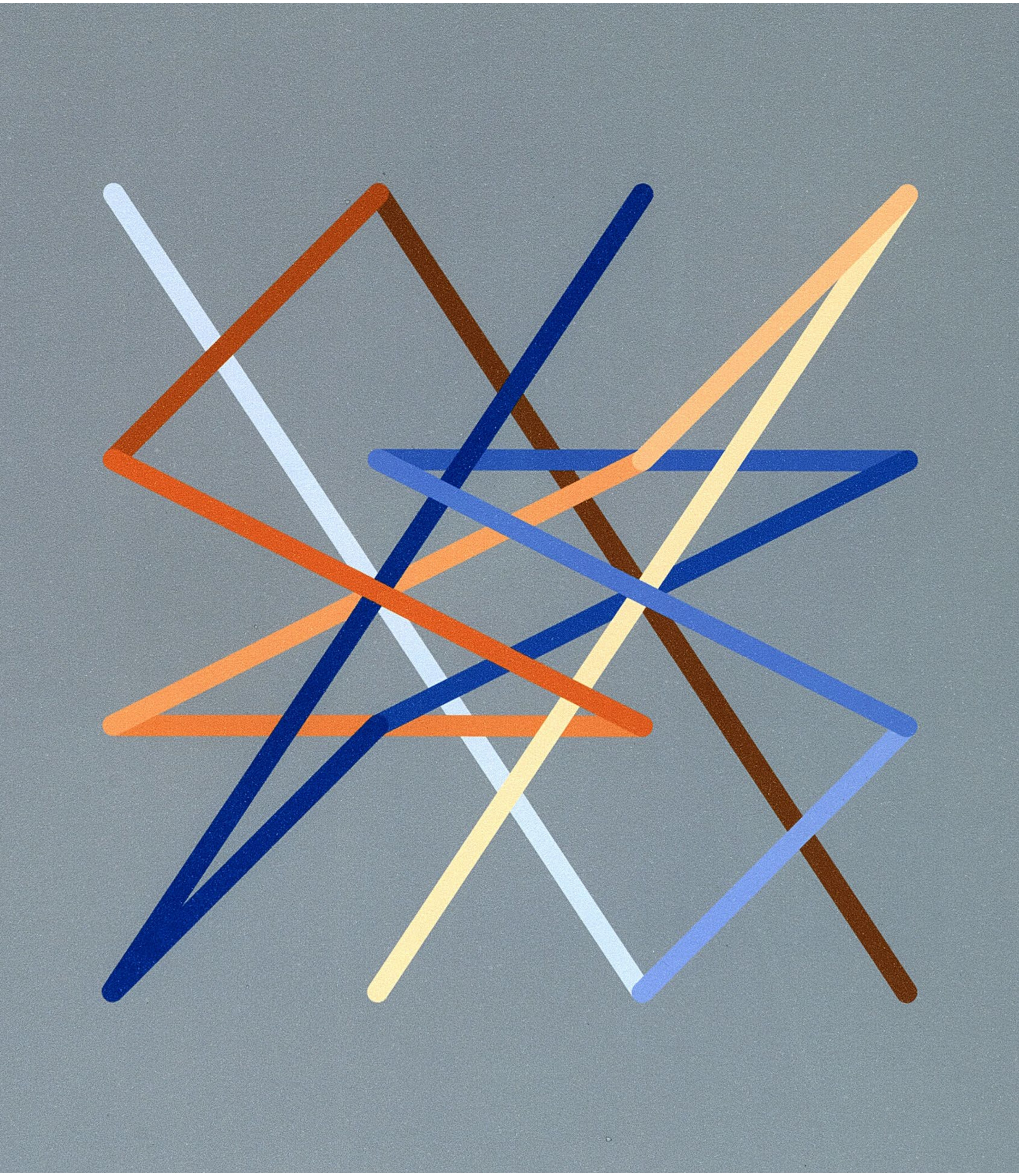
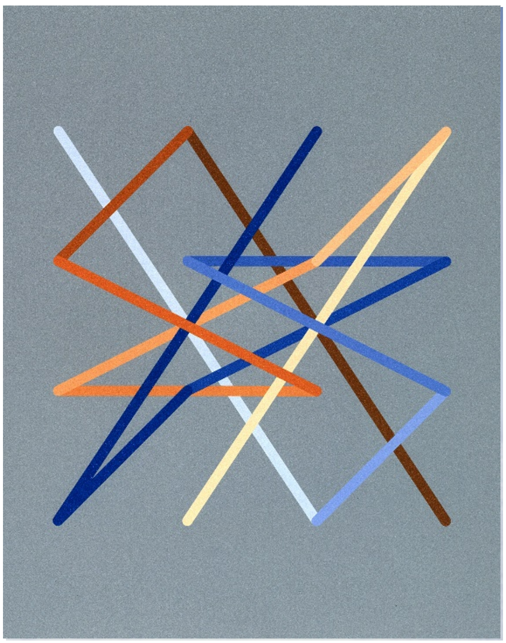
CBH Compagnie Bancaire Helvétique

BASEL III PILLAR 3

Disclosures IRRBB Report as at 31.12.2020





Pair-impair du cycle hommage à Dürer (2008 - 2014) Plotter drawing.
Taille : 29.5 x 29.5 cm © Collection privée CBH
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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”).

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 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)	*31.12.2020*	*31.12.2019*
Available capital		
Common Equity Tier 1 (CET1)	225 186	216 181
Tier 1	225 186	216 181
Total capital	225 186	216 181
Risk-weighted assets		
Total risk-weighted assets (RWA)	787 018	632 187
Minimum capital requirement	62 961	50 575
Risk-based capital ratios as a percentage of RWA		
Common Equity Tier 1 ratio (%)	28.61%	34.20%
Tier 1 ratio (%)	28.61%	34.20%
Total capital ratio (%)	28.61%	34.20%
Additional CET1 buffer requirements as a percentage of RWA		
Capital convervation buffer requirement (2.5% from 2019)	2.50%	2.50%
Total of bank CET1 specific buffer requirements	2.50%	2.50%
CET1 available after meeting the bank's minimum capital requirements	20.61%	26.20%
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	3 398 272	2 910 263
Basel III leverage ratio (%)	6.63%	7.43%
Liquidity Coverage Ratio		
Total HQLA	1 044 771	446 267
Total net cash outflow	224 938	203 003
LCR ratio (%)	464.47%	219.83%

Publication requirements related to equity and liquidity

Overview of risk weighted assets (OV1)

(in 1'000 CHF)		31.12.2020	31.12.2019	31.12.2020
	Methodology	*RWA*	*RWA*	*Minimum Capital Requirement*
Credit risk	*Standard*	528 149	436 011	42 252
Market risk	*Standard*	18 240	15 960	1 459
of which currencies and gold				167
of which commodities (precious metal)				1 292
Operational risk	*Basic indicator*	184 108	170 659	14 729
Amounts below treshold for deductions (with 250% to be risk weighted positions)	–	42 813	821	3 425
Total		**773 310**	**623 451**	**61 865**

CBH's risk profile derives mainly from credit and counterparty risk (68% of total weighted assets) and operational risks (basic indicator approach) contribute for 24% of total weighted assets.

Total minimum regulatory capital funds required amount to CHF 63 million, compared with eligible capital of CHF 225.2 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 (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 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 (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)	31.12.2020			
	Gross carrying values of			
	Defaulted exposures	Non-defaulted exposures	Allowances/ impairments	Net values
Loans (excluding debt securities)	500	2 412 002	500	2 412 002
Debt securities	-	863 692	-	863 692
Off-balance sheet exposures	70	29 347	70	29 347
Total 31.12.2020	**570**	**3 305 041**	**570**	**3 305 041**
Total 31.12.2019	1 188	2 600 492	1 188	2 600 492

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

(in 1'000 CHF)	*31.12.2020*
Defaulted loans and debt securities at 31.12.2019	1 188
Loans and debt securities that have defaulted since the last reporting period	250
Returned to non-defaulted status	–
Amounts written off	-875
Other changes (+/-)	7
Defaulted loans and debt securities at 31.12.2020	**570**

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	383 408	1 431 352	597 742	2 412 502
Of which: due from banks	*261 412*	*482 387*	*35 971*	*779 770*
due from customers	*63 308*	*761 922*	*561 771*	*1 387 001*
mortgages	*58 688*	*187 043*	*–*	*245 731*
Debt securities	–	192 584	671 108	863 692
Total	**383 408**	**1 623 936**	**1 268 850**	**3 276 194**
Of which: Impaired loans past due	–	–	500	500
Value adjustments of impaired positions	*–*	*–*	*500*	*500*

Exposure by activity sectors

	Central governments and Central banks	Institutions	Banks and Stockbrokers	Corporates	Retail	Other exposures	Total
Loans	22 337	35 485	933 745	821 913	578 826	20 196	2 412 502
Of which: due from banks	*–*	*26 444*	*753 326*	*–*	*–*	*–*	*779 770*
due from customers	*22 337*	*5 254*	*175 829*	*780 063*	*384 171*	*19 347*	*1 387 001*
mortgages	*–*	*3 787*	*4 590*	*41 850*	*194 655*	*849*	*245 731*
Debt securities	680 441	134 753	48 498	–	–	–	863 692
Total	**702 778**	**170 238**	**982 243**	**821 913**	**578 826**	**20 196**	**3 276 194**
Of which: Impaired loans past due	*–*	*–*	*–*	*–*	*500*	*–*	*500*
Value adjustments of impaired positions	*–*	*–*	*–*	*–*	*500*	*–*	*500*

Exposure by duration

	At sight	Cancellable	Due			Total
			Within 3 months	Within 3 month to 12 month	Within 12 month to 5 years	
Loans	424 083	767 508	748 321	471 073	1 517	2 412 502
Of which: due from banks	*424 083*	*182 781*	*172 906*	*–*	*–*	*779 770*
due from customers	*–*	*584 727*	*368 532*	*432 225*	*1 517*	*1 387 001*
mortgages	*–*	*–*	*206 883*	*38 848*	*–*	*245 731*
Debt securities	–	–	503 360	354 873	5 459	863 692
Total	**424 083**	**767 508**	**1 251 681**	**825 946**	**6 976**	**3 276 194**

Publication requirements related to credit risk

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

(in 1'000 CHF)	31.12.2020		
	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)	1 783 036	1 434 558	58 600
Off-balance sheet	20 629	8 718	–
Total 31.12.2020	**1 803 665**	**1 443 276**	**58 600**
Of which defaulted	*570*	–	–
Total 31.12.2019	917 624	1 639 222	44 764

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%**	**Autres**	**Total credit exposures amount (post CCF and post-CRM)**
Sovereigns and their central banks	976 397	–	–	–	–	–	–	–	976 397
Banks and securities traders	–	770 406	–	80 825	–	165	309	–	851 705
Public-sector entities and multilateral developments banks	29 061	109 386	–	26 420	–	–	–	–	164 867
Corporate	–	–	–	–	–	69 364	2	–	69 366
Retail	–	–	122 590	–	8 060	142 280	–	–	272 930
Equity securities	–	–	–	–	–	-	2 604	17 125	19 729
Other assets	2 195	–	–	–	–	23 226	-	640	26 061
Total 31.12.2020	**1 007 653**	**879 792**	**122 590**	**107 245**	**8 060**	**235 035**	**2 915**	**17 765**	**2 381 055**
Thereof receivables secured by real estate	–	–	*122 590*	–	*1 182*	*51 895*	–	–	*175 667*
Thereof receivables past due									
Total 31.12.2019	441 106	501 760	93 431	95 056	11 318	199 151	28 007	–	1 369 829

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	172 906	–	149 770	0.23	–
Amounts due from customers	802 184	267 393	525 315	0.34	0.47
Fixed-rate mortgage	245 731	58 688	117 721	0.32	0.31
Financial investments	863 692	–	840 846	0.61	0.00
Receivables from interest-rate derivatives	62 941	–	62 941	0.14	0.00
Amount due in respect of customers deposits	-9 790	–	-6 801	0.15	0.00
Payables to interest-rate derivatives	-64 414	–	-59 587	0.14	0.00
Undefined interest rate reset dates					
Amounts due from banks	536 712	24 534	420 738	0.00	0.01
Amounts due from customers	583 058	51 028	509 629	0.08	0.08
Payables on demand from personal accounts and current accounts	-3 174 674	-467 842	-2 497 892	0.01	0.01
Other payables on demand	-91 498	-286	-80 606	0.00	0.00
Total	**-73 152**	**-66 485**	**-17 926**		

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

Total	**- of assets**	**3 267 224**	**401 643**	**2 626 960**
	- of liabilities	**-3 340 376**	**-468 128**	**-2 644 886**

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)	
	31.12.2020	31.12.2019	**31.12.2020**	31.12.2019
Parallel up	-9 831	-7 633	43 588	38 546
Parallel down	10 019	7 798	-11 155	-19 127
Steepener *(1)*	7 127	5 094		
Flattener *(2)*	-8 985	-6 480		
Short rate up	-11 675	-8 524		
Short rate down	11 909	8 692		
Maximum	-11 675	-8 524	-11 155	-19 127
	31.12.2020	31.12.2019		
Tier 1 capital	225 186	216 181		

(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

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