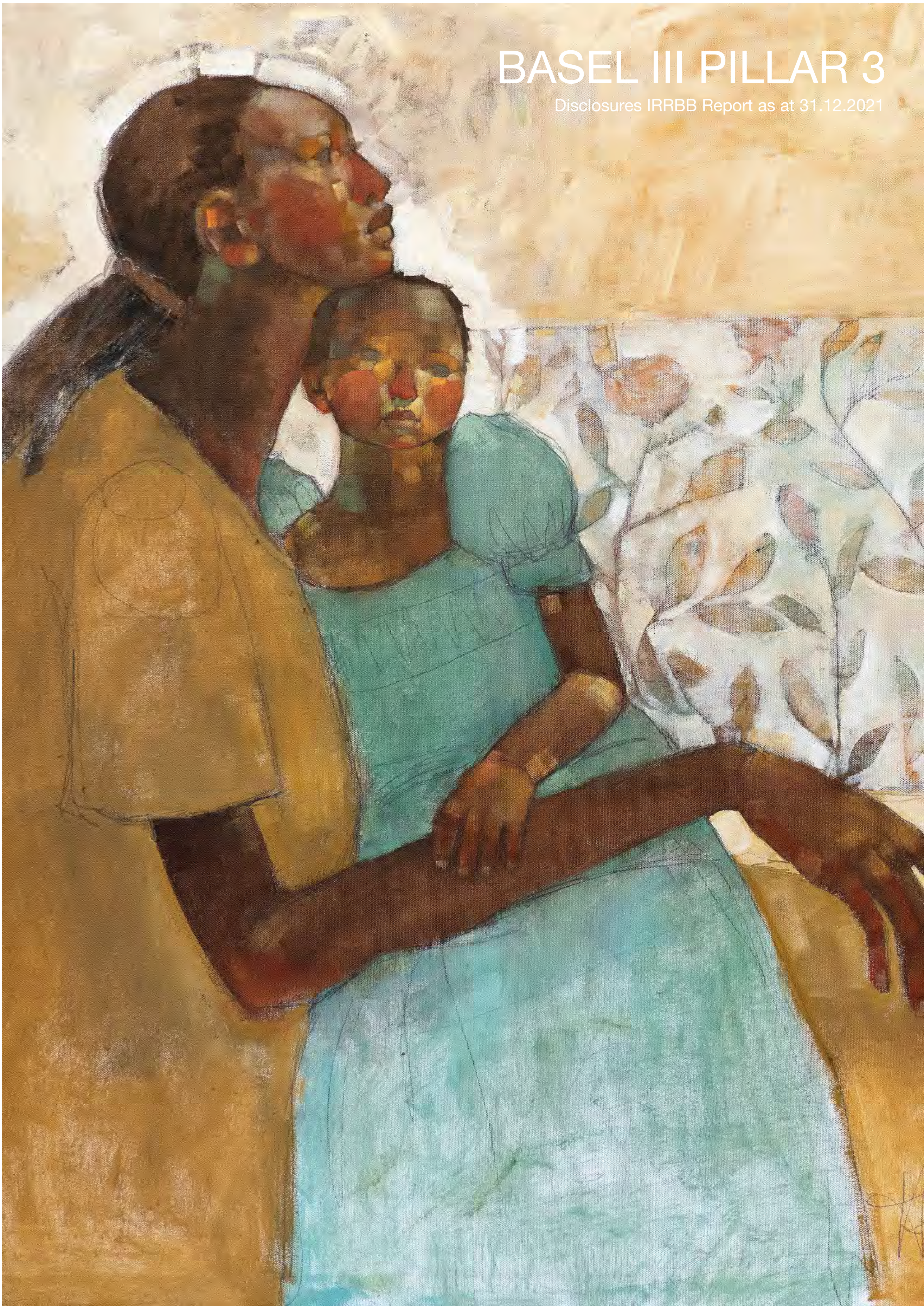
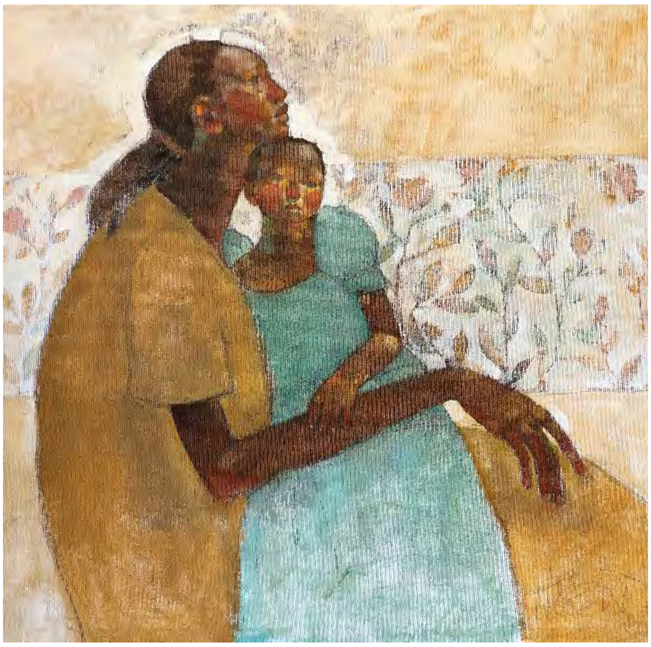
CBH Compagnie Bancaire Helvétique

BASEL III PILLAR 3

Disclosures IRRBB Report as at 31.12.2021



CREATIVITY WITHIN EXCELLENCE



Olivia Mae PENDERGAST - Woman and Child with Roses
2020 - 91cm x 91cm - Huile sur toile / Oil on canvas © Collection privée CBH
Photo : Pascal Bitz

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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 Group”).

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 Framework and of the 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 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)	*31.12.2021*	*31.12.2020*
Available capital		
Common Equity Tier 1 (CET1)	224 043	225 186
Tier 1	236 692	225 186
Total capital	236 692	225 186
Risk-weighted assets		
Total risk-weighted assets (RWA)	867 151	787 018
Minimum capital requirement	69 372	62 961
Risk-based capital ratios as a percentage of RWA		
Common Equity Tier 1 ratio (%)	25,84%	28,61%
Tier 1 ratio (%)	27,30%	28,61%
Total capital ratio (%)	27,30%	28,61%
Additional CET1 buffer requirements as a percentage of RWA		
Capital conservation buffer requirements (2.5% from 2019)	2,50%	2,50%
Total of Group CET1 specific buffer requirements	2,50%	2,50%
CET1 available after meeting the Group's minimum capital requirements	19,30%	20,61%
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)	0,04%	0,02%
Target ratio in CET1 (in%) according to annex 8 of the CAO plus countercyclical buffer according to art. 44 and 44a CAO	7,40%	7,42%
Target ratio in T1 (in%) according to annex 8 of the CAO plus countercyclical buffer according to art. 44 and 44a CAO	9,00%	9,02%
Overall target capital ratio (in%) according to annex 8 of the CAO plus countercyclical buffer according to art. 44 and 44a CAO	11,20%	11,22%
Basel III leverage ratio		
Total Basel III leverage ratio exposure measure	3 462 213	3 398 272
Basel III leverage ratio (%)	6,84%	6,63%
Liquidity Coverage Ratio		
Total HQLA	1 107 405	1 044 771
Total net cash outflow	218 750	224 938
LCR ratio (%)	506,24%	464,47%

Publication requirements related to equity and liquidity

Overview of risk weighted assets (OV1)

(in 1'000 CHF)		*31.12.2021*	*31.12.2020*	*31.12.2021*
	Methodology	*RWA*	*RWA*	*Minimum Capital Requirement*
Credit risk	*Standard*	620 918	528 149	49 673
Market risk	*Standard*	20 708	18 240	1 657
of which currencies and gold				307
of which commodities (precious metal)				1 350
Operational risk	*Basic indicator*	182 920	184 108	14 634
Amounts below treshold for deductions (with 250% to be risk weighted positions)	–	42 604	42 813	3 408
Total		**867 150**	**773 310**	**69 372**

CBH's risk profile derives mainly from credit and counterparty risk (72% of total weighted assets) and operational risks (basic indicator approach) contribute for 21% of total weighted assets.

Total minimum regulatory capital funds required amount to CHF 69 million, compared with eligible capital of CHF 236.7 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 (LCR). 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 the 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 Group 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 in 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 (LCR)

The LCR 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 LCR ensures that a bank has sufficient liquidity to face a liquidity stress over a period of 30 days. The LCR 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 LCR is set at 100% since 2019.

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

Publication requirements related to credit risk

Credit risk : Credit quality of assets (CR1)

(in 1'000 CHF)	31.12.2021 Gross carrying values of			
	Defaulted exposures	Non-defaulted exposures	Allowances/ impairments	Net values
Loans (excluding debt securities)	803	2 021 065	803	2 021 065
Debt securities	–	1 044 217	–	1 044 217
Off-balance sheet exposures	70	39 266	70	39 266
Total 31.12.2021	**873**	**3 104 548**	**873**	**3 104 548**
Total 31.12.2020	570	3 305 041	570	3 305 041

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

(in 1'000 CHF)	*31.12.2021*
Defaulted loans and debt securities at 31.12.2020	570
Loans and debt securities that have defaulted since the last reporting period	543
Returned to non-defaulted status	–
Amounts written off	-241
Other changes (+/-)	1
Defaulted loans and debt securities at 31.12.2021	**873**

In the year under review, the Group did not record any significant changes in stock of defaulted loans and debt securities.

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	376 689	951 563	693 616	2 021 868
Of which: due from banks	*262 773*	*247 531*	*40 667*	*550 971*
due from customers	*55 062*	*470 821*	*622 595*	*1 148 478*
mortgages	*58 854*	*233 211*	*30 354*	*322 419*
Debt securities	–	568 445	475 773	1 044 217
Total	**376 689**	**1 520 007**	**1 169 390**	**3 066 085**
Of which: Impaired loans past due	–	–	803	803
Value adjustments of impaired positions	–	–	*803*	*803*

Exposure by activity sectors

	Central governments and Central banks	Institutions	Banks and Stockbrokers	Corporates	Retail	Other exposures	Total
Loans	40 781	26 302	702 762	628 295	584 345	39 383	2 021 868
Of which: due from banks	-	*22 169*	*528 802*	-	-	-	*550 971*
due from customers	*40 781*	*2 347*	*172 159*	*591 792*	*305 637*	*35 762*	*1 148 478*
mortgages	-	*1 786*	*1 801*	*36 503*	*278 708*	*3 621*	*322 419*
Debt securities	473 927	406 610	163 497	*183*	-	-	1 044 217
Total	**514 708**	**432 912**	**866 259**	**628 478**	**584 345**	**39 383**	**3 066 085**
Of which: Impaired loans past due	–	–	–	–	*803*	–	*803*
Value adjustments of impaired positions	–	–	–	–	*803*	–	*803*

Exposure by duration

	At sight	Cancellable	Due			Total
			Within 3 months	Within 3 to 12 months	Within 12 months to 5 years	
Loans	282 186	690 618	786 304	262 760	-	2 021 868
Of which: due from banks	*282 186*	*72 545*	*150 548*	*45 692*	-	*550 971*
due from customers	-	*618 073*	*390 249*	*140 156*	-	*1 148 478*
mortgages	-	-	*245 507*	*76 912*	-	*322 419*
Debt securities	-	-	813 772	191 167	39 278	1 044 217
Total	**282 186**	**690 618**	**1 600 076**	**453 927**	**39 278**	**3 066 085**

Publication requirements related to credit risk

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

(in 1'000 CHF)	31.12.2021		
	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)	1 759 499	1 252 470	54 588
Off-balance sheet	5 841	33 425	–
Total 31.12.2021	**1 765 340**	**1 285 895**	**54 588**
Of which defaulted	*873*	–	–
Total 31.12.2020	1 803 665	1 443 276	58 600

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%**	**Others**	**Total credit exposures amount (post CCF and post-CRM)**
Sovereigns and their central banks	766 544	–	–	–	–	–	–	–	766 544
Banks and securities traders	–	585 175	–	132 749	1 352	26 513	–	–	745 789
Public-sector entities and multilateral developments banks	164 474	252 369	–	18 276	–	–	–	–	435 119
Corporate	–	–	–	–	–	62 910	1	–	62 911
Retail	–	–	153 752	–	14 432	176 943	–	–	345 127
Equity securities	–	–	–	–	–	–	6 962	17 041	24 003
Other assets	2 203	–	–	–	–	28 476	-	726	31 405
Total 31.12.2021	**933 221**	**837 544**	**153 752**	**151 025**	**15 784**	**294 842**	**6 963**	**17 767**	**2 410 898**
Thereof receivables secured by real estate	–	–	*153 752*	–	*3 480*	*65 083*	–	–	*222 315*
Thereof receivables past due									
Total 31.12.2020	1 007 653	879 792	122 590	107 245	8 060	235 035	2 915	17 765	2 381 055

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 Group 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 terms 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 period (earnings effect)

The Board of Directors decides on the Group'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	196 240	–	191 909	0,16	0,00
Amounts due from customers	530 404	35 649	479 495	0,20	0,45
Fixed-rate mortgages	322 419	60 591	129 331	0,19	0,25
Financial investments	1 044 217	–	1 044 217	0,22	0,00
Receivables from interest-rate derivatives	169 309	–	147 668	0,10	0,00
Amount due in respect of customer deposits	-9 432	–	-7 708	0,12	0,00
Payables to interest-rate derivatives	-170 768	-50 000	-80 058	0,10	0,00
Undefined interest rate reset date					
Amounts due from banks	293 561	15 108	215 304	0,00	0,00
Amounts due from customers	618 213	40 388	550 262	0,00	0,00
Payables on demand from personal accounts and current accounts	-2 960 281	-175 285	-2 566 919	0,00	0,00
Other payables on demand	-104 480	-3 918	-94 989	0,00	0,00
Total	**-70 598**	**-77 467**	**8 512**		

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

Total	**- of assets**	**3 174 363**	**151 736**	**2 758 186**
	- of liabilities	**-3 244 961**	**-229 203**	**-2 749 674**

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)	
	31.12.2021	31.12.2020	**31.12.2021**	31.12.2020
Parallel up	-8 571	-9 831	32 917	43 588
Parallel down	8 657	10 019	-15 348	-11 155
Steepener *(1)*	6 253	7 127		
Flattener *(2)*	-7 956	-8 985		
Short rate up	-10 397	-11 675		
Short rate down	10 505	11 909		
Maximum	-10 397	-11 675	-15 348	-11 155
	31.12.2021	31.12.2020		
Tier 1 capital	236 692	225 186		

(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 risk.

Operational risks

Strategy and procedures

Operational risk exposure results from exercising the Group'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 Group 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 Group’s risk appetite and tolerance. General Management is assisted in the performance of its tasks by the Risk Control department.

Risk assessment

The Group 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 Group.

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 Group 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 Group 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 Group’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

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