other Disclosures

## Key Metrics

This table presents the set of key prudential metrics covering the Bank's available capital (including buffer requirements and ratios), risk weighted exposure amounts (RWA), leverage ratio, Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR).

| | 31 December 2022 GBP |
|---|---|
| **Available own funds (amounts)** | |
| Common Equity Tier 1 (CET1) capital | 24,187,353 |
| Tier 1 capital | 24,187,353 |
| Total capital | 24,187,353 |
| **Risk-weighted exposure amounts** | |
| Total risk-weighted exposure amount | 109,626,374 |
| **Capital ratios (as a percentage of risk-weighted exposure amount)** | |
| Common Equity Tier 1 ratio (%) | 22.06% |
| Tier 1 ratio (%) | 22.06% |
| Total capital ratio (%) | 22.06% |
| **Additional own funds requirements based on SREP (as a percentage of risk-weighted exposure amount)** | |
| Additional CET1 SREP requirements (%) | 0% |
| Additional AT1 SREP requirements (%) | 0% |
| Additional T2 SREP requirements (%) | 0% |
| Total SREP own funds requirements (%) | 9.89% |
| **Combined buffer requirement (as a percentage of risk-weighted exposure amount)** | |
| Capital conservation buffer (%) | 2.50% |
| Institution specific countercyclical capital buffer (%) | 0% |
| Combined buffer requirement (%) | 2.50% |
| Overall capital requirements (%) | 12.39% |
| CET1 available after meeting the total SREP own funds requirements (%) | 12.17% |
| **Leverage ratio** | |
| Total exposure measure excluding claims on central banks | 329,727,346 |
| Leverage ratio excluding claims on central banks (%) | 7.34% |
| **Liquidity Coverage Ratio** | |
| Total high-quality liquid assets (HQLA) (Weighted value -average) | 118,316,268 |
| Cash outflows - Total weighted value | 60,366,727 |
| Cash inflows - Total weighted value | 134,171,407 |
| Total net cash outflows (adjusted value) | 15,091,682 |
| Liquidity coverage ratio (%) | 796.01% |
| **Net Stable Funding Ratio** | |
| Total available stable funding | 298,381,143 |
| Total required stable funding | 103,035,274 |
| NSFR ratio (%) | 289.6% |

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# Capital and Other Disclosures

## Overview of Risk Weighted Exposure Amounts

The table below shows RWEAs and minimum capital requirements by risk type and approach in GBP.

| | Risk weighted exposure amounts (RWEAs) | Total own funds requirements |
|---|---|---|
| **Credit risk (excluding CCR)** | **96,567,782** | **7,725,423** |
| Of which the standardised approach | 96,567,782 | 7,725,423 |
| **Position, foreign exchange and commodities risks (Market risk)** | **76,424** | **6,114** |
| Of which the standardised approach | 76,424 | 6,114 |
| **Operational risk** | **12,982,167** | **1,038,573** |
| Of which basic indicator approach | 12,982,167 | 1,038,573 |
| **Total** | **109,626,374** | **8,770,110** |


TARICUM PRIVATE BANK

# Remuneration

# Remuneration

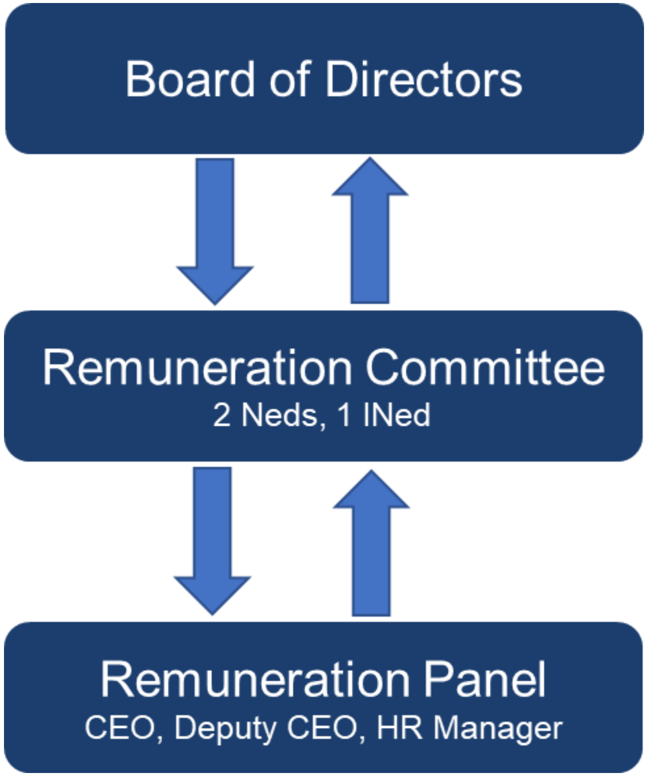
These remuneration disclosures have been drafted in accordance with CRR and CRD, with consideration for the size and nature of the Bank's activities.

## Governance

The Board of Directors is responsible for the establishment of a Remuneration Committee and the appointment of its members which consist of two non-executive directors representing the shareholders and one independent non-executive director.

Any member of the Remuneration Panel or other employees of the Bank may be invited to attend for all or part of the meeting.

The Remuneration Committee shall in principle meet once a year and otherwise as required.



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# Remuneration

## Remuneration System

The Bank ensures that its remuneration policies, practices, and procedures are clear and documented. To record those policies, practices and procedures, the Bank's remuneration policy is reviewed annually to take account of any changes to policies, practices and procedures. The Bank's remuneration policies aim to strike a balance between short and long-term business performance and reward people accordingly.

Remuneration, including any variable remuneration, is linked to business performance, and assessed against financial and non-financial criteria including risk management related metrics. To ensure that salaries reflect individuals' skills and experience, the Bank regularly conducts research to determine market rate.

The Board thus ensures that the Bank has risk-focused remuneration policies, which are consistent with and promote effective risk management and do not expose the Bank to excessive risk. This is done in a manner which is appropriate to the Bank's size, internal organization and the nature, scope and complexity of its activities.

The Bank's Remuneration Committee is responsible for designing, implementing, and overseeing the remuneration policy and the reward structure of the Bank.

The Remuneration Committee therefore ensures that effective risk management is a key component of remuneration and incentive structures.

# Remuneration

## Remuneration Structure

Turicum's remuneration structure is based on a mix of fixed and variable compensation elements and other benefits (such as Occupational Pension Scheme, Medical Insurance Scheme etc.) designed to ensure adequate consideration of risk.

**Fixed remuneration**

| | |
|---|---|
| **Salary** | Salaries reflect individuals' skills and experience and are reviewed annually. They are increased where justified by role change, increased responsibility to reflect a change in the market rate or maintain appropriate competitive positioning. |
| **Pension and benefits** | The provision of a competitive package of benefits is important to attracting and retaining the talented staff needed to deliver the Bank's strategy. This includes a competitive pension scheme, healthcare, critical illness and life cover. |

**Variable remuneration**

| | |
|---|---|
| **Staff Bonus** | Annual bonuses incentivise and reward the achievement of the Bank and the individual objectives of employees.<br>In line with the process for individual salary adjustments, Staff Bonuses are considered on an annual basis as part of the staff performance appraisals, and are based on the Bank's profitability and the individual's performance.<br>Annual bonuses may be delivered in both 'up-front' (Staff) and deferred components (Senior Management), whereby it is paid over a three year period.<br>Up to 100 % of the variable remuneration shall be subject to malus or clawback arrangements for a period not exceeding three years from the date of the award. |
| **Sales Commissions** | Relationship Managers are remunerated in form of a commission and not in form of a staff bonus.<br>The Relationship Manager's commission is based on the net Service Fees generated by the clients that have been introduced to the Bank by the Relationship Manager but it should however be noted that commissions paid are conditional on the individual achievement of performance related objectives, in particular the meeting of agreed targets and the Bank's expectations relating to risk, compliance, conduct, behaviour, integrity, commitment, attitude and team spirit.<br>In pursuance of this objective, 25% of the commissions shall be retained and paid out the following year. |

# Remuneration

## Remuneration Awarded for the Financial Year (in EUR)

The information below shows the remuneration of the Management Body and Senior Management of the Bank for the financial year 2022.

| | Management Body Supervisory function | Other Senior Management |
|---|---|---|
| **Number of identified staff** | **8** | **9** |
| **Total fixed remuneration** | 364,502 | 1,160,395 |
| **Total variable remuneration** | - | 1,051,853 |
| **Of which: deferred (vesting in subsequent financial years)** | - | 883,255 |
| **Total remuneration** | **364,502** | **2,212,248** |

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