J. SAFRA SARASIN

Sustainable Swiss Private Banking since 1841

Basel III Pillar 3 Disclosures 30 June 2018

J. Safra Sarasin Holding Ltd.

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Basel III Pillar 3 Disclosures (FINMA circ. 2016/1)

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 30 June 2018.

For more information on the way the Group manages risk, please refer to the Risk Management (pages 53 – 58) section in the Holding’s Annual Report 2017.

Consolidation perimeter

The consolidation perimeter includes all entities wholly and partially owned, direct or indirect subsidiaries (and their branches and representative offices). Methodology used is the same than the accounting principles described on page 50 of the Holding’s Annual Report.

There are no internal and external limits which could prevent the transfer of funds or capital within the Group.

Table 1 : Composition of available own funds / reconciliation

Balance-sheet	According to the accounting rules
(in 1'000 CHF)	**30.06.18**
Assets	
Liquid assets	8,061,247
Amounts due from banks	1,146,219
Amounts due from securities financing transactions	59,577
Amounts due from customers	11,373,975
Mortgage loans	2,872,309
Trading portfolio assets	1,083,910
Positive replacement values of derivative financial instruments	785,080
Other financial instruments at fair value	1,404,945
Financial investments	7,358,790
Accrued income and prepaid expenses	194,015
Participations	24,286
Tangible fixed assets	316,491
Intangible assets	447,626
Of which goodwill	405,159
Of which other intangible assets	42,466
Other assets	409,316
Of which deferred taxes depending on future revenues	1,189
Of which deferred taxes from temporary differences	57,999
Total assets	**35,537,785**
Liabilities	
Amounts due to banks	958,426
Liabilities from securities financing transactions	
Amounts due in respect of customer deposits	26,437,391
Trading portfolio liabilities	
Negative replacement values of derivative financial instruments	773,345
Liabilities from other financial instruments at fair value	1,149,081
Cash bonds	
Bond issues and central mortgage institution loans	427,830
Accrued expenses and deferred income	399,437
Other liabilities	260,939
Provisions	102,820
Of which deferred tax on other intangible assets	9,952
Of which deferred taxes	7,807
Total Liabilities	**30,509,269**
Equity	
Reserves for general banking risks	395,742
Capital	848,245
Of which eligible for CET1	848,245
Legal reserves/Voluntary retained earnings reserve/Profit- Loss carried forward/Profit- Loss of period	3,033,775
Minority interests	750,753
Of which eligible for CET1	718,933
Total own funds	**5,028,516**

– The scope of regulatory consolidation is the same as for financial consolidation.

– A list of group companies is enclosed in the annual report 2017, page 65.

– There were no essential changes in the scope of consolidation compared to previous year.

– There are no applicable restrictions.

Table 2 : Composition of the regulatory eligible capital / Presentation of the regulatory eligible capital

		Net amounts (after consideration of the transitional provisions)	Impact of the transitional provisions (phase in / phase out for minorities)
(in 1'000 CHF)		**30.06.2018**	
Common Equity Tier 1 (CET1)			
1	Issued fully paid-up capital, fully eligible	848,245	
2	Retained earnings reserve, incl. Reserves for general banking risks / Retained earning - loss / accumulated profit - loss	1,456,732	
3	capital reserves / foreign currency translation reserves (+/-)	1,841,102	
4	Issued fully paid-up capital, transitory recognised (phase out)		
5	Minority interests	701,841	–31,821
6	= Common Equity Tier 1 (CET1) before adjustments	4,847,920	–31,821
	Adjustments referring to Common Equity Tier 1		
7	Prudential valuation adjustments		
8	Goodwill (net of related tax liability)	–405,159	
9	Other intangible assets other than mortgage-servicing rights (net of related tax liability)	–42,466	
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	–1,189	
11	Cash-flow hedge reserve (-/+)		
12	Shortfall of provisions to expected losses		
13	Securitisation gain on sale (as set out in paragraph 562 of Basel II framework)		
14	Gains and losses due to changes in own credit risk on fair valued liabilities		
15	Defined-benefit pension fund net assets		
16	Investments in own shares (if not already netted off paid-in capital on reported balance sheet)		
17	Reciprocal cross-holdings in common equity		
17a	Qualified participations, where a controlling influence exists together with other owners (CET1-Instruments)		
17b	Participations to be consolidated (CET1-Instruments)	670,020	
18	Not qualified participations in the financial segments (max 10%) (Amount exceeding treshold 1) (CET1-Instruments)		
19	Other qualified particiapations in the financing segement (Amount exceeding treshold 2) (CET1-Instruments)		
20	Mortgage servicing rights (amount above threshold 2)		
21	Deferred tax assets arising from temporary differences (amount above threshold 2, net of related tax liability)		
22	Amount exceeding the threshold 3 (15%)		
23	of which: significant investments in the common stock of financials		
24	of which: mortgage servicing rights		
25	of which: deferred tax assets arising from temporary differences		
26	Expected loss for investments based on the PD/LGD-approach		
26a	Further adjustments for financial statements with generally accepted international accounting standards		
26b	Further deductions	–701,841	
27	Amount of AT1 deductions, which exceeds the AT1-capital		
28	= Sum of CET1-Adjustments	–480,636	
29	= Common Equity Tier 1 (net CET1)	4,367,284	–31,821
Additional Tier 1 Capital (AT1)			
44	= additional Tier 1 capital (AT1)		
45	Tier 1 capital (T1 = CET1 + AT1)	4,367,284	

Eligible Tier 2 capital (T2)		
58	= Tier 2 capital (T2)	
59	= Total regulatory capital (TC = T1 + T2)	4,367,284
60	Total risk weighted assets	14,352,881

capital ratio		
61	Common Equity Tier 1 (as a percentage of risk weighted assets) para 29	30.43%
62	Tier 1 (as a percentage of risk weighted assets) para 45	30.43%
63	Total capital (as a percentage of risk weighted assets) para 59	30.43%
64	CET1-Requirements according to Basle minimum standard (Minimum requirements + capital conservation buffer + capital buffer for tbtf banks)	6.4%
65	Of which : capital conservation buffer according to Basle minimum standard (in % of risk weighted position)	1.88%
66	Of which : countercyclical buffer according to Basle minimum standard (in % of risk weighted position)	0.02%
67	Of which : capital conservation buffer for systemically important banks according to Basle minimum standard (in % of risk weighted positions)	n/a
68	Common Equity Tier 1 available to meet buffers according to Basle minimum standards (as a percentage of risk weighted assets)	26.93%
68a	Common Equity Tier 1 according to CAO plus countercyclical buffer (in % of risk weightet positions)	9.42%
68b	Available Common Equity Tier 1 (CET1) (in % of risk weighted positions)	26.23%
68c	Tier 1 minimum ratio according CAO plus countercyclical buffer (in % of risk weighted positions)	11.22%
68d	Available Tier 1 (in % of risk weighted positions)	30.43%
68e	Total requirement of regulatory capital according to CAO plus countercyclical buffer (in % of risk weighted positions)	13.62%
68f	Available regulatory capital (in % of risk weighted positions)	30.43%

Amounts below treshold for deductions (before risk weighting)		
72	Non-qualifying holdings in financial sector	24,286
73	other qualifying holdings in financial sector	
74	Mortgage servicing rights	
75	Other deferred tax	

Applicable caps on the inclusion of provisions in Tier 2		
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach BIS	
77	Cap on inclusion of provisions in Tier 2 under standardised approach BIS	120,434
78	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)	
79	Cap for inclusion of provisions in Tier 2 under internal ratings-based approach	n/a

Table 4 (OV1) : Overview of risk weighted assets

		RWA	RWA	Minimum Capital Requirement
(in 1'000 CHF)		**30.06.18**	**31.12.2017**	**30.06.18**
1	**Credit risk (excluding counterparty credit risk) (CCR)**	10,382,163	10,890,902	830,573
2	Of which standardised approach (SA)	10,382,163	10,890,902	830,573
3	Of which internal rating-based (IRB) approach			
4	**Counterparty credit risk**			
5	Of which standardised approach for counterparty credit risk (SA-CCR)			
6	Of which internal model method (IMM)			
7	**Equity positions in banking book under market-based approach**			
8	**Equity investments in funds – look-through approach**			
9	**Equity investments in funds – mandate-based approach**			
10	**Equity investments in funds – fall-back approach**			
11	**Settlement risk**			
12	**Securitisation exposures in banking book**			
13	Of which IRB ratings-based approach (RBA)			
14	Of which IRB Supervisory Formula Approach (SFA)			
15	Of which SA/simplified supervisory formula approach (SSFA)			
16	**Market risk**	1,709,970	1,774,641	136,798
17	Of which standardised approach (SA)	1,709,970	1,774,641	136,798
18	Of which internal model approaches (IMM)			
19	**Operational risk**	2,115,755	1,996,140	169,260
20	Of which Basic Indicator Approach	2,115,755	1,996,140	169,260
21	Of which Standardised Approach			
22	Of which Advanced Measurement Approach			
23	**Amounts below the thresholds for deduction (subject to 250% risk weight)**	144,994	134,003	11,600
24	**Floor adjustment**			
25	**Total (1+4+7+8+9+10+11+12+16+19+23+24)**	14,352,881	14,795,687	1,148,231

Table 9 (CR1) : Credit risk: Credit quality of assets

		Gross carrying values of		Allowances/ impairments	Net values
		Defaulted exposures	Non-defaulted exposures		
(in 1'000 CHF)					
1	Loans (excluding debt securities)	425,390	14,105,370	284,477	14,246,283
2	Debt securities	22,739	6,506,465	16,587	6,512,618
3	Off-balance sheet exposures	0	767,717	0	767,717
4	**Total 30.06.2018**	**448,129**	**21,379,553**	**301,063**	**21,526,618**

Impaired loans

If a borrower's total indebtedness exceeds the amount that can foreseeably be realised bearing in mind the counterparty risk and the net proceeds from the liquidation of any collateral that has been pledged, a corresponding value adjustment is made in the income statement.

Non-performing loans

A loan is classified as non-performing as soon as the contractually agreed capital and/or interest payments are 90 days overdue or more. Overdue interest is not shown as income but is recorded directly under value adjustments. Being overdue can indicate that a loan is impaired.

Since the criteria coincide with the indicators for impaired loans, non-performing loans are generally included under impaired loans.

Definitions for accounting purposes and for regulatory purposes are the same.

Table 10 (CR2): Credit risk: Changes in stock of defaulted loans and debt securities

(in 1'000 CHF)		30.06.18
1	Defaulted loans and debt securities at end of the previous reporting period	437,156
2	Loans and debt securities that have defaulted since the last reporting period	12,630
3	Returned to non-defaulted status	–1,833
4	Amounts written off	–23
5	Other changes	198
6	Defaulted loans and debt securities at end of the reporting period (1+2-3-4+5)	448,129

Table 13 (CR3): Credit risk: Credit risk mitigation techniques – overview

(in 1'000 CHF)	Exposures unsecured: carrying amount	Exposures secured by collateral	Exposures secured by collateral, of which: secured amount	Exposures secured by financial guarantees	Exposures secured by financial guarantees, of which: secured amount	Exposures secured by credit derivatives	Exposures secured by credit derivatives, of which: secured amount
Loans	1,040	14,245,244	14,245,244	850,576	850,576		
Debt securities	6,512,618						
Total 30.06.2018	**6,513,658**	**14,245,244**	**14,245,244**	**850,576**	**850,576**	**0**	**0**
Of which defaulted	6,153	140,913	140,913				

Table 15 (CR4): Credit risk: Credit risk exposure and effect of the Credit Risk Mitigation (CRM) under the standardised approach

(in 1'000 CHF)

		Exposures before CCF and CRM		Exposures post-CCF and CRM			
	Asset classes	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWA	RWA density
1	Sovereigns and their central banks	2,610,361	11	2,610,361	11	221,653	8.49%
2	Banks and securities traders	4,542,319	945,456	5,185,383	637,921	2,341,597	40.21%
3	Public-sector entities and multilateral developments banks	157,909	8,103	159,735	9,122	44,431	26.31%
4	Corporate	8,409,530	401,686	4,886,563	108,234	3,916,229	78.41%
5	Retail	7,856,791	345,520	2,976,333	105,389	2,686,189	87.17%
6	Equity securities	894,446	1,529	894,446	1,529	356,395	39.78%
7	Other assets	8,157,539	421	8,156,669	16	68,246	0.84%
8	**Total 30.06.2018**	**32,628,896**	**1,702,726**	**24,869,489**	**862,223**	**9,634,740**	**37.44%**

Table 16 (CR5): Credit risk: exposures by asset classes and risk weights under the standardised approach

	Asset classes / Risk weight	0%	10%	20%	35%	50%	75%	100%	150%	Other	Total credit exposures amount (post CCF and post-CRM)
(in 1‘000 CHF)											**30.06.18**
1	Sovereigns and their central banks	2,121,333		313,193		33,660		142,185			2,610,371
2	Banks and securities traders	0		2,322,153		3,248,138		252,845	168		5,823,304
3	Public-sector entities and multilateral developments banks	96,211		34,233		1,658		36,756			168,858
4	Corporate	211,874		375,858	488,798	495,928	13,906	3,402,130	6,304		4,994,797
5	Retail	0		1,624	658,189	498	170,662	2,097,743	153,006		3,081,722
6	Equity securities	616,188						126,570	153,217		895,975
7	Other assets	8,061,247		33,990				61,448			8,156,685
8	TOTAL	11,106,853		3,081,051	1,146,987	3,779,882	184,568	6,119,676	312,694		25,731,712
9	Thereof receivables secured by real estate				1,146,987		27,697	1,984,905			3,159,589

Table 25 (CCR2): Counterparty credit risk: Credit valuation adjustment (CVA) capital charge

	(in 1'000 CHF)	EAD post CRM	RWA
		30.06.2018	
	Total portfolios subject to the Advanced CVA capital charge		
1	VaR component (including the 3×multiplier)		
2	Stressed VaR component (including the 3×multiplier)		
3	All portfolios subject to the Standardised CVA capital charge	1,338,118	385,666
4	Total subject to the CVA capital charge	1,338,118	385,666

Table 26 (CCR3): Counterparty credit risk: exposures by regulatory portfolio and risk weights under the standardised approach

	Asset classes / Risk weight	0%	10%	20%	50%	75%	100%	150%	Other	Total credit exposures
(in 1'000 CHF)										
1	Sovereigns and their central banks	11								11
2	Banks and securities traders			233,604	351,149		78			584,832
3	Public-sector entities and multilateral developments banks			1,121			9			1,129
4	Corporates	43,767			10,598		36,481			90,846
5	Retail			1,397	319		81,371	148		83,235
6	Equity securities									
7	Other assets						16			16
8	**Total 30.06.2018**	**43,778**		**236,122**	**362,067**		**117,955**	**148**		**760,069**

Table 39 (MR1): Market risk: Capital requirements under the standardised approach

		RWA
(in 1'000 CHF)		**30.06.18**
Outright products		
1	Interest rate risk (general and specific)	380,371
2	Equity risk (general and specific)	698,461
3	Foreign exchange risk	446,045
4	Commodity risk	132,477
Options		
5	Simplified approach	
6	Delta-plus method	52,615
7	Scenario approach	
8	Securitisation	
9	**TOTAL**	**1,709,970**

Table 46: Leverage Ratio: Summary comparison of accounting assets vs leverage ratio exposure measure

		30.06.18
1	Total consolidated assets as per published financial statements	35,537,785
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes (Cm 6 and 7 FINMA-Circ. 15/3)but outside the scope of regulatory consolidation (Cm 16 and 17 FINMA-Circ. 15/3)	–448,815
3	Adjustment for fiduciary assets recognised on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure (Cm 15 FINMA-Circ. 15/3)	
4	Adjustments for derivative financial instruments (Cm 21 to 51 FINMA-Circ. 15/3)	936,250
5	Adjustment for securities financing transactions (ie repos and similar secured lending)(Cm 52 to 73 FINMA-Circ. 15/3)	1,184,506
6	Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures) (Cm 74 to 76 FINMA-Circ. 15/3)	1,894,804
7	Other adjustments	
8	Leverage ratio exposure	39,104,530

Table 47: Leverage ratio: Detailed view

	Item	30.06.18
On-balance sheet exposures		
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral) (Cm 14 and 15 FINMA-Circ. 15/3)	34,693,128
2	(Asset amounts deducted in determining Basel III Tier 1 capital) (Cm 7, 16 and 17 FINMA-Circ. 15/3)	–448,815
3	= Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)	34,244,313
Derivative exposures		
4	Replacement cost associated with all derivatives transactions (ie net of eligible cash variation margin) (according to Cm 22 and 23, 34 and 35 FINMA-Circ. 15/3)	785,080
5	Add-on amounts for PFE associated with all derivatives transactions (Cm 22 and 25 Circ.-FINMA 15/3)	936,250
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the operative accounting framework	
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions, according to cm 36 FINMA-Circ. 15/3)	
8	(Exempted CCP leg of client-cleared trade exposures) (Cm 39 FINMA-Circ. 15/3)	
9	Adjusted effective notional amount of written credit derivatives (Cm 43 FINMA-Circ. 15/3)	
10	(Adjusted effective notional offsets (Cm 44 to 50 FINMA-Circ. 15/3)and add-on deductions for written credit derivatives (Cm 51 FINMA-Circ. 15/3))	
11	= Total derivative exposures (sum of lines 4 to 10)	1,721,330
Securities financing transaction exposures		
12	Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions (Cm 69 Circ.-FINMA 15/3) (Cm 58 FINMA-Circ. 15/3)	59,577
13	(Netted amounts of cash payables and cash receivables of gross SFT assets) (Cm 59 to 62 FINMA-Circ. 15/3)	
14	CCR exposure for SFT assets (Cm 63 to 68 FINMA-Circ. 15/3)	1,184,506
15	Agent transaction exposures (Cm 70 to 73 FINMA-Circ. 15/3)	
16	= Total securities financing transaction exposures (sum of lines 12 to 15)	1,244,083
Other off-balance sheet exposures		
17	Off-balance sheet exposure at gross notional amount	12,071,529
18	(Adjustments for conversion to credit equivalent amounts) (Cm 75 and 76 FINMA-Circ. 15/3)	–10,176,725
19	= Off-balance sheet items (sum of lines 17 and 18)	1,894,804
Capital and total exposures		
20	Capital and total exposures (Cm 5 FINMA-Circ. 15/3)	4,367,284
21	Total exposures (sum of lines 3, 11, 16 and 19)	39,104,530
Leverage ratio		
22	Basel III leverage ratio (Cm 3 to 4 FINMA-Circ. 15/3)	11.2%

Table 48: Information on the short-term liquidity

	(in 1'000 CHF)	Unweighted values	Weighted values	Unweighted values	Weighted values
		Average Quarter 1/18	Average Quarter 1/18	Average Quarter 2/18	Average Quarter 2/18
A. High-quality liquid assets (HQLA)					
1	Total high-quality liquid assets (HQLA)	7,198,856	7,041,403	9,270,374	9,097,520
B. Cash outflows					
2	Retail deposits and deposits from small business customers, of which:	11,689,173	1,789,047	11,401,251	1,749,582
3	Stable deposits	645,293	32,265	651,656	32,583
4	Less stable deposits	11,033,641	1,756,271	10,728,888	1,715,964
5	Unsecured wholesale funding, of which:	10,591,716	7,180,558	11,203,775	7,399,166
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks				
7	Non-operational deposits (all counterparties)	9,520,032	7,178,891	9,873,611	7,399,166
8	Unsecured debt	1,667	1,667		
9	Secured wholesale funding	49,009	49,009		
10	Additional requirements, of which:	380,434	367,576	450,189	439,896
11	Outflows related to derivative exposures and other collateral requirements	358,779	358,779	429,234	429,234
12	Outflows related to loss of funding on debt products	5,670	804	2,969	669
13	Credit and liquidity facilities	15,986	7,993	15,986	7,993
14	Other contractual funding obligations				
15	Other contingent funding obligations	12,596,578	79,882	13,036,452	83,816
16	**Total cash outflows**	**35,306,910**	**9,466,072**	**36,091,667**	**9,672,460**
C. Cash inflows					
17	Secured lending (eg reverse repos)	67,601	67,601	19,798	19,798
18	Inflows from fully performing exposures	5,924,585	3,465,386	5,696,122	3,142,170
19	Other cash inflows	265,032	265,032	187,226	187,226
20	**Total cash inflows**	**6,257,218**	**3,798,019**	**5,903,147**	**3,349,195**
Total adjusted value					
21	Total HQLA		7,041,403		9,097,520
22	Total net cash outflows		5,668,053		6,323,265
23	**Liquidity coverage ratio (in %)**		**124.2%**		**143.9%**

In 2018, the first quarter three-month average LCR reduced slightly compared with the range of 130% - 140% in 2017 mainly due to a reduction of HQLA (central bank assets). In the second quarter the central bank assets increased again which caused the increase to 144%. The stock of HQLA is under the control of Group Treasury. In average more than 90% of the stock of HQLA consists of assets that qualify as Level 1, primarily cash holdings and central bank assets. As a result, a significant part of the HQLA is denominated in CHF. In contrast, the majority of the customer deposits are denominated in USD and EUR. All currencies can easily be converted in times of liquidity stress since the relevant FX spot markets are highly liquid.

In general, sources of funding are well diversified across counterparties as a result of the broad positioning as an international wealth management bank. The bank uses internationally acknowledged ISDA/CSA agreements to mitigate the credit risk arising from OTC derivative transactions that are mainly related to FX, interest rate and equity derivative trading.

Liquidity risk is managed and monitored centrally by the Group Treasury Committee with the involvement of the local Treasury representatives to ensure that all internal and local regulatory requirements are met. Liquidity risk limits are set at a Group and individual entity level and are reviewed and approved at least once a year by the Board of Directors (BoD).

Specific liquidity levels are defined that would trigger various escalation scenarios. Breaches of Group level limits are immediately reported to the Group Treasury Committee, the Executive Committee, and the Group Audit Committee.»