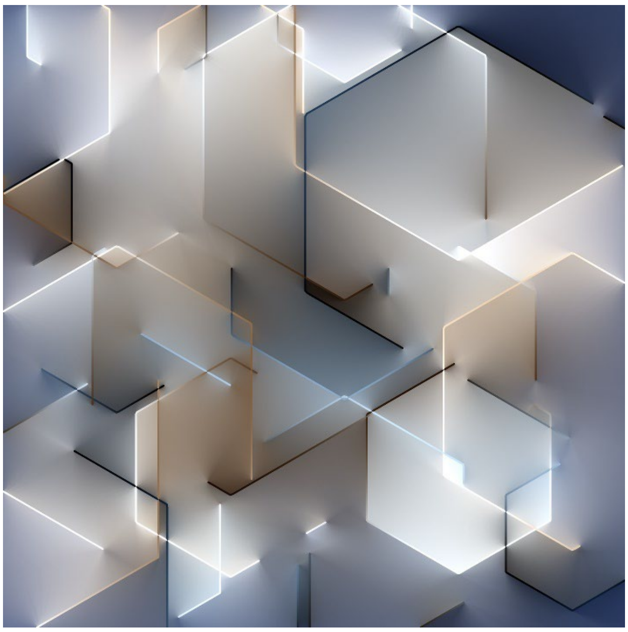
CBH | Compagnie Bancaire Helvétique

# BASEL III PILLAR 3

DISCLOSURES – 31.12.2022

CREATIVITY WITHIN EXCELLENCE



Hexagon Light Study - ZACH LIEBERMAN

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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 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) | *31.12.2022* | *31.12.2021* |
|---|---|---|
| **Available capital** | | |
| Common Equity Tier 1 (CET1) | 277 725 | 224 043 |
| Tier 1 | 277 725 | 236 692 |
| Total capital | 277 725 | 236 692 |
| **Risk-weighted assets** | | |
| Total risk-weighted assets (RWA) | 804 269 | 867 151 |
| Minimum capital requirement | 64 342 | 69 372 |
| **Risk-based capital ratios as a percentage of RWA** | | |
| Common Equity Tier 1 ratio (%) | 34,53% | 25,84% |
| Tier 1 ratio (%) | 34,53% | 27,30% |
| Total capital ratio (%) | 34,53% | 27,30% |
| **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 | 26,53% | 19,30% |
| **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% | 0,04% |
| Target ratio in CET1 (in%) according to annex 8 of the CAO plus countercyclical buffer according to art. 44 and 44a CAO | 7,42% | 7,40% |
| Target ratio in T1 (in%) according to annex 8 of the CAO plus countercyclical buffer according to art. 44 and 44a CAO | 9,02% | 9,00% |
| Overall target capital ratio (in%) according to annex 8 of the CAO plus countercyclical buffer according to art. 44 and 44a CAO | 11,22% | 11,20% |
| **Basel III leverage ratio** | | |
| Total Basel III leverage ratio exposure measure | 3 978 764 | 3 462 213 |
| Basel III leverage ratio (%) | 6,98% | 6,84% |
| **Liquidity Coverage Ratio** | | |
| Total HQLA | 1 411 321 | 1 107 405 |
| Total net cash outflow | 403 915 | 218 750 |
| LCR ratio (%) | 349,41% | 506,24% |

# Publication requirements related to equity and liquidity

## Overview of risk weighted assets (OV1)

| (in 1'000 CHF) | | *31.12.2022* | *31.12.2021* | *31.12.2022* |
|---|---|---|---|---|
| | *Methodology* | *RWA* | *RWA* | *Minimum Capital Requirement* |
| Credit risk | *Standard* | 591 209 | 620 918 | 47 297 |
| Market risk | *Standard* | 17 540 | 20 708 | 1 403 |
| of which currencies and gold | | | | 207 |
| of which commodities (precious metal) | | | | 1 196 |
| Operational risk | *Basic indicator* | 194 162 | 182 920 | 15 533 |
| Amounts below treshold for deductions (with 250% to be risk weighted positions) | – | 1 358 | 42 604 | 109 |
| **Total** | | **804 269** | **867 150** | **64 342** |

CBH's risk profile derives mainly from credit and counterparty risk (74% 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 64.3 million, compared with eligible capital of CHF 277.7 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) | 31.12.2022 Gross carrying values of | | | |
|---|---|---|---|---|
| | Defaulted exposures | Non-defaulted exposures | Allowances/ impairments | Net values |
| Loans (excluding debt securities) | 648 | 2 342 175 | 648 | 2 342 175 |
| Debt securities | – | 1 416 172 | – | 1 416 172 |
| Off-balance sheet exposures | – | 26 310 | – | 26 310 |
| **Total 31.12.2022** | **648** | **3 784 657** | **648** | **3 784 657** |
| Total 31.12.2021 | 873 | 3 104 548 | 873 | 3 104 548 |

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

| (in 1'000 CHF) | *31.12.2022* |
|---|---|
| Defaulted loans and debt securities at 31.12.2021 | 873 |
| Loans and debt securities that have defaulted since the last reporting period | 267 |
| Returned to non-defaulted status | -20 |
| Amounts written off | -472 |
| Other changes (+/-) | – |
| **Defaulted loans and debt securities at 31.12.2022** | **648** |

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 | 558 299 | 1 104 455 | 680 069 | 2 342 823 |
| *Of which: due from banks* | *285 519* | *228 227* | *39 078* | *552 824* |
| *due from customers* | *213 648* | *607 789* | *619 082* | *1 440 519* |
| *mortgages* | *59 132* | *268 439* | *21 909* | *349 480* |
| Debt securities | – | 484 294 | 931 878 | 1 416 172 |
| **Total** | **558 299** | **1 588 749** | **1 611 947** | **3 758 995** |
| *Of which: Impaired loans past due* | 140 | – | 508 | 648 |
| *Value adjustments of impaired positions* | *140* | – | *508* | *648* |

### Exposure by activity sectors

| | Central governments and Central banks | Institutions | Banks and Stockbrokers | Corporates | Retail | Other exposures | Total |
|---|---|---|---|---|---|---|---|
| Loans | 66 562 | 28 055 | 756 761 | 895 052 | 566 308 | 30 085 | 2 342 823 |
| *Of which: due from banks* | – | *25 325* | *527 499* | – | – | – | *552 824* |
| *due from customers* | *22 026* | *2 576* | *226 335* | *823 798* | *338 639* | *27 145* | *1 440 519* |
| *mortgages* | *44 536* | *154* | *2 927* | *71 254* | *227 669* | *2 940* | *349 480* |
| Debt securities | 1 203 105 | 134 035 | 59 125 | *19 907* | – | – | 1 416 172 |
| **Total** | **1 269 667** | **162 090** | **815 886** | **914 959** | **566 308** | **30 085** | **3 758 995** |
| *Of which: Impaired loans past due* | – | – | – | *33* | *615* | – | *648* |
| *Value adjustments of impaired positions* | – | – | – | *33* | *615* | – | *648* |

### Exposure by duration

| | At sight | Cancellable | Due | | | Total |
|---|---|---|---|---|---|---|
| | | | Within 3 months | Within 3 to 12 months | Within 12 months to 5 years | |
| Loans | 253 260 | 647 631 | 1 138 971 | 302 961 | – | 2 342 823 |
| *Of which: due from banks* | *253 260* | *5 891* | *291 403* | *2 270* | – | *552 824* |
| *due from customers* | – | *641 740* | *604 391* | *194 388* | – | *1 440 519* |
| *mortgages* | – | – | *243 177* | *106 303* | – | *349 480* |
| Debt securities | – | – | 1 261 646 | 148 824 | 5 702 | 1 416 172 |
| **Total** | **253 260** | **647 631** | **2 400 617** | **451 785** | **5 702** | **3 758 995** |

# Publication requirements related to credit risk

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

| (in 1'000 CHF) | 31.12.2022 | | |
|---|---|---|---|
| | 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) | 2 123 485 | 1 580 604 | 54 906 |
| Off-balance sheet | 4 640 | 21 670 | – |
| **Total 31.12.2022** | **2 128 125** | **1 602 274** | **54 906** |
| *Of which defaulted* | *648* | – | – |
| Total 31.12.2021 | 1 765 340 | 1 285 895 | 54 588 |

## 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 | 1 322 283 | – | – | 9 868 | – | – | – | – | 1 332 151 |
| Banks and securities traders | – | 512 608 | – | 77 587 | 701 | 25 996 | – | – | 616 892 |
| Public-sector entities and multilateral developments banks | 0 | 160 533 | – | – | – | – | – | – | 160 533 |
| Corporate | – | – | 33 328 | 19 722 | 73 | 64 694 | 2 | – | 117 819 |
| Retail | – | – | 164 248 | – | 12 668 | 172 427 | – | – | 349 343 |
| Equity securities | – | – | – | – | – | – | 14 034 | 543 | 14 577 |
| Other assets | 2 245 | – | – | – | – | 28 223 | - | 774 | 31 242 |
| **Total 31.12.2022** | **1 324 528** | **673 141** | **197 576** | **107 177** | **13 442** | **291 340** | **14 036** | **1 317** | **2 622 557** |
| *Thereof receivables secured by real estate* | – | – | *197 576* | – | *3 516* | *65 826* | – | – | *266 918* |
| *Thereof receivables past due* | – | – | – | – | – | – | – | – | – |
| Total 31.12.2021 | 933 221 | 837 544 | 153 752 | 151 025 | 15 784 | 294 842 | 6 963 | 17 767 | 2 410 898 |

# 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 | 293 673 | 180 000 | 81 194 | 0,07 | 0,06 |
| Amounts due from customers | 798 779 | 110 818 | 645 380 | 0,20 | 0,44 |
| Fixed-rate mortgages | 349 480 | 61 335 | 155 609 | 0,19 | 0,21 |
| Financial investments | 1 416 172 | – | 1 416 172 | 0,16 | 0,00 |
| Receivables from interest-rate derivatives | 104 484 | 47 524 | 44 525 | 0,08 | 0,06 |
| Amount due in respect of customer deposits | -311 613 | – | -270 707 | 0,06 | 0,00 |
| Payables to interest-rate derivatives | -101 350 | -2 800 | -33 768 | 0,08 | 0,00 |
| **Undefined interest rate reset date** | | | | | |
| Amounts due from banks | 199 227 | 5 041 | 137 828 | – | – |
| Amounts due from customers | 640 796 | 80 826 | 517 865 | – | – |
| Payables on demand from personal accounts and current accounts | -3 222 165 | -358 078 | -2 674 814 | – | – |
| Other payables on demand | -29 805 | -2 607 | -22 678 | – | – |
| **Total** | **137 678** | **122 059** | -3 394 | | |

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

# 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) | |
|---|---|---|---|---|
| | **31.12.2022** | 31.12.2021 | **31.12.2022** | 31.12.2021 |
| Parallel up | -8 897 | -8 571 | 41 489 | 32 917 |
| Parallel down | 8 965 | 8 657 | -24 102 | -15 348 |
| Steepener *(1)* | 6 564 | 6 253 | | |
| Flattener *(2)* | -8 299 | -7 956 | | |
| Short rate up | -10 762 | -10 397 | | |
| Short rate down | 10 854 | 10 505 | | |
| Maximum | -10 762 | -10 397 | -24 102 | -15 348 |
| | **31.12.2022** | 31.12.2021 | | |
| Tier 1 capital | 267 710 | 236 692 | | |

*(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

**CBH |** Compagnie Bancaire Helvétique

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