# J. Safra Sarasin Holding Ltd.

J. SAFRA SARASIN

Sustainable Swiss Private Banking since 1841

# Basel III Pillar 3 Disclosures
# 31 December 2013

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**Basel III Pillar 3 Disclosures**

**Introduction**

J. Safra Sarasin Holding Ltd. (the "Group" or the "Holding") is regulated by the Swiss Financial Market Supervisory Authority (FINMA) which requires it to comply with Pillar III disclosures that are part of the Basel III Capital Adequacy Framework. This report discloses the Group's application of Basel III framework as of 31 December 2013.

In order to have the full view of the Group's regulatory environment and capital requirements, this report should be read along with the Holding's Annual Report 2013. For more information on the way the Group manages risk, please refer to the Risk Management (pages 50 - 53) section in the Holding's Annual Report 2013. Certain disclosures contained in this report can not be reconciled with disclosures in the Annual Report due to the way the Group manages risk internally being different to the way it reports it hereunder.

**Consolidation perimeter**

The consolidation perimeter includes all entities wholly and partially owned, direct or indirect subsidiaries (and their branches and representative offices). On page 56 of the Holding's Annual Report is a list of the main subsidiaries of the Group as at 31 December 2013.

The Group's financial statements are presented in accordance with the requirements of the Swiss Financial Market Supervisory Authority (FINMA) Circ.-FINMA 2008/2 concerning the preparation of financial statements for banks.

## J. SAFRA SARASIN HOLDING LTD
## Basel III Pillar 3 Disclosures - Capital

### Disclosure obligations regarding capital adequacy

(Circ.-FINMA 2008/22 20.11.2008)

The Group reports regulatory capital according to the Swiss Capital Ordinance. Since 31 December 2013, the Group use the BIS method to calculate capital adequacy requirements for credit risk, non-counterparty risks and market risks. The basic indicator approach is used to calculate capital adequacy requirements for operational risks.

### Total Eligible Capital

| CHF 000 | **2013** |
|---|---|
| Core capital prior to deductions | 3'491'974 |
| of which minority interests | 284'839 |
| Less : Goodwill and intangibles assets | -523'245 |
| Less : Other deductions | -35'374 |
| of which minority interests (phase in - phase out) | -28'156 |
| **Tier 1 Capital** | **2'933'355** |
| Transitionnal recognition capital instruments | 128'967 |
| Reduction due to amortization mechanism | -77'380 |
| Tier 2Capital | **51'587** |
| **Total Eligible Capital** | **2'984'942** |
| **Total CET1 Capital** | **2'984'942** |

### Required capital

| CHF 000 | **2013** |
|---|---|
| Credit Risk | 547'164 |
| of which Min Capital requirements for CVA | 8'302 |
| Non-Counterparty Risk | 23'714 |
| Market Risk | 223'662 |
| Operational Risk | 137'309 |
| Settlement Risk | 0 |
| Other risk-weighted | 643 |
| **Total required capital** | **932'491** |

### Capital Ratio's

| | **2013** |
|---|---|
| Tier 1 Ratio | 25.17% |
| Total Eligible Capital Ratio | 25.61% |
| Eligible capital / capital requirements pursuant to Swiss legislation | 320.1% |
| FINMA minimum target | 170.0% |
| **Surplus** | **150.1%** |

**J. SAFRA SARASIN HOLDING LTD**

**Basel III Pillar 3 Disclosures - Regulatory capital requirement presentation**

| CHF 000 | | Phase-In Amounts | Effects of the Transition Period | 2013 |
|---|---|---|---|---|
| **Elligible Equity Capital (CET1)** | | | | |
| 1 | Equity relating to regulatory scope of consolidation | 848'245 | -- | 848'245 |
| 2 | Share premium reserves and retained earnings reserves, Profit (+) or loss (–) carried forward / group profit or loss, profit (+) or loss (–) for the current financial year | 2'276'223 | -- | 2'276'223 |
| 3 | Other reserves / accumulated other comprehensive income (+/–) and Foreign exchange reserves (+/–) | 54'511 | -- | 54'511 |
| 5 | Minority interests | 312'995 | -28'156 | 284'839 |
| 6 | **Elligible Equity Capital (CET1) before adjustments** | **3'491'974** | **-28'156** | **3'463'818** |
| **Adjustments in relation with CET1** | | | | |
| 8 | Goodwill | -252'710 | | -252'710 |
| 9 | Other intangible assets | -270'535 | | -270'535 |
| 10 | Deferred tax assets that rely on future profitability | 28'871 | | 28'871 |
| 21 | Deferred tax assets coming from tempory differences (amounts over the threshold 2) | -36'089 | | -36'089 |
| 28 | Total adjustments in relation with CET1 | -530'463 | - | -530'463 |
| 29 | **Net CET1 Capital** | **2'961'511** | **-28'156** | **2'933'355** |
| **Additional Elligible Capital (AT1)** | | | | |
| 44 | Total Additional Elligible Capital (AT1) | - | - | - |
| 45 | **Net Tier 1 Capital** | **2'961'511** | **-28'156** | **2'933'355** |
| **Additional Elligible Tier 2 Capital (AT2)** | | | | |
| 46 | Gross amount of grandfathered T2 capital instruments issued by the parent company | 128'967 | | 128'967 |
| 47 | Reduction in the eligibility due to the amortisation mechanism (phase out) | -77'380 | | -77'380 |
| 51 | Total Additional Elligible Tier 2 Capital (AT2) | **51'587** | **-** | **51'587** |
| **Adjustments in relation with Additional Tier 2 Capital** | | | | |
| 57 | Total adjustments in relation with Tier 2 | - | - | - |
| 58 | Net Tier 2 Capital | 51'587 | - | 51'587 |
| 59 | **Total Elligible Capital (net T1 & T2)** | **3'013'098** | **-28'156** | **2'984'942** |
| 60 | **Total Risk Weighted Assets** | **11'656'137** | | **11'656'137** |
| **Capital Adequacy ratios** | | | | |
| 61 | CET1 Ratio | | | 25.17% |
| 62 | Tier 1 Ratio | | | 25.17% |
| 63 | Solvency Ratio in respect of minimal and addtional capital requirements | | | 25.61% |
| 64 | Global CET1 requirement according to FINMA-Circ. 11/2, national countercyclical buffer included | | | 913'759 |
| 65 | Ratio in relation with global CET1 requirement | | | 7.80% |
| 66 | Part of the complementary capital buffer ratio in relation with Risk Weighted Assets | | | 0.04% |
| 67 | Ratio in relation with national countercyclical buffer | | | 1.00% |
| 68 | Solvency Ratio in respect of minimal and all addtional capital requirements | | | 25.57% |
| 68a | Minimal CET1 requirement ratio according to FINMA-Circ 11/2 countercyclical buffer included | | | 7.84% |
| 68b | Positive or negative difference between the CET1 amount available and CET1 requirement | | | 17.33% |
| 68c | Minimal Tier 1 requirement ratio according to FINMA-Circ 11/2 countercyclical buffer included | | | 9.64% |
| 68d | Positive or negative difference between the Tier 1 amount available and Tier 1 requirement | | | 15.53% |
| 68e | Total Capital Adequacy requirement according to FINMA-Circ 11/2 | | | 12.04% |
| 68f | Positive or negative difference between the global amount available and the global requirement | | | 13.57% |
| **Amounts below threshold (before weighted)** | | | | |
| 73 | Qualifying investments in the common stocks of other financial entities (CET1) (thresholds 2 and 3) | 3'214 | | 3'214 |
| **Threshold Tier 2** | | | | |
| 78 | Deferred tax assets that rely on future profitability (Tier 2) in relation with BIS method | 28'871 | | 28'871 |

**Credit risk**

For information on the Group's credit risk approach and risk practice in relation to collateral, refer to Risk management, Credit risk, Lending business with clients, Lending business with banks, governments and companies and Concentrated risk under the Risk Management section (pages 50 - 53) of the 2013 Group's Annual Report. Certain disclosures contained in this section of the report can not be reconciled with disclosures in the Annual Report due to the way the Group manages risk internally being different to the way it reports if for regulatory purposes.

**Regulatory gross credit risk exposure by type of counterparty** **2013**

| CHF million | Private Individuals | Corporates | Banks & Multilateral Institutions | Govern-ments | Other | Total |
|---|---|---|---|---|---|---|
| **Balance sheet** | | | | | | |
| Cash | 0 | 0 | 0 | 0 | 5'947 | 5'947 |
| Money market paper | | | 130 | 606 | 0 | 736 |
| Due from banks | 0 | 0 | 3'619 | 0 | 0 | 3'619 |
| Due from customers | 5'326 | 1'932 | 0 | 0 | 0 | 7'258 |
| Mortgages | 1'815 | 104 | 0 | 0 | 0 | 1'919 |
| Securities and precious metals trading portfolios | 0 | 0 | 12 | 0 | 0 | 12 |
| Financial investments | 0 | 1'732 | 4'739 | 580 | 6 | 7'057 |
| Derivatives | 65 | 16 | 99 | 0 | | 180 |
| Other assets | 22 | 12 | 342 | 3 | 56 | 436 |
| **Total current year** | **7'228** | **3'796** | **8'942** | **1'189** | **6'009** | **27'164** |
| **Off balance sheet** | | | | | | |
| Contingent liabilities | 43 | 72 | 524 | 0 | 20 | 659 |
| Irrevocable facilities granted | 3 | 2 | 24 | 0 | | 28 |
| Liabilities for calls on shares and other equities | 1 | | | | | 1 |
| Add-on | 28 | 122 | 290 | 0 | 7 | 448 |
| **Total current year** | **75** | **196** | **837** | **1** | **27** | **1'136** |

Regulatory gross credit risk exposure is after provisions and application of credit conversion factors on off balance sheet items.

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### Regulatory gross credit risk exposure by geography

| CHF million | Switzer-land | Europe | Americas | Asia | Others | Total 2013 |
|---|---|---|---|---|---|---|
| **Balance sheet** | | | | | | |
| Cash | 5'836 | 76 | 0 | 35 | 0 | 5'947 |
| Money market paper | 2 | 0 | 130 | 605 | 0 | 736 |
| Due from banks | 750 | 2'233 | 542 | 91 | 3 | 3'619 |
| Due from customers | 1'026 | 909 | 3'717 | 1'492 | 115 | 7'258 |
| Mortgages | 1'535 | 306 | 66 | 12 | 1 | 1'919 |
| Securities and precious metals trading portfolios | 0 | 12 | 0 | 0 | 0 | 12 |
| Financial investments | 123 | 3'284 | 3'194 | 301 | 155 | 7'057 |
| Derivatives | 41 | 82 | 37 | 19 | 0 | 180 |
| Other assets | 83 | 213 | 123 | 15 | 1 | 436 |
| **Total current year** | **9'396** | **7'115** | **7'808** | **2'570** | **276** | **27'164** |
| **Off balance sheet** | | | | | | |
| Contingent liabilities | 33 | 473 | 49 | 75 | 28 | 659 |
| Irrevocable facilities grant | 1 | 10 | 16 | 2 | 0 | 28 |
| Liabilities for calls on shares and other equities | 0 | 0 | 1 | 0 | 0 | 1 |
| Add-on | 35 | 153 | 204 | 50 | 5 | 448 |
| **Total current year** | **69** | **636** | **270** | **127** | **34** | **1'136** |

## J. SAFRA SARASIN HOLDING LTD
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**Risk weighted assets and total regulatory net credit risk exposure** **2013**

| CHF million | Regulatory gross credit risk exposure | Less credit risk mitigation | Total regulatory net credit exposure | Average risk weight | Risk weighted assets |
|---|---|---|---|---|---|
| **Balance sheet** | | | | | |
| Cash | 5'947 | 0 | 5'947 | 0 | 0 |
| Money market paper | 736 | 0 | 736 | 0 | 4 |
| Due from banks | 3'619 | -704 | 2'915 | 0 | 315 |
| Due from customers | 7'258 | -4'282 | 2'976 | 1 | 1'880 |
| Mortgages | 1'919 | -84 | 1'836 | 1 | 1'051 |
| Securities and precious metals trading portfolios | 12 | 0 | 12 | 1 | 6 |
| Financial investments | 7'057 | 0 | 7'057 | 0 | 2'927 |
| Derivatives | 180 | -41 | 139 | 1 | 81 |
| Other assets | 436 | -9 | 426 | 0 | 195 |
| **Total current year** | **27'164** | **-5'120** | **22'044** | **0** | **6'459** |
| | | | | | |
| **Off balance sheet** | | | | | |
| Contingent liabilities | 659 | -148 | 510 | 0 | 96 |
| Irrevocable facilities grant | 28 | -5 | 24 | 0 | 5 |
| Liabilities for calls on shares and other equities | 1 | 0 | 1 | 1 | 1 |
| Add-on | 448 | -130 | 317 | 1 | 174 |
| **Total current year** | **1'136** | **-283** | **853** | **0** | **277** |

## Credit exposure after risk mitigation of collateral by risk weighting

| CHF million | Risk weighting 0% | 20% | 35% | 50% | 75% | 100% | 150% | Total regulatory net credit exposure (2013) |
|---|---|---|---|---|---|---|---|---|
| Private Individuals | 0 | 3 | 1'230 | 0 | 201 | 1'655 | 195 | 3'283 |
| Corporates | 1'176 | 418 | 0 | 206 | 0 | 1'557 | 29 | 3'386 |
| Banks & Multilateral Institutio | 1'596 | 5'373 | 0 | 1'634 | 0 | 409 | 12 | 9'024 |
| Governments | 1'087 | 47 | 0 | 48 | 0 | 7 | 0 | 1'189 |
| Other | 5'945 | 8 | 0 | 4 | 0 | 57 | 0 | 6'014 |
| **Total current year** | **9'804** | **5'849** | **1'230** | **1'892** | **201** | **3'685** | **236** | **22'897** |

## Client impaired loans

For a detailed overview of impaired and past due loans, see to Note Impaired loans on page 54 in the Holding's Annual Report 2013.

## Market risk

For more information on the Group's approach to manage market risk, see the Holding's Annual Report 2013 in the section Market risk and Interest rate risk (page 52). The Group use the BIS method to calculate market risks.

**Managing Market Risks in the Trading Book**

When managing market risks, a distinction is made between trading positions and the positions in the banking book. In the area of trading, the Trading and Treasury division is responsible for settling customer transactions and for proprietary trading in the spot and derivatives markets for fixed-income securities, equities, interest-rate products, precious metals, foreign currencies and the market-making in the Bank’s own structured products and derivatives. The Treasury Committee controls and monitors the Group’s interest rate risk, short-term liquidity risk and mid-to longterm refinancing risks. Also, the Treasury Committee is responsible for the management of the Group’s financial investments.

The Treasury Committee manages their market risks with instruments tailored to their particular requirements. These include an optimised, reliable and flexible IT platform, a limits system commensurate with the risks, and permanent, timely and independent monitoring and assessment of risk positions.

Various types of limits as well as trading controls are used to model and limit market risks:

I - Scenario analyses and limits: In order to be able to assess the market risk under any market conditions and for positions with asymmetric payout profiles (options). Its technique is based on predefined normal and extreme, but perfectly plausible shifts in the relevant market parameters (market prices and volatility) and calculates the theoretical loss incurred by revaluing the positions. The Group uses these analyses and trading controls in derivatives trading especially, in order to estimate and contain the loss potential following any unusual and combined changes in the market parameters (e.g. price fall of 25% with simultaneous increase in volatility of 10%). The scenarios are periodically reviewed to make sure they are up to date, and are adjusted or extended as necessary.

II - Sensitivity and concentration limits: To avoid excessive exposure to the different market parameters (e.g. price, interes rates, volatility) the Group uses sensitivity and concentration limits as trading controls as well. These limits are used in options trading (delta, gamma, rho and vega limits). The limits are determined not just on the basis of individual books, but also stretching across all options books. This is supplemented by the use of nominal limits, primarily to facilitate the monitoring of intraday positions, which are approved by the Board of Directors.

The positions and the extent to which the limits or trading controls are utilised are monitored both on an intraday (real time) and overnight basis in the trading system. The Risk Office is responsible for independent risk monitoring and risk reporting to the various decision-makers. Where limits are exceeded, clear escalation and reporting procedures are defined to ensure that the limits are restored.

Below is the table displaying the breakdown in the Group's Market Risk capital adequacy requirement at 8 % of the Risk Weighted Assets equivalent :

| CHF 000 | **2013** |
|---|---|
| Interest rate instruments held in the trading book | 29'979 |
| Equities held in the trading book | 13'840 |
| Currencies and precious metals | 172'501 |
| Commodities | 7'341 |
| Options | 0 |
| **Total required capital** | **223'662** |

Financial instruments in the trading book are marked to market and calculated on this basis for market risk purposes.

### Interest rate risk in the banking book

| CHF million | 2013 |
|---|---|
| USD | -1 |
| EUR | 0 |
| CHF | 0 |

**Managing Interest Risks in the Banking Book**
The main tasks of the Treasury Committee are to monitor and actively control the interest-rate risk, short-term liquidity risk and mid- to long-term refinancing risks. It is composed of the Group Treasurer, the CFO, the Head of the Trading and Treasury division, representatives of the specialist departments and of the Risk Office, and usually meets every two weeks, or at least once a month. At Group level, the interest-rate risks are limited and controlled through sensitivity limits on the assets and income effect. Sub-limits exist for those subsidiaries carrying significant interest-rate risks in the banking book. Here the limits are applied across time bands both individually and overall.

The Treasury Committee monitors the interest-rate risks in the banking book and implements hedging measures where necessary or appropriate. A report on the utilisation of interest-rate risk limits is also submitted every month to the Executive Committee and every quarter to the Board of Directors and Audit Committee.

The most important measure when reducing the risk associated with the re-fixing of interest rates is to ensure that loans are refinanced with matching maturities. Interest-rate swaps are used to convert the interest-rate risk of long-term assets or liabilities into that of short term variable positions.

The modelling of the rate-fixing for non-maturing products (positions with a variable interest rate and indefinite term) is performed with the help of the replication portfolio method. The basic idea is to simulate the interest-rate and capital behaviour of these positions using benchmark portfolios in order to minimise the variance of the margin between the client interest rate and the yield on the replicating portfolio.

Net Interest Income sensitivity and Equity-at-Risk Exposure measurements have been implemented and outcomes are regularly reviewed against defined stress scenario limits. Equity-at-Risk (EaR) is a measure of interest rate risk in the long term and indicates the theoretical change in value of Equity assuming the interest rate curve is shifted by +1bp over all currencies. The EaR expresses the sensitivity of equity’s market value to interest rate fluctuations. The limit approved by the Board of Directors amounts to CHF 900’000.

## Operational risk

For more information on the Group's approach to manage operational risk, see the Holding's Annual Report 2013 in the Operational and reputation risk (page 53).