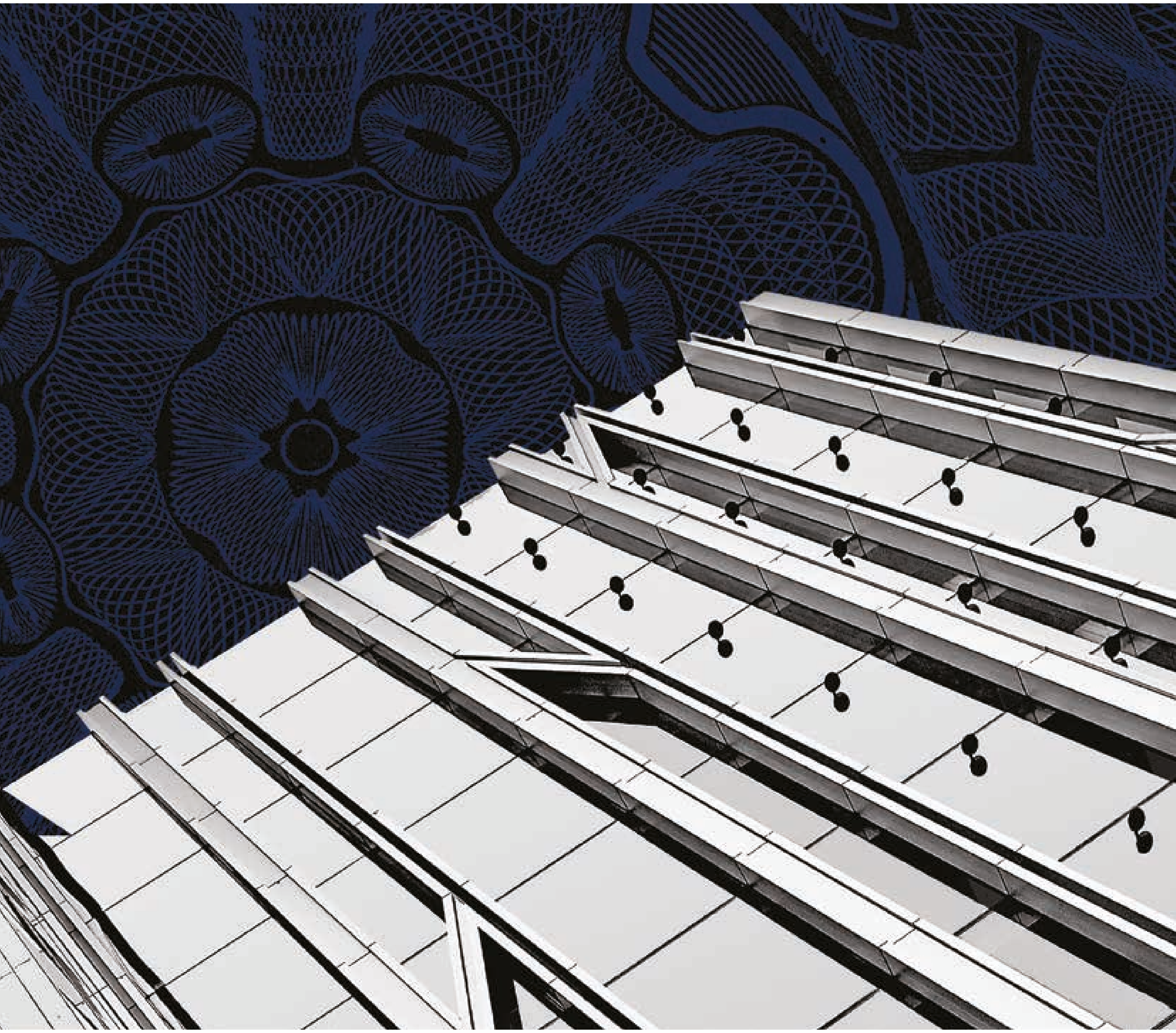
Rothschild & Co

Pillar 3 Disclosure 2016/2017



Rothschild & Co

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1. Scope

Introduction

This document is published to provide information about the compliance of Rothschild & Co (the "Company") with the public disclosure rules set out in the Regulation No. 575/2013 of the European Parliament and of the Council of 26 June 2013 relating to minimum capital requirements (known as "Pillar 3" requirements in the Basel 3 Accord and its European transposition by the Capital Requirement Regulation ("CRR")). Rothschild & Co is registered in the list of Financial Companies supervised by the French Prudential Control Authority (Autorité de Contrôle Prudentiel et de Résolution or "ACPR").

The Pillar 3 disclosure requirements complement the minimum capital requirements ("Pillar 1") and the supervisory review process ("Pillar 2") and aim to encourage market discipline by allowing market participants to assess key pieces of information on the risk exposures and the risk assessment processes of Rothschild & Co.

This document is available on Rothschild & Co's website (www.rothschildandco.com) along with the Rothschild & Co 2017 Annual Report.

Basis of disclosure

These risk disclosures are made in respect of Rothschild & Co and its subsidiary undertakings (together "the Group" or "the Rothschild & Co Group").

The following regulated banking entities are fully consolidated in Rothschild & Co's accounts:

Rothschild Bank AG ("RBZ") incorporated in Switzerland and supervised by the Swiss Financial Market Supervisory Authority ("FINMA");

Rothschild & Compagnie Banque SCS ("RCB") incorporated in France and supervised by the ACPR;

Banque Martin – Maurel SA ("BMM"), incorporated in France and supervised by the ACPR, from 2 January 2017 following merger between Rothschild & Co and Compagnie Financière Martin Maurel; and

Rothschild Bank International Limited ("RBI") incorporated in Guernsey and supervised by the Guernsey Financial Services Commission ("GFSC"). RBI and Rothschild Bank (CI) Limited merged in October 2016 to become RBI.

Following the sale of its UK asset finance business in November 2015, N M Rothschild & Sons Limited ("NMR"), incorporated in the United Kingdom, no longer required a UK deposit taking licence. The UK regulatory body, the Prudential Regulation Authority ("PRA"), accepted to remove this licence effective 19 September 2016.

As at 31 March 2017, the regulatory consolidation scope is identical to the statutory consolidation scope.

Unless otherwise indicated, financial information presented in this document is as at 31 March 2017 (Rothschild & Co's financial year-end). As there is a significant overlap between the information disclosure requirements for Pillar 3 and information already disclosed in the Rothschild & Co 2017 Annual Report, this document should be read in conjunction with that report. The Rothschild & Co Group organization presented in this document is consistent with the governance arrangements described within the Rothschild & Co 2017 Annual Report.

On 21 March 2017, the Company announced that it will change its financial year end from 31 March to 31 December. The next Pillar III report will be as at 31 December 2017.

Verification

These disclosures have been circulated and presented in June 2017 by the Company's managing partner (gérant), Rothschild & Co Gestion SAS (the "Managing Partner") to the Audit Committee and the Supervisory Board upon report of the Audit Committee. Unless otherwise indicated, information contained within this document has not been subject to external audit. The Pillar 3 disclosures have been prepared purely for the purpose of explaining the basis on which the Rothschild & Co Group has prepared and disclosed certain capital requirements and information about the management of certain risks, and for no other purpose. They do not constitute any form of financial statement and must not be relied upon in making any judgement on the Rothschild & Co Group.

2. Risk Management

Overview

The guiding philosophy of risk management in the Group is for the management to adopt a prudent and conservative approach to the taking and management of risk. The maintenance of the Group's reputation is a fundamental driver of risk appetite and of risk management. The protection of reputation guides the type of clients and businesses with which the Group will involve itself.

The nature and method of monitoring and reporting varies according to the risk type. Most risks are monitored daily with management information being provided to relevant committees on a weekly, monthly or quarterly basis. Where appropriate to the risk type, the level of risk faced by the Group is also managed through a series of sensitivity and stress tests.

The identification, measurement and control of risk are integral to the management of Rothschild & Co's businesses. Risk policies and procedures are regularly updated to meet changing business requirements and to comply with best practice.

Structure and Risk Governance

The Company's Managing Partner is the executive body of Rothschild & Co responsible in particular for establishing adequate, sound and appropriate risk management processes in line with all legal and regulatory requirements.

The decision-making process of the Company's Managing Partner relies on its Management Board (conseil de gérance), a collective body which aims to assist the chairman of the Managing Partner in fulfilling the commitments of the Managing Partner acting in its capacity as the sole legal representative of the Company with full power to act in all circumstances in the Company's name and on its behalf.

The oversight management and supervision of the Group are the responsibility of the Management Board, notwithstanding other Group companies' local requirements, including in particular: Group strategy and management, capital management, and risk management and control (including Group Policies).

Internal control governance within the Group is effected through Rothschild & Co and onwards to the senior executive management committees for each of the Group's businesses and the boards of the principal operating entities. The Group internal control system is supervised by the Supervisory Board, assisted by its specialised committees. Rothschild & Co ensures, for the Company and the entities within the Group on a consolidated basis, the effective determination of the direction of the business and determines the regulatory capital; it has direct oversight of all Group entities in respect of internal control matters and considers all major strategic and other risk matters affecting all parts of the Group.

The main roles of the committees with responsibility for key risk management areas are as follows:

The **Group Executive Committee** ("GEC") is the senior executive committee at Rothschild & Co. Rothschild & Co is represented at the GEC by two managing partners of the Managing Partner's Management Board who co-chair the GEC. The GEC participates in the overall management and the definition of the strategy for the Group's businesses. Its role is to assess the delivery of that strategy, to ensure the proper and effective functioning of Group governance structures, operating policies and procedures, to define the Group's risk appetite and to be responsible for the management of risk.

The **Audit Committee** is a specialised committee of the Supervisory Board responsible, in particular, for supervising and reviewing the Group's internal audit arrangements, reviewing the independence of Rothschild & Co's statutory auditors and the effectiveness of the Group's internal control systems.

The **Risk Committee** is a specialised committee of the Supervisory Board responsible for reviewing the Group's broad policy guidelines relating to risk management, particularly the limits which reflect the risk appetite presented to the Supervisory Board, and examining the effectiveness of the risk management policies put in place. These policies make up the structure underpinning the group's approach to managing specific categories of risk as articulated in the Group Risk Framework.

The **Group Assets and Liabilities Committee** ("Group ALCO") is responsible for ensuring that the Group has prudent funding and liquidity strategies for the efficient management and deployment of capital resources, within regulatory constraints, and for the oversight of the management of the Group's other financial strategies and policies, including some credit decisions.

The **Remuneration and Nomination Committee** is a specialised committee of the Supervisory Board responsible in particular for setting the principles and parameters of the remuneration policies for the Group and determining the nature and scale of short and long term incentive performance arrangements that encourages enhanced performance and reward individuals in a "risk based" manner for their contribution to the success of the Group in the light of an assessment of the Group's financial situation and future prospects.

Risk Management Framework

The Group has adopted a risk governance model that is applied across the Group and requires that all of the Group's businesses and functions establish processes for identifying, evaluating and managing the key risks faced by the Group. It is based on the concept of 'three lines of defence'.

In the first instance, the Company's Managing Partner sets the Group's risk appetite, approves the strategy for managing risk and is responsible for the Group's system of internal control. The three lines of defence model then distinguishes between functions owning and managing risks, functions overseeing risks and functions providing independent assurance.

Group Risk Framework

The Three Lines of Defence for identifying, evaluating and managing risks

First Line of Defence	Second Line of Defence	Third Line of Defence
It is the responsibility of senior management in each of the Group's business lines to establish and maintain effective risk management systems and to support risk management best practice.	Comprises specialist Group support functions including: Risk, Compliance, Legal, Finance and Human Resources. These functions provide: • operational and technical guidance; • advice to management at Group level and operating entity level; • independent challenge to the businesses; and • assistance in the identification, assessment, management, measurement, monitoring and reporting of financial and non-financial risks.	Provides independent objective assurance on the effectiveness of the control procedures including those relating to the management of risks across the entire Group. This is provided by the Group's Internal Audit function.

Risk types

Credit and counterparty risk

Credit risk is the risk of loss resulting from exposure to customer or counterparty default.

Rothschild & Co has adopted the Standardised Approach for calculating Pillar 1 capital requirements for credit risk.

Operational risk

Operational risk, which is inherent in all business activities, is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events.

Rothschild & Co currently adopts the Basic Indicator Approach for calculating Pillar 1 capital requirements for operational risk (except for RCB which uses the Advanced Measurement Approach).

Liquidity risk

Liquidity risk is the risk that the Group does not have sufficient financial resources available to meet its obligations as they fall due, or that the Group is unable to meet regulatory prudential liquidity ratios.

The Group performs liquidity stress testing based on a range of adverse scenarios, and has contingency funding plans which are maintained with the objective of ensuring that the Group has access to sufficient resources to meet obligations as they fall due if these scenarios occur. Stressed liquidity profiles are reviewed by the Group ALCO.

Market risk

Market risk positions arise mainly as a result of the Rothschild & Co Group's activities in interest rate (including interest rate risk in the banking book), currency, equity and debt markets and comprise interest rate, foreign exchange, equity and debt position risk. Market risk exposures are presented in the Rothschild & Co 2017 Annual Report (page 143).

Other material risks

Other risks which are, or may be, material arise in the normal conduct of our business. Such risks, including residual risk, concentration risk, basis risk, intermediary risk, clearing and settlement risk, securitisation risk, model risk, business risk, pension obligation risk, capital planning risk (including the risk of excessive leverage) and reputational risk, are identified and managed as part of the overall risk controls and are taken into account in the Supervisory Board's periodic assessment of capital adequacy.

There is additional information regarding credit risks in the Rothschild & Co 2017 Annual Report (page 139); other information regarding liquidity and funding risks is also included (page 144).

3. Regulatory Ratios

Solvency ratios

During the year ended 31 March 2017, Rothschild & Co and the individual entities within the Rothschild & Co Group complied with all of the externally imposed capital requirements to which they were subject. The following table provides a breakdown of consolidated capital requirements, together with regulatory ratios, at 31 March 2017 compared to the capital requirements at 31 March 2016:

In millions of euro	31/03/2017[1]	31/03/2016[1]
Tier 1 capital/CET 1	1,433	1,138
Tier 2 capital	71	100
Total Regulatory Capital	**1,504**	**1,238**
Credit Risk	4,720	3,048
Operational Risk	3,002	2,368
Market Risk and Credit Value Adjustment	172	102
Total Risk Weighted Assets	**7,894**	**5,518**
Tier 1/CET 1 ratio	18.2%	20.6%
Total capital ratio	**19.1%**	**22.4%**

(1) Fully loaded based on CRR/CRD4 rules as published on 26 June 2013.

The main reason for the decrease of total capital and CET 1 ratios is due to the Compagnie Financière Martin Maurel and Rothschild & Co Group merger which resulted in a material increase of Credit Risk RWA. Risk Weighted Assets ("RWA") relating to operational risk have also increased materially as revenues strengthened (using a three year rolling average of revenues).

Under European Banking Authority ("EBA") transitional rules for 2017, the Tier 1 ratio with the Capital Conservation Buffer ("CCB") must exceed 7.25% and the Global ratio including CCB must exceed 9.25%. On a fully loaded Basel 3 basis, the Tier 1 ratio with CCB must exceed 8.5% and the Global ratio including CCB must exceed 10.5%.

Leverage ratio

The Group determines its leverage according to the leverage ratio benchmark as defined by the Basel Committee in January 2014. These rules were transposed into the Commission Delegated Regulation (EU) 2015/62 of 10 October 2014 by way of amended CRR.

The leverage ratio is in an observation phase in order to set minimum requirements.

At 31 March 2017, sustained by the higher Common Equity Tier 1 capital, and as the Group's activities are not highly leveraged, Rothschild & Co's fully phased-in leverage ratio was 11.6%.

Appendix A discloses the main characteristics of the leverage ratio.

4. Regulatory Capital

The table below reconciles the composition of regulatory capital for the Rothschild & Co Group as at 31 March 2017 to the audited financial statements in accordance with Article 2 in Commission implementing regulation (EU) No 1423/2013.

In millions of euro

Shareholders' equity including year-end profit	1,829
Parent company shareholders' equity per balance sheet	1,829
Non-controlling interests (amount allowed in consolidated CET1)	–
Non-controlling interests per balance sheet	472
of which: Undated subordinated debt and certain preferred shares	320
of which: Result for year - NCI share	180
Amount not eligible under CRR	(472)
Deductions	**(377)**
Goodwill and other intangible assets	(282)
Deferred tax assets on losses carried forward	(14)
Proposed dividend	(52)
Securitisation exposures	(29)
Regulatory adjustments	**(19)**
Core Tier 1 capital	**1,433**
Qualifying Tier 2 instruments issued by subsidiaries	**71**
Undated subordinated debt and certain preferred shares	320
Amount not eligible under CRR	(249)
Tier 2 capital	71
Total capital base	**1,504**

Appendix B discloses the main characteristics of the own funds instruments.

Appendix C discloses detailed information of the regulatory capital on a full Basel 3 basis and on a transitional basis.

5. Risk Weighted Assets and Capital Requirements

The ACPR sets out the minimum capital requirement for French regulated financial institutions under CRR rules. CRR sets out the minimum regulatory capital to meet credit, market and operational risk. At 31 March 2017, the Group's total capital requirements by risk type were as follows:

Pillar 1 Requirement **In millions of euro**	**Risk Weighted Assets**	**Capital requirement**
Credit Risk	4,720	378
Market Risk and Credit Value Adjustment	172	14
Operational Risk	3,002	240
Total	**7,894**	**632**

6. Credit Risk

Credit risk exposures

All credit risk capital requirements are calculated using the standardised approach.

The table below presents a summary of the Credit Risk Weighted Assets (“RWA”) calculation. The net exposure is the exposure that is subject to a credit risk capital requirement after provisions.

The Exposure At Default (“EAD”) is calculated after netting effects, collateral and credit conversion factors but before applying risk weightings. EAD includes off balance sheet exposures that are subject to a Credit Conversion Factor.

The RWA consists of the EAD multiplied by a weighting factor, which varies depending on the credit quality of the counterparty.

In millions of euro	31/03/2017
Net exposure	12,753
Financial collateral	(1,799)
Credit conversion factor	(157)
Exposure At Default	**10,797**
Risk Weighted Assets	**4,720**

Exposures by asset class

The table below shows the analysis of exposures by asset class before credit risk mitigation with substitution effects. Exposures with Central Banks are zero weighted.

In millions of euro	Exposure at default	Risk Weighted Assets
Central Banks	3,914	–
Institutions	1,970	563
Corporates	1,454	1,105
Other	955	989
High Risk Exposures	719	1,078
Retail	621	344
Residential Mortgages	338	119
Sovereigns	303	8
Equity	184	264
Exposures in default incl. past due	109	147
Collective Investment Units	66	43
Multilateral Development Banks	66	–
Securitisations	62	30
Commercial Mortgages	36	30
Total	**10,797**	**4,720**

High risk exposures comprise mainly unlisted equity investments from the Merchant Banking business. The Other assets category comprises mainly ’Non-credit obligation assets’ such as deferred tax assets not otherwise deducted from capital and tangible assets.

EAD by geographical location and by sector

The Group is mainly exposed to Switzerland, United Kingdom and France with approximately 80% of its exposures to these three countries. EAD by geographical location is as follows:

In millions of euro	Switzerland	France	United Kingdom	Other	Total
Central Banks	3, 323	589	–	2	3, 914
Institutions	174	904	152	740	1, 970
Corporates	25	880	133	416	1, 454
Other	130	177	408	240	955
High Risk Exposures	2	205	40	472	719
Retail	16	542	13	50	621
Residential Mortgages	10	7	114	207	338
Sovereigns	4	95	76	128	303
Equity	114	38	1	31	184
Exposures in default incl. past due	8	14	65	22	109
Collective Investment Units	–	66	–	–	66
Multilateral Development Banks	–	14	–	52	66
Securitisations	–	5	1	56	62
Commercial Mortgages	–	–	30	6	36
Total	**3, 806**	**3, 536**	**1, 033**	**2, 422**	**10, 797**

By sectors, more than 57% of the exposures are to the Financial and Governments Sectors (Institutions, Sovereign and Central Banks asset classes). Central Banks exposures are mainly to Swiss National Bank and Banque de France.

EAD by maturity

The table below sets out an analysis of credit risk by maturity as at 31 March 2017. Residual maturity of exposures is based on contractual maturity dates and not expected or behaviourally adjusted dates.

In millions of euro	< 1 year	1–5 years	>5 years	Undated	Total
Central Banks	3,904	10	–	–	3,914
Institutions	1,652	265	53	–	1,970
Corporates	743	560	151	–	1,454
Other	481	15	–	459	955
High Risk Exposures	20	416	–	283	719
Retail	305	230	86	–	621
Residential Mortgages	14	320	4	–	338
Sovereigns	195	97	11	–	303
Equity	–	19	–	165	184
Exposures in default incl. past due	60	46	3	–	109
Collective Investment Units	–	10	–	56	66
Multilateral Development Banks	3	63	–	–	66
Securitisations	9	–	53	–	62
Commercial Mortgages	10	22	4	–	36
Total	**7,396**	**2,073**	**365**	**963**	**10,797**

The Group's strategy is to maintain a highly liquid short term position. This results in more than 68% of the exposures having a maturity below 1 year.

Value adjustment on impaired assets by asset class

Value adjustments (whether through individual or collective provisions or through equity reserves) shown below relate to impaired assets only.

The net exposure takes into account value adjustments but does not include any mitigation from collateral.

Negative value adjustments and provisions by Asset Class In millions of euro	Impaired gross Exposure	Value Adjustment	Net Exposure
Past Due Exposures	176	86	90
High Risk Exposures	69	43	26
Equity	51	25	26
Commercial Mortgages	17	10	7
Total	**313**	**164**	**149**

EAD by credit quality

Rothschild & Co uses external credit assessments provided by Standard & Poor's, Moody's, Fitch and Banque de France for all exposure classes. These are used, where available, to assign exposures a credit quality step and calculate credit risk capital requirements under the standardised approach. Credit quality steps are provided by the regulator and are used to weight asset classes based on the external rating. The following tables provide, by asset class, an analysis of exposures by credit quality steps as at 31 March 2017:

In millions of euro	Credit quality Step 1	Credit quality Step 2	Credit quality Step 3	Credit quality Step 4	Credit quality Step 5	Credit quality Step 6	Unrated	Total
Central Banks	3, 914	–	–	–	–	–	–	3, 914
Institutions	988	849	100	–	2	–	31	1, 970
Corporates	228	169	361	237	17	–	442	1, 454
Other	5	–	–	–	–	–	950	955
High Risk Exposures	–	–	–	–	–	–	719	719
Retail	131	6	–	–	–	–	484	621
Residential Mortgages	–	–	–	–	–	–	338	338
Sovereigns	298	3	1	1	–	–	–	303
Equity	–	–	–	–	–	–	184	184
Exposures in default incl. past due	–	–	–	–	–	–	109	109
Collective Investment Units	–	36	–	–	1	–	29	66
Multilateral Development Banks	66	–	–	–	–	–	–	66
Securitisations	44	14	2	2	–	–	–	62
Commercial Mortgages	–	–	–	–	–	–	36	36
Total	**5, 282**	**1, 077**	**464**	**632**	**20**	**–**	**3, 322**	**10, 797**

Credit quality steps correspond to the following external ratings:

Counterparty quality step	Fitch	Moody's	S&P	Banque de France
1	AAA to AA-	Aaa to Aa3	AAA to AA-	3++
2	A+ to A-	A1 to A3	A+ to A-	3+, 3
3	BBB+ to BBB-	Baa1 to Baa3	BBB+ to BBB-	4+
4	BB+ to BB-	Ba1 to Ba3	BB+ to BB-	4 to 5+
5	B+ to B-	B1 to B3	B+ to B-	5 to 6
6	<CCC+	<Caa1	<CCC+	7 to 9

Counterparty credit risk

Counterparty credit risk ("CCR") is deemed to be the risk that a counterparty to a derivative transaction defaults. The duration of the derivative and the credit quality of the counterparty are both factored into the internal capital and credit limits for counterparty credit exposures.

Given the profile of the Group, this type of risk is not material. The table below details CCR exposures. Derivatives positions are not netted.

In millions of euro	Gross Exposure	Financial collateral	EAD
Banking book	42	2	40
Trading book Equity	106	17	89
Total	**148**	**19**	**129**

Credit risk mitigation techniques

The value of financial collateral used as credit risk mitigation is €1,799m as of 31 March 2017. The main types of collateral consist of netting agreements for market related transactions and of financial collateral related to Lombard Lending to private clients. Note that exposures to Private Clients that are above €1m are classified as corporate, as defined by CRR.

Net exposure is calculated after value adjustment due to provision or value changes on Available For Sale ("AFS") securities. Fully adjusted exposure is calculated after collateral mitigation on net exposures. EAD includes off balance sheet exposures based on credit conversion factors provided by French regulations.

In millions of euro	Net Exposure	Financial collateral	Fully adjusted Exposure	EAD	RWA
Corporates	2,264	709	1,555	1,454	1,105
High Risk Exposures	858	139	719	719	1,078
Other	957	2	955	955	989
Institutions	2,662	675	1,987	1,970	563
Retail	913	253	660	621	344
Equity	184	–	184	184	264
Past due exposures	118	8	110	109	147
Residential Mortgages	350	12	338	338	119
Collective Investment Units	66	–	66	66	43
Commercial Mortgages	36	–	36	36	30
Securitisations	62	–	62	62	30
Sovereigns	303	1	302	303	8
Central Banks	3,914	–	3,914	3,914	–
Multilateral Development Banks	66	–	66	66	–
Total	**12,753**	**1,799**	**10,954**	**10,797**	**4,720**

Securitisations

The Group's primary securitisation focus is on managing securitisation vehicles on behalf of third party investors. This may involve the transfer of some assets from the Group, but these are immaterial in both the context of the Group's and the securitisation vehicles' balance sheets. The Group does not underwrite or provide liquidity support to these vehicles.

The Group may invest in both its managed vehicles and third party securitisations. The table below sets out investments in securitisations by credit quality step as at 31 March 2017:

In millions of euro	Credit quality step	Total EAD	RWA
Resecuritisation	2	10	10
Securitisation	1	44	9
Securitisation	2	4	2
Securitisation	3	2	2
Securitisation	4	2	7
Total		**62**	**30**

7. Market Risk

Market risk arises mainly from FX risk in the Group's Merchant Banking activities, which do not systematically hedge FX exposures on gains that are not realised. Market risk capital requirements split by risk type were as follows at 31 March 2017:

In millions of euro	Risk Weighted Assets	Capital requirement
FX risk	124	10
Interest Rate risk	1	–
Equity risk	27	2
Commodity risk	6	1
Credit Value Adjustment	14	1
Total	**172**	**14**

All market risk requirements are calculated using the standardised approach.

Interest rate risk from the non-Trading Book is described within the Rothschild & Co 2017 Annual Report (page 144).

8. Operational Risk

The capital requirement for operational risk is calculated using the Basic Indicator Approach for the Rothschild & Co Group except for RCB where the use of the Advanced Measurement Approach has been authorised by the ACPR.

The Group Operational Risk Policy defines roles, responsibilities and accountabilities across the Group for the identification, measurement, monitoring and reporting of operational risks. Risk maps are developed by each business and support unit.

The nature of Rothschild & Co's businesses means that operational risks are most effectively mitigated through the application of rigorous internal procedures and processes, with a particular emphasis on client take-on, identification of conflicts of interest, project–specific appointment letters, formal approval of new products and quality controls in transaction implementation. This is supported by a programme of training on Rothschild & Co Group's procedures and regulatory and compliance issues. The Rothschild & Co Group manages its operational risks through a variety of techniques, including monitoring of incidents, internal controls, training and various risk mitigation techniques, such as insurance and business continuity planning.

One of the objectives of the Group Operational Risk Policy is to ensure that operational risk is managed and reported consistently across the Group. Senior management of each business and support unit is required to:

- identify the operational risks which are material in its business;
- describe the controls in place to mitigate these risks; and
- assess the potential impact of each risk, and the likelihood of an event occurring (after taking account of mitigants in place).

Senior management in the operating entities is required to identify, escalate and report operational risk incidents and control weaknesses which give rise to or potentially give rise to financial loss or reputation damage.

The ACPR authorised RCB to use the Advanced Measurement Approach in December 2007. The RCB framework is composed of both qualitative and quantitative elements. The qualitative elements follow the requirements for the Rothschild & Co Group as set out in the Group Operational Risk Policy. The quantitative elements comprise an internal model that quantifies material operational risks. The RCB internal model inputs are internal data, external data, scenario analysis and Key Risk Indicators that reflect the business and internal control environment. Internal losses are collected without threshold at RCB. Scenario analyses are defined with business experts for material risks. The RCB model is composed of eleven risk classes based on the combination of Basel business lines and the following Basel risk categories:

- Internal fraud;
- External fraud;
- Employment practices and workplace safety;
- Clients, products, and business practices;
- Damage to physical assets;
- Business disruption and system failures; and
- Execution, delivery, and process management.

The RCB insurance programme has been revised during the deployment of the Operational Risk Advanced Measurement Approach framework to allow the recognition of the effect of insurance techniques as a factor reducing capital.

In millions of euro	**Risk Weighted Assets**	**Capital requirement**
Basic Indicator Approach	2,500	200
Advanced Measurement Approach	502	40
Total	**3,002**	**240**

9. Asset Encumbrance

Assets on the balance sheet and collateral received used as pledges, guarantees or enhancement of a transaction and which cannot be freely withdrawn are considered to be encumbered. The following are the main transactions with asset encumbrance:

- secured financing transactions, such as repurchase contracts and agreements;
- collateral placed for the market value of derivatives transactions; and
- assets in portfolio hedging of long term employee benefits.

The ratio of encumbered assets to the assets on the Group's balance sheet was 1.73% as at 31 March 2017. According to EBA Report on Asset Encumbrance, the total weighted average asset encumbrance of EU banks is 25.6% in December 2015 and 27.1% in March 2015.

Encumbered and unencumbered assets **In millions of euro**	**Carrying amount of encumbered assets**	**Fair value of encumbered assets**	**Carrying amount of unencumbered assets**	**Fair value of unencumbered assets**
Equity instruments	–	–	951	951
Debt securities	112	112	953	953
Other assets	55	N/A	10,106	N/A
Total assets	167	112	12, 010	1, 904

Encumbered and unencumbered collateral **In millions of euro**	**Fair value of encumbered collateral received or own debt securities issued**	**Fair value of collateral received or own debt securities issued available for encumbrance**
Equity instruments	–	–
Debt securities	57	753
Other assets	–	–
Total collateral	57	753

Encumbered assets/collateral received and associated liability **In millions of euro**	**Matching liabilities, contingent liabilities or securities lent**	**Assets, collateral received and own debt securities issued**
Carrying amount of selected financial liabilities	180	187

Appendix A – Leverage Ratio

Disclosure according to Article 451 in CRR (EU) No. 575/2013

Summary reconciliation of accounting assets and leverage ratio exposures

Template reference		Applicable Amounts (€m)
1	Total consolidated assets as per published financial statements	12,177
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	–
3	Adjustment for fiduciary assets recognised on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure according to Article 429(11) of Regulation (EU) No. 575/2013	–
4	Adjustments for derivative financial instruments	–
5	Adjustment for securities financing transactions (i.e. repos and similar secured lending)	–
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	780
7	Other adjustments	(363)
8	Leverage ratio exposure	12,594

Split of on balance sheet exposures excluding derivatives and Securities Financing Transactions (SFTs)

Template reference		CRR leverage ratio exposures (€m)
EU-1	Total on-balance sheet exposures (excluding derivatives and SFTs), of which:	11,345
EU-2	Trading book exposures	38
EU-3	Banking book exposures, of which:	11,307
EU-4	Covered bonds	–
EU-5	Exposures treated as sovereigns	4,283
EU-6	Exposures to regional governments, MDB, international organisations and PSE NOT treated as sovereigns	–
EU-7	Institutions	1,940
EU-8	Secured by mortgages of immovable properties	372
EU-9	Retail exposures	807
EU-10	Corporate	1,809
EU-11	Exposures in default	110
EU-12	Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	1,986

Leverage ratio common disclosure

Template reference		CRR leverage ratio exposures
On-balance sheet exposures		
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	11,345
2	Asset amounts deducted in determining Tier 1 capital	(363)
3	Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)	10,982
Derivative exposures		
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	22
5	Add-on amounts for PFE associated with all derivatives transactions	–
EU-5a	Exposure determined under Original Exposure Method	–
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the operative accounting framework	–
7	Less: Deductions of receivables assets for cash variation margin provided in derivatives transactions (reported as negative amounts)	–
8	Less: Exempted CCP leg of client-cleared trade exposures (reported as negative amounts)	–
9	Adjusted effective notional amount of written credit derivatives	–
10	Less: Adjusted effective notional offsets and add-on deductions for written credit derivatives (reported as negative amounts)	–
11	Total derivative exposures (sum of lines 4 to 5a)	22
Securities financing transaction exposures		
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	–
EU-12a	SFT exposure according to Article 220 of Regulation (EU) No. 575/2013	810
EU-12b	SFT exposure according to Article 222 of Regulation (EU) No. 575/2013	–
13	Less: Netted amounts of cash payables and cash receivables of gross SFT assets (reported as negative amounts)	–
14	CCR exposure for SFT assets	–
15	Agent transaction exposures	–
16	Total securities financing transaction exposures (sum of lines 12a and 12b)	810
Other off-balance sheet exposures		
17	Off-balance sheet exposure at gross notional amount	780
18	Less: Adjustments for conversion to credit equivalent amounts (reported as negative amounts)	–
19	Off-balance sheet items (sum of lines 17 and 18)	780
Capital and total exposures		
20	Tier 1 capital	1,433
EU-21a	Exposures of financial sector entities according to Article 429(4) 2nd subparagraph of Regulation (EU) No. 575/2013	–
21	Total exposures (sum of lines 3, 11, 16, 19 and 21a)	12,594
Leverage ratio		
22	End of quarter leverage ratio	11.4%
EU-22a	Leverage ratio	11.4%
Choice on transitional arrangements and amount of derecognised fiduciary items		
EU-23	Choice on transitional arrangements for the definition of the capital measure	Fully phased-in
EU-24	Amount of derecognised fiduciary items	–

Appendix B – Capital Instruments

Disclosure according to Article 3 in Commission Implementing regulation (EU) No. 1423/2013

Capital instruments[1]

Template reference

1	Issuer	Rothschild & Co SCA	Rothschilds Continuation Finance PLC	Rothschilds Continuation Finance B.V.	Rothschilds Continuation Finance C.I. Ltd
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement	ISIN Code: FR0000031684	ISIN Code: XS0197703118	ISIN Code: GB0047524268	ISIN Code: XS0048662232
3	Governing law(s) of the instrument	French law	English law	English law	English law
Regulatory treatment					
4	Transitional CRR rules	Core Equity Tier 1	Tier 2	Tier 2	Tier 2
5	Post-transitional CRR rules	Core Equity Tier 1	Tier 2	Tier 2	Tier 2
6	Eligible at solo/(sub-) consolidated/solo & (sub-) consolidated	Solo & Consolidated	Solo and (Sub-) Consolidated	Solo and (Sub-) Consolidated	Solo and (Sub-) Consolidated
7	Instrument type (types to be specified by each jurisdiction)	Core Equity Tier 1 as published in Regulation (EU) No. 575/2013 article 484.4	Tier 2 as published in Regulation (EU) No. 575/2013 article 63	Tier 2 as published in Regulation (EU) No. 575/2013 article 63	Tier 2 as published in Regulation (EU) No. 575/2013 article 63
8	Amount recognised in regulatory capital (currency in million, as at most recent reporting date)	EUR 155m	EUR 14m	EUR 17m	EUR 40m
9	Nominal amount of instrument	EUR 155m	EUR 150m	USD 200m	GBP 125m
9a	Issue price	100 per cent of Nominal amount	100 per cent of Nominal amount	100 per cent of Nominal amount	99.989 per cent of Nominal amount
9b	Redemption price	100 per cent of Nominal amount	100 per cent of Nominal amount	100 per cent of Nominal amount	100 per cent of Nominal amount
10	Accounting classification	Shareholders' equity	Non-controlling interest in consolidated subsidiary	Non-controlling interest in consolidated subsidiary	Non-controlling interest in consolidated subsidiary
11	Original date of issuance	N/A	3 August, 2004	22 September, 1986	8 February, 1994
12	Perpetual or dated	N/A	Perpetual	Perpetual	Perpetual
13	Original maturity date	N/A	No maturity	No maturity	No maturity
14	Issuer call subject to prior supervisory approval	N/A	Yes	Yes	Yes
15	Optional call date, contingent call dates, and redemption amount	N/A	August 2014	September 1991	February 2004
16	Subsequent call dates, if applicable	N/A	N/A	N/A	N/A
Coupons/dividends					
17	Fixed or floating dividend/coupon	Floating	Floating	Floating	Fixed
18	Coupon rate and any related index	N/A	EUR-TEC10-CNO plus a margin	LIBOR plus a margin	9 per cent
19	Existence of a dividend stopper	N/A	No	No	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary	Fully discretionary	Fully discretionary	Fully discretionary
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary	Fully discretionary	Fully discretionary	Fully discretionary
21	Existence of step up or other incentive to redeem	N/A	No	No	No
22	Non-cumulative or cumulative	N/A	Cumulative	Cumulative	Cumulative
23	Convertible or non-convertible	N/A	Non-convertible	Non-convertible	Non-convertible
24	If convertible, conversion trigger (s)	N/A	N/A	N/A	N/A
25	If convertible, fully or partially	N/A	N/A	N/A	N/A
26	If convertible, conversion rate	N/A	N/A	N/A	N/A
27	If convertible, mandatory or optional conversion	N/A	N/A	N/A	N/A

Capital instruments[1] – continued

Template reference

28	If convertible, specify instrument type convertible into	N/A	N/A	N/A	N/A
29	If convertible, specify issuer of instrument it converts into	N/A	N/A	N/A	N/A
30	Write-down features	N/A	No	No	No
31	If write-down, write-down trigger (s)	N/A	N/A	N/A	N/A
32	If write-down, full or partial	N/A	N/A	N/A	N/A
33	If write-down, permanent or temporary	N/A	N/A	N/A	N/A
34	If temporary write-down, description of write-up mechanism	N/A	N/A	N/A	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Subordinated to deeply subordinated notes	Subordinated to unsubordinated notes	Subordinated to unsubordinated notes	Subordinated to unsubordinated notes
36	Non-compliant transitioned features	No	No	No	No
37	If yes, specify non-compliant features	N/A	N/A	N/A	N/A

(1) 'N/A' inserted if the question is not applicable.

Regulatory Capital under final provision

Template reference		€m (Full basis)
1	Capital instruments and the related share premium accounts	1,293
2	Retained earnings	514
3	Accumulated other comprehensive income (and any other reserves)	(145)
5	Minority interests (amount allowed in consolidated CET1)	–
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	134
6	Common Equity Tier 1 (CET1) capital before regulatory adjustments	1,796
7	Additional value adjustments (negative amount)	(1)
8	Intangible assets (net of related tax liability) (negative amount)	(282)
10	Deferred tax assets that rely on future profitability excluding those arising from temporary difference (net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)	(14)
11	Fair value reserves related to gains or losses on cash flow hedges	–
15	Defined-benefit pension fund assets (negative amount)	(18)
16	Direct and indirect holdings by an institution of own CET1 instruments (negative amount)	(19)
16	Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions)(negative amount)	–
20a	Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative	(29)
20c	of which: securitisation positions (negative amount)	(29)
27	Qualifying AT1 deductions that exceeds the AT1 capital of the institution (negative amount)	–
28	Total regulatory adjustments to Common Equity Tier 1 (CET1)	(363)
29	Common Equity Tier 1 (CET1) capital	1,433
44	Additional Tier 1 (AT1) capital	–
45	Tier 1 capital (T1 = CET1 + AT1)	1,433
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interest and AT1 instruments not included in row 5) issued by subsidiaries and held by third party	71
51	Tier 2 (T2) capital before regulatory adjustment	71
57	Total regulatory adjustments to Tier 2 (T2) capital	–
58	Tier 2 (T2) capital	71
59	Total capital (TC = T1 + T2)	1,504
60	Total Risk Weighted Assets	7,894
Capital ratios and buffers		
61	Common Equity Tier 1 (as a percentage of total risk exposure amount	18.2%
62	Tier 1 (as a percentage of total risk exposure amount	18.2%
63	Total capital (as a percentage of total risk exposure amount	19.1%
64	Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements plus a systemic risk buffer, plus systemically important institution buffer expressed as a percentage of total risk exposure amount)	2.5%
65	of which: capital conservation buffer requirement	2.5%
66	of which: countercyclical buffer requirement	–
67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	–
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	13.7%

Regulatory Capital under final provision – continued

Template reference		€m (Full basis)
Amounts below the thresholds for deduction (before risk-weighting)		
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	134
73	Direct and indirect holdings of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	–
75	Deferred tax assets arising from temporary difference (amount below 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met)	54
Applicable caps on the inclusion of provisions in Tier 2		
76	Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)	–
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	4,720
78	Credit risk adjustments included in T2 in respect of exposures subject to internal rating-based approach (prior to the application of the cap)	–
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	–

Appendix C – 'Own Funds': Full Basis and Transitional Basis

Disclosure according to Article 5 in Commission implementing regulation (EU) No. 1423/2013

Regulatory Capital under transitional provisions

Template reference		€m (Transitional provisions)	Transitional adjustment
Common Equity Tier 1 capital: instruments and reserves [(1)]			
1	Capital instruments and the related share premium accounts	1,293	–
2	Retained earnings	514	–
3	Accumulated other comprehensive income (and any other reserves)	(145)	–
5	Minority interests (amount allowed in consolidated CET1)	–	–
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	134	–
6	Common Equity Tier 1 (CET1) capital before regulatory adjustments	1,796	
7	Additional value adjustments (negative amount)	(1)	–
8	Intangible assets (net of related tax liability) (negative amount)	(282)	–
10	Deferred tax assets that rely on future profitability excluding those arising from temporary difference (net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)	(5)	8
11	Fair value reserves related to gains or losses on cash flow hedges	–	–
15	Defined-benefit pension fund assets (negative amount)	(14)	4
16	Direct and indirect holdings by an institution of own CET1 instruments (negative amount)	(19)	–
18	Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	–	–
20a	Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative	(29)	–
20c	of which: securitisation positions (negative amount)	(29)	–
26a	Regulatory adjustments relating to unrealised gains and losses pursuant to Articles 467 and 468	(7)	–
26b	Amount to be deducted from or added to Common Equity Tier 1 capital with regard to additional filters and deductions required pre CRR	–	–
27	Qualifying AT1 deductions that exceeds the AT1 capital of the institution (negative amount)	–	–
28	Total regulatory adjustments to Common Equity Tier 1 (CET1)	(357)	–
29	Common Equity Tier 1 (CET1) capital	1,439	–
44	Additional Tier 1 (AT1) capital	–	–
45	Tier 1 capital (T1 = CET1 + AT1)	1,439	–
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interest and AT1 instruments not included in row 5) issued by subsidiaries and	87	16
51	Tier 2 (T2) capital before regulatory adjustment	87	–
57	Total regulatory adjustments to Tier 2 (T2) capital	–	–
58	Tier 2 (T2) capital	87	–
59	Total capital (TC = T1 + T2)	1,526	–
60	Total risk-weighted assets	7,894	–
Capital ratios and buffers			
61	Common Equity Tier 1 (as a percentage of total risk exposure amount)	18.2%	–
62	Tier 1 (as a percentage of total risk exposure amount)	18.2%	–
63	Total capital (as a percentage of total risk exposure amount)	19.3%	–
64	Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements plus a systemic risk buffer, plus systemically important institution buffer expressed as a percentage of total risk exposure amount)	1.25%	–
65	of which: capital conservation buffer requirement	1.25%	–
66	of which: countercyclical buffer requirement	–	–
67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	–	–
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	13.7%	–

Template reference		€m (Transitional provisions)	Transitional adjustment
Amounts below the thresholds for deduction (before risk-weighting)			
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions	134	–
73	Direct and indirect holdings of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions	–	–
75	Deferred tax assets arising from temporary difference (amount below 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met)	54	–
Applicable caps on the inclusion of provisions in Tier 2			
76	Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)	–	–
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	4,720	–
78	Credit risk adjustments included in T2 in respect of exposures subject to internal rating-based approach (prior to the application of the cap)	–	–
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	–	–

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