Compagnie
Bancaire
Helvétique

BASEL III PILLAR 3

Disclosures IRRBB Report as of 31.12.2019

Cover - Myoung Ho Lee - Tree #12, 2008 - Archival Inkjet Print - © Collection CBH

Index

Introduction

The aim of this document is to provide investors, analysts, rating agencies and regulatory bodies with in-depth information on the risk management of the CBH Compagnie Bancaire Helvétique SA Group (hereinafter “CBH”).

It provides information in particular on the adequacy of the Bank’s capital, the risk assessment methods and the level of risks incurred. This document has been drawn up in accordance with the publication requirements of Pillar 3 of the Basel III Accord and of Swiss Financial Market Supervisory Authority (FINMA) Circular 2016/1 “Publication – banks”.

The CBH Group has limited the information provided in the report to the quantitative and qualitative information considered relevant.

Consolidation scope

The consolidated financial statements of the CBH Group include the financial statements of the companies controlled directly or indirectly by the Group and those over which the Group exerts significant influence. These companies are fully consolidated.

The companies forming part of the scope of consolidation are described in note 32 to the CBH Group’s Annual Report.

The companies taken into account in calculating capital requirements are the same as those forming part of the scope for establishing the consolidated financial statements.

There are no restrictions that might prevent transfers of money or capital within the Group.

Publication requirements related to equity and liquidity

Key metrics (KM1)

(in 1'000 CHF)	*31.12.2019*	*31.12.2018*
Available capital		
Common Equity Tier 1 (CET1)	216 181	194 290
Tier 1	216 181	194 290
Total capital	216 181	194 290
Risk-weighted assets		
Total risk-weighted assets (RWA)	632 187	605 977
Minimum capital requirement	50 575	48 478
Risk-based capital ratios as a percentage of RWA		
Common Equity Tier 1 ratio (%)	34.20%	32.06%
Tier 1 ratio (%)	34.20%	32.06%
Total capital ratio (%)	34.20%	32.06%
Additional CET1 buffer requirements as a percentage of RWA		
Capital convervation buffer requirement (2.5% from 2019)	2.50%	1.88%
Total of bank CET1 specific buffer requirements	2.50%	1.88%
CET1 available after meeting the bank's minimum capital requirements	26.20%	28.56%
Target capital ratios according to annex 8 of the CAO as a percentage of RWA		
Capital buffer accordance with annex 8 CAO	3.20%	3.20%
Countercyclical capital buffer (art. 44 and 44a CAO)	0.02%	0.02%
Target ratio in CET1 (in%) according to annex 8 of the CAO plus contercyclical buffer according to art. 44 and 44a CAO	7.42%	7.42%
Target ratio in T1 (in%) according to annex 8 of the CAO plus contercyclical buffer according to art. 44 and 44a CAO	9.02%	9.02%
Overall target capital ratio (in%) according to annex 8 of the CAO plus contercyclical buffer according to art. 44 and 44a CAO	11.22%	11.22%
Basel III leverage ratio		
Total Basel III leverage ratio exposure measure	2 910 263	2 449 712
Basel III leverage ratio (%)	7.43%	7.93%
Liquidity Coverage Ratio		
Total HQLA	446 267	452 699
Total net cash outflow	203 003	303 912
LCR ratio (%)	219.83%	148.96%

Publication requirements related to equity and liquidity

Overview of risk weighted assets (OV1)

(in 1'000 CHF)		31.12.2019	31.12.2018	31.12.2019
	Methodology	*RWA*	*RWA*	*Minimum Capital Requirement*
Credit risk	*Standard*	436 011	426 992	34 881
Market risk	*Standard*	15 960	21 756	1 277
of which currencies and gold				164
of which commodities (precious metal)				1 113
Operational risk	*Basic indicator*	170 659	147 335	13 653
Amounts below treshold for deductions (with 250% to be risk weighted positions)	–	821	1 055	66
Total		**623 451**	**597 138**	**49 877**

CBH's risk profile derives mainly from credit and counterparty risk (70% of total weighted assets); operational risks (basic indicator approach) contribute for 27%, while market risks account for 3% of total weighted assets.

Total minimum regulatory capital funds required amount to CHF 50.6 million, compared with eligible capital of CHF 216.2 million.

Liquidity risk

Strategy and procedures

The principles of liquidity risk management are defined by the Board of Directors. The risk profile is expressed by various indicators, including the short-term liquidity ratio (SLR). The target risk profile is reviewed annually by General Management and validated by the Board of Directors.

Structure and organisation

General Management delegates to the Treasury Committee the responsibility for managing liquidity risk in accordance with the principles defined by the Board of Directors. The evolution of the liquidity risk is monitored on a monthly basis by this Committee and presented every quarter to General Management and the Audit Committee.

Treasury is in charge of operational management of liquidity risk and decides on ALM transactions such as interbank placements or the acquisition of non-current financial assets.

Risk assessment

Liquidity risk indicators are calculated and presented in accordance with the following two approaches:

- The static approach, consisting in calculating the risk indicators at any given date. It allows the immediate level of risk to be assessed and the evolution to be followed from a historical point of view;
- The dynamic approach, based on the simulation of how balance sheet items would evolve over the next three years under three scenarios reflecting possible trends in commercial activity and thus allowing us to anticipate the evolution of the level of risk.

The risk indicators are rounded out with the performance of stress tests quantifying the impact of various crisis scenarios on the liquidity position at any given time horizon. Analysis of the results of these stress tests serves as the starting point for the calibration of the target risk profile.

Structure and refinancing

Cash management is entrusted to the Treasury department. In this context, customer assets not invested are placed prudently, complying with such constraints as have been clearly expressed.

Emergency plan

The Bank has defined an emergency plan providing for the implementation of strategies in the event of a liquidity crunch. The emergency plan is based on the following elements:

- a system of detection allowing the level of risk to be assessed by reference to specific and systemic risk indicators;
- escalation rules specifying the levels of hierarchy to be alerted depending on how the situation evolves;
- an action plan and the responsibilities for managing a liquidity crisis.

The emergency plan is reviewed annually.

Short-term liquidity ratio (SLR)

The SLR is an international regulatory liquidity standard defined by the Basel Committee and transposed into Swiss law by the Order on Bank Liquidity (“OLiq”) which came into force on 1 January 2015. The SLR ensures that a bank has sufficient liquidity to face a liquidity stress over a period of 30 days. The SLR is calculated as the ratio of available high-quality liquid assets (HQLA) to potential net outflows of liquidity at a 30-day horizon. Potential net outflows of liquidity result from the difference between outflows of liquidity (e.g. from withdrawals of sight deposits, non-renewal of borrowings with maturities shorter than 30 days) and inflows of liquidity such as from reimbursement of loans and receivables with maturities at less than 30 days, in a situation of stress. The SLR is set at 90% for 2018 and will be increased to 100% in 2019.

The level of SLR in CHF is structurally higher than that of the SLR for all currencies, since most of the HQLA are denominated in CHF (cash deposited with the SNB). Symmetrically, the level of SLR in EUR and USD is lower than that of the SLR for all currencies.

Publication requirements related to credit risk

Credit risk : Credit quality of assets (CR1)

(in 1'000 CHF)	31.12.2019 Gross carrying values of			
	Defaulted exposures	Non-defaulted exposures	Allowances/ impairments	Net values
Loans (excluding debt securities)	243	2 265 539	243	2 265 539
Debt securities	875	303 158	875	303 158
Off-balance sheet exposures	70	31 795	70	31 795
Total 31.12.2019	**1 188**	**2 600 492**	**1 188**	**2 600 492**
Total 31.12.2018	941	2 101 026	941	2 101 026

Credit risk: Changes in stock of defaulted loans and debt securities (CR2)

(in 1'000 CHF)	*31.12.2019*
Defaulted loans and debt securities at 31.12.2018	941
Loans and debt securities that have defaulted since the last reporting period	272
Returned to non-defaulted status	–
Amounts written off	-23
Other changes (+/-)	-2
Defaulted loans and debt securities at 31.12.2019	**1 188**

Amounts amortized are related to defaulted loans.

Publication requirements related to credit risk

Credit risk: additional information of credit quality of the assets (CRB)

(in 1'000 CHF)

Exposure by region

	Switzerland	Europe	Rest of the world	Total
Loans	182 264	1 239 838	843 680	2 265 782
Of which: due from banks	*69 460*	*373 140*	*18 216*	*460 816*
due from customers	*82 315*	*720 764*	*825 464*	*1 628 543*
mortgages	*30 489*	*145 934*	*–*	*176 423*
Debt securities	16 257	157 867	129 909	304 033
Total	**198 521**	**1 397 705**	**973 589**	**2 569 815**
Of which: Impaired loans past due			1 118	1 118
Value adjustments of impaired positions			*1 118*	*1 118*

Exposure by activity sectors

	Central governments and Central banks	Instituttions	Banks and Stockbrokers	Entreprises	Retail	Other exposures	Total
Loans	78 878	34 680	524 471	1 079 245	522 722	25 786	2 265 782
Of which: due from banks	*–*	*19 088*	*441 728*	*–*	*–*	*–*	*460 816*
due from customers	*78 878*	*15 523*	*81 101*	*1 051 804*	*375 451*	*25 786*	*1 628 543*
mortgages	*–*	*69*	*1 642*	*27 441*	*147 271*	*0*	*176 423*
Debt securities	256 976	38 757	7 000	1 300	–	–	304 033
Total	**335 854**	**73 437**	**531 471**	**1 080 545**	**522 722**	**25 786**	**2 569 815**
Of which: Impaired loans past due			*875*		*243*		*1 118*
Value adjustments of impaired positions			*875*		*243*		*1 118*

Exposure by duration

	At sight	Cancellable	Due			Total
			Within 3 months	Within 3 month to 12 month	Within 12 month to 5 years	
Loans	236 636	885 662	605 943	535 261	2 280	2 265 782
Of which: due from banks	*236 636*	*220 140*	*4 041*	*–*	*–*	*460 817*
due from customers	*–*	*664 484*	*453 368*	*508 410*	*2 280*	*1 628 542*
mortgages	*–*	*1 038*	*148 534*	*26 851*	*–*	*176 423*
Debt securities	–	–	169 190	128 036	6 807	304 033
Total	**236 636**	**885 662**	**775 133**	**663 297**	**9 087**	**2 569 815**

Publication requirements related to credit risk

Credit risk: Credit risk mitigation techniques – overview (CR3)

(in 1'000 CHF)	31.12.2019		
	Exposures unsecured: carrying amount	Exposures secured by collateral, of which: secured amount	Exposures secured by financial guarantees or credit derivatives, of which: secured amount
Loans (including debt securities)	894 776	1 630 774	44 265
Off-balance sheet	22 848	8 448	499
Total 31.12.2019	**917 624**	**1 639 222**	**44 764**
Of which defaulted	*1 188*	–	–
Total 31.12.2018	686 056	1 378 522	37 389

Credit risk: exposures by asset classes and risk weights under the standardized approach (CR5)

(in 1'000 CHF)

Asset classes / Risk weight	**0%**	**20%**	**35%**	**50%**	**75%**	**100%**	**150%**	**Total credit exposures amount (post CCF and post-CRM)**
Sovereigns and their central banks	438 542	–	–	48 877	–	–	24 176	511 595
Banks and securities traders	–	439 613	–	46 179	–	7 103	1 300	494 195
Public-sector entities and multilateral developments banks	–	62 147	–	–	–	–	–	62 147
Corporate	–	–	947	–	78	71 706	2	72 733
Retail	–	–	92 484	–	11 240	105 593	–	209 317
Equity securities	–	–	–	–	–	-	2 529	2 529
Other assets	2 564	–	–	–	–	14 749	-	17 313
Total 31.12.2019	**441 106**	**501 760**	**93 431**	**95 056**	**11 318**	**199 151**	**28 007**	**1 369 829**
Thereof receivables secured by real estate	–	–	*93 431*	–	*1 321*	*58 307*	–	*153 059*
Thereof receivables past due								
Total 31.12.2018	361 209	373 430	140 749	19 352	8 692	206 605	41 051	1 151 089

Publication requirements related to interest rate risk in the banking book

Interest rate risk: Objectives and guidelines for the management of interest rate risk in the banking book

Interest rate risk in the banking book (IRRBB) is the potential risk to a bank’s capital and to its earnings, arising from the impact of adverse movements in interest rates on its banking book.

Changes in interest rates can affect the economic value of equity (EVE) as well as the bank's earnings by increasing or decreasing the net interest income (NII) and the level of other interest rate-sensitive income and operating expenses.

The Bank measures the vulnerability to loss under stressful market conditions and defines at Group level the risk appetite for interest rate risk in the Banking book by fixing limits articulated in termes of risk to both economic value and earnings. These limits are expressed as:

- Sensitivity of economic value (equity effect)
- Net interest margin sensitiveness on a rolling 12-month periode (earnings effect)

The Board of Directors decides on the Bank's risk management and risk strategy principles, which include interest rate risk in the bank portfolio (IRRBB). The General Management is responsible for the organization and operation of the management of the IRRBB.

Based on the principles written in FINMA circular 2019/02 the interest rate risk is measured quarterly using:

- Indicators to monitor the changes in economic value of Banking book (present value of equity and the sensitiveness of the present value of equity to a parallel change of +/- 100 basis points in the yield curves of different currencies for a one year time horizon).
- Indicators to monitor the changes in earnings (sensitiveness of the net interest margin to a parallel move up and down of 100 basis points in the yield curves of different currencies).
- Gap maturities analysis, identifying the gap risk resulting form the term structure of interest rate sensitive instruments that arises from differences in the timing of their rate changes.

Publication requirements related to interest rate risk in the banking book

Interest rate risk: quantitative information on the exposure's structure and interest rate fixing date

(in 1'000 CHF)

	Volume in CHF million			Average interest rate reset period (in years)	
	Total	**Of which in CHF**	**Of which in other significant currencies ***	**Total**	**Of which in CHF**
Defined interest rate reset date					
Amounts due from banks	4 041	–	2 185	0.12	–
Amounts due from customers	964 058	273 560	674 719	0.47	0.37
Fixed-rate mortgage	175 385	36 451	89 298	0.20	0.31
Financial investments	304 033	24 557	279 476	0.91	0.78
Receivables from interest-rate derivatives	272 225	43 490	228 735	0.04	0.04
Amounts due in respect of client deposits	-33 374	–	-33 374	0.04	0.00
Payables to interest-rate derivatives	-271 346	–	-146 576	0.04	0.00
Undefined interest rate reset dates					
Amounts due from banks	412 933	22 982	327 273	–	–
Amounts due from customers	664 604	73 620	456 841	–	–
Payables on demand from personal accounts and current accounts	-2 439 488	-459 453	-1 878 096	–	–
Other payables on demand	-65 476	-4 909	-58 387	–	–
Total	**-12 405**	**10 298**	**-57 906**		

** significant currencies that make up more than 10% of assets or liabilities of total assets*

Total	**- of assets**	**2 797 279**	**474 660**	**2 058 527**
	- of liabilities	**-2 809 684**	**-464 362**	**-2 116 433**

Publication requirements related to interest rate risk in the banking book

Interest rate risk: quantitative information on economic value and net interest income

(in 1'000 CHF)	**Δ EVE** (change in economic value of equity)		**Δ NII** (change in net interest income)	
	31.12.2019	30.06.2019 *	**31.12.2019**	30.06.2019 *
Parallel up	-7 633	-10 532	38 546	10 886
Parallel down	7 798	10 801	-19 127	-8 614
Steepener *(1)*	5 094	8 001		
Flattener *(2)*	-6 480	-8 088		
Short rate up	-8 524	-9 198		
Short rate down	8 692	11 218		
Maximum	-8 524	-10 532	-19 127	-8 614
	31.12.2019	30.06.2019 *		
Tier 1 capital	216 181	197 102		

** First publication on 30.06.2019*

(1) Lower short-term rates combined with higher long-term rates.
(2) Short-term rate increases combined with lower long-term rates.

The Group's banking book interest rate risk exposure is significantly below the threshold of 15% of eligible capital (Tier 1) used by regulators to identify a potentially unduly high interest rate risks.

Operational risks

Strategy and procedures

Operational risk exposure results from exercising the Bank's businesses and is not actively sought.

Operational risk management aims to assess and control operational risk factors by identifying areas for improvement and strengthening operational and managerial control systems. In particular, the Bank aims to reduce its risk of exposure to:

- inappropriate or malicious conduct of employees, service providers, banking counterparties, clients or other external stakeholders;
- inadequate features of IT systems (applications, interfaces and hardware) or other communication systems (telephone, fax and email);
- inappropriate infrastructure;
- an organisational structure that is inadequate in relation to its activities;
- external incidents such as those deriving from the risk of natural disaster.

Structure and organisation

General Management is responsible for devising the policy for managing operational risks and for defining and implementing the measures needed to ensure compliance with the Bank's risk appetite and tolerance. General Management is assisted in the performance of its tasks by the Risk Control department.

Risk assessment

The Bank identifies and classifies risks and events liable to disrupt the smooth implementation of each of its processes and result in financial loss and/or damage to its reputation.

The identification process is based on an analysis of human and organisational factors, as well as those linked to the failure of computer systems or external incidents that may be the cause of the occurrence of events generating operational losses for the Bank.

As controlling entity, Risk Control carries out regular reviews to identify operational risks, risk mitigation measures and the associated controls. These reviews are carried out as part of the annual analysis of the main risks and the review of the operational internal control system.

The Bank determines its capital requirements for operational risks in accordance with the standard approach, which is based on an allocation of gross banking revenues defined by the Bank to the segments of activity established by the regulator.

Internal control system (ICS)

Monitoring of compliance with the limits established and of operational risks is carried out by the Bank's designated department/division managers (first-level controls), the Internal Control, Risk Control and Compliance functions (second-level controls) and Internal Audit (third-level control).

Risk Control reports on this subject to General Management, which ensures that controls exist for each risk, based on the assessment of the risk.

CREATIVITY WITHIN EXCELLENCE

CBH
Compagnie Bancaire Helvétique SA

Boulevard Emile-Jaques-Dalcroze 7
P.O.Box 3754
CH - 1211 Geneva 3

www.cbhbank.com