



J. SAFRA SARASIN



Sustainable Swiss Private Banking since 1841

Basel III Pillar 3 Disclosures

30 June 2019

J. Safra Sarasin Holding Ltd.

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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 2019.

For more information on the way the Group manages risk, please refer to the Risk Management (pages 49 – 54) section in the Holding’s Annual Report 2018.

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 46 of the Holding’s Annual Report. On page 61 of the Holding’s Annual Report is a list of the main subsidiaries of the Group as at 31 December 2018.

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

Table KM1: Key metrics

(in 1'000 CHF)		30.06.2019	31.12.2018
Available capital (amounts)			
1	Common Equity Tier 1 (CET1)	4,704,880	4,704,687
2	Tier 1	4,704,880	4,704,687
3	Total capital	4,704,880	4,704,687
Riskweighted assets (amounts)			
4	Total risk-weighted assets (RWA)	15,832,640	14,803,576
4a	Minimum capital requirement	1,266,611	1,184,286
Risk-based capital ratios as a percentage of RWA			
5	Common Equity Tier 1 ratio (%)	29.72%	31.78%
6	Tier 1 ratio (%)	29.72%	31.78%
7	Total capital ratio (%)	29.72%	31.78%
Additional CET1 buffer requirements as a percentage of RWA			
8	Capital conservation buffer requirement (2.5% from 2019) (%)	2.50%	1.88%
9	Countercyclical buffer requirement (%)	0.16%	0.17%
11	Total of bank CET1 specific buffer requirements (%)	2.66%	2.05%
12	CET1 available after meeting the bank's minimum capital requirements (%)	21.72%	23.78%
Target equity ratios according to DRAO Annex 8 (as a % of RWA)			
12a	Capital conservation buffer according to Annex 8 of CAO (in % of RWA)	4%	4%
12b	Countercyclical buffers (Art. 44 and 44a CAO) (%)	0.18%	0.19%
12c	CET1 target rate (in %) according to CAO Annex 8 plus countercyclical buffers according to CAO Art. 44 and 44a	7.98%	7.99%
12d	T1 target rate (in %) according to CAO Annex 8 plus countercyclical buffers according to CAO Art. 44 and 44a	9.78%	9.79%
12e	Total capital target ratio (in %) according to CAO Annex 8 plus countercyclical buffer according to CAO Art. 44 and 44a	12.18%	12.19%
Basel III leverage ratio			
13	Total Basel III leverage ratio exposure measure	39,346,114	37,897,187
14	Basel III leverage ratio (%)	11.96%	12.41%
Liquidity Coverage Ratio			
15	Total HQLA	10,001,431	9,720,319
16	Total net cash outflow	7,179,738	6,670,690
17	LCR ratio (%)	139.58%	145.83%
Net Stable Funding Ratio			
18	Total available stable funding	22,072,603	20,954,390
19	Total required stable funding	17,984,594	18,224,165
20	NSFR ratio	122.73%	114.98%

Table OV1: Overview of risk-weighted assets

	RWA	RWA	Minimum Capital Requirement	RWA change
(in 1'000 CHF)	30.06.2019	31.12.2018	30.06.2019	in %
1 Credit risk (excluding counterparty credit risk) (CCR)	10,183,437	10,090,024	814,675	0.9%
2 Of which standardised approach (SA)	10,183,437	10,090,024	814,675	0.9%
6 Counterparty credit risk CCR	691,054	728,948	55,284	-5.2%
7b Of which determined using the market value method	466,994	659,571	37,360	-29.2%
9 Of which others (CCR)	224,060	69,378	17,925	223.0%
10 Value adjustment risk of derivatives (CVA)	289,875	303,945	23,190	-4.6%
11 Equity positions in banking book under market-based approach				
12 Equity investments in funds – look-through approach				
13 Equity investments in funds – mandate-based approach				
14 Equity investments in funds – fall-back approach				
15 Settlement risk				
16 Securitisation exposures in banking book				
17 Of which IRB ratings-based approach (SEC-IRBA)				
18 Of which under the external ratings-based approach (SEC-ERBA), including the Internal Assessment Approach (IAA)				
19 Of which under the standardised approach (SEC-SA)				
20 Market risk	2,319,512	1,405,857	185,561	65.0%
21 Of which standardised approach (SA)	2,319,512	1,405,857	185,561	65.0%
22 Of which determined with model approach (IMA)				0%
24 Operational risk	2,211,585	2,141,809	176,927	0%
25 Amounts below the thresholds for deduction (subject to 250% risk-weight)	137,177	132,992	10,974	3.2%
26 Floor adjustment				0%
27 Total (1+6+10+11+12+13+14+14a+15+16+20+23+24+25+26)	15,832,640	14,803,576	1,266,611	25.0%

Table LIQ1: Information on the liquidity (LCR)

(in 1'000 CHF)		Unweighted values	Weighted values	Unweighted values	Weighted values
		Average Quarter 1/19	Average Quarter 1/19	Average Quarter 2/19	Average Quarter 2/19
A. High-quality liquid assets (HQLA)					
1	Total high-quality liquid assets (HQLA)		9,466,314		10,001,431
B. Cash outflows					
2	Retail deposits and deposits from small business customers	11,642,852	1,783,347	12,069,491	1,855,127
3	<i>Of which, stable deposits</i>	701,770	35,088	727,985	36,399
4	<i>Of which, less stable deposits</i>	11,151,486	1,748,259	11,547,282	1,818,728
5	Unsecured wholesale funding	10,058,969	8,181,130	10,290,636	8,062,286
6	<i>Of which, operational deposits (all counterparties) and deposits in networks of cooperative banks</i>				
7	<i>Of which, non-operational deposits (all counterparties)</i>	10,055,449	8,177,610	10,290,636	8,062,286
8	<i>Of which, unsecured debt</i>	3,520	3,520	0	0
9	Secured wholesale funding				
10	Additional requirements	382,821	371,532	414,861	401,686
11	<i>Of which, outflows related to derivative exposures and other collateral requirements</i>	361,225	361,225	380,615	380,615
	<i>Of which, outflows related to loss of funding on debt products</i>	1,333	1,333	11,998	11,998
13	<i>Of which, credit and liquidity facilities</i>	20,263	8,974	22,248	9,073
14	Other contractual funding obligations	73,289	33,277	117,168	73,456
15	Other contingent funding obligations	13,915,010	62,069	13,705,619	61,638
16	Total cash outflows		10,431,355		10,454,194
C. Cash inflows					
17	Secured lending (eg reverse repos)	19,842	19,842		
18	Inflows from fully performing exposures	5,898,099	3,322,889	5,787,626	3,199,068
19	Other cash inflows	127,219	127,219	75,388	75,388
20	Total cash inflows	6,045,160	3,469,950	5,863,013	3,274,456
Total adjusted value					
21	Total HQLA		9,466,314		10,001,431
22	Total net cash outflows		6,961,406		7,179,738
23	Liquidity coverage ratio (in %)		136.51%		139.58%

In 2019, the three-month average total LCR remained stable in a range of 135% - 140%. This level is mainly driven by an increase of HQLA (mainly central bank assets). The stock of HQLA is under the control of Group Treasury.

In average about 90% of the stock of HQLA consists of assets that qualify as Level 1, primarily cash holdings and central bank reserves. 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.

Table IRRBBA: Interest rate risks: Objectives and guidelines for interest rate risk management in the banking book

a	Interest rate risk in the banking book (IRRBB) is internally defined as the risk to both the earnings and capital of the group arising from adverse movements in interest rates. Changes in market interest rates impact the economic value of assets, liabilities and relevant off-balance positions (Economic Value of Equity (EVE)) and affect as well the earnings from interest activities (Net Interest Income (NII)).
b	<p>The Board of Directors defines the overall tolerance for IRRBB and monitors its implementation by the Group Executive Board. Delegated by the Group Executive Board the Treasury Committee is responsible for the definition of the methodological standards for analysing and measuring interest rate risk in the banking book.</p> <p>The Risk Office (RIOF) reports and monitors weekly the interest rate risk according to internal and external risk measures for NII and EVE and checks the compliance with the corresponding limits. Internal limits are defined as buffers to the regulatory limit. Any breach is immediately reported to the corresponding instance and RIOF informs the members about the extent and the reason of the overrun.</p> <p>The Group makes use of stress testing in order to evaluate the impact of adverse scenarios on the IRRBB and uses derivative financial instruments as part of its balance sheet management activities in order to hedge the interest risk in its banking book.</p> <p>The risk function conducts the calibration and review of the interest rate risk model, methodological standard and measuring assumptions to changed market environments.</p>
c	<p>The EVE measures are calculated and monitored on a weekly basis. The Group assesses the interest rate risk exposure results based on the results from the standard regulatory scenarios and additional internal scenarios (please refer to next point "d").</p> <p>NII is calculated on a monthly basis. The impact of an immediate change of +/- 100 BPS in rates on the projected interest income is calculated on an aggregated basis and for the most relevant currencies individually.</p>
d	<p>The measurement of IRRBB for EVE and NII in the banking book is based on diversified and adequate interest rate shock and stress scenarios. The internal interest rate risk measurement system considers the following FINMA and internal scenarios:</p> <p>Scenarios for EVE:</p> <ul style="list-style-type: none"> • The six prescribed standard interest rate shock scenarios defined by FINMA • Internally selected interest rate shock scenarios for the present value measure: <ul style="list-style-type: none"> – PVBP: parallel shift in interest rate curve (+1bp) for all currencies – Internally defined Twist shock scenarios: Twist of the interest rate curve with center of rotation at 5 years, a shift of up to plus (minus) 100bp at the 1-month interest rate and a maximum shift of minus (plus) 100bps at the 10 year interest rate for all currencies – Internally defined shock scenario: parallel shift in interest rate curve (+200bps) for all currencies <p>Scenarios for NII:</p> <ul style="list-style-type: none"> – Parallel shift in interest rate curve without floor, instantaneous shock at day 1 over a horizon of 1 year (+/- 100bps) for all currencies – Parallel shift in interest rate curve without floor, instantaneous shock at day 1 over a horizon of 1 year based on standard parallel stress scenarios as defined by FINMA.
e	The model assumptions used internally do not differ from the ones set by FINMA.
f	<p>The Group implements interest rate risk hedging strategies mainly through derivatives and micro hedges. In order to avoid asymmetric profit and loss recognition, the Group may apply hedge accounting if applicable. Interest rate risk of assets and liabilities are typically hedged by interest rate swaps (IRS), but other instruments could also be used (for example Futures). All the hedge relationships of underlying hedged item(s)/risk and hedge transactions are documented.</p> <p>The effectiveness of hedging transactions is measured prospectively either by the differential of sensitivity to the risk parameter of the hedged item(s)/risk and the hedging transaction, or by matching the cash flows of the hedge and the risk position. The hedging relationships are periodically checked, whether hedge effectiveness is still in place and hedge effectiveness is guaranteed.</p> <p>Where the effect of the hedging transactions exceeds the effect of the hedged items, the excess portion of the derivative financial instrument is treated as equivalent to a trading position. The excess portion is recorded in the profit and loss item "Result from trading activities".</p>
g - 1	The EVE is calculated based on the assumption that expired interest rate bearing positions are not replaced. The cash flows include commercial spread components and financial investments consider credit dependent spread components.
g - 2	Cash flows are allocated to the time buckets defined by FINMA based on the expiry or actual payment date.
g - 3	Cash flows including commercial margins and other spread components are discounted with a risk free rate curve per currency (based on Libor and Swap market rates). Financial investments are discounted with these risk-free rate curves plus issuer specific credit spreads.
g - 4	The NII is computed based on an interest rate shock of (+/- 100bps) at day 1 over a horizon of 1 year and the assumption of a constant balance sheet excluding P/L (treated as non-rate-sensitive). Non-maturing positions are 100% repriced after 1 day. Maturing Fixed instruments positions get renewed with similar features as the maturing positions.
g - 5	Variable positions are 100% repriced after 1 day.
g - 6	Cash flows from loans are shown on the next repricing or maturity date.
g - 7	Cash flows from deposits are shown on the next repricing or maturity date.
g - 8	The Group holds no automatic option positions in the banking book.
g - 9	The Group uses linear interest rate derivatives for hedging purposes, there are no non-linear derivatives held in the banking book.
g - 10	The interest rate risk exposures are netted over currencies based on the assumption of perfect correlation.

Table IRRBBA1: Interest rate risks: Quantitative information on the position structure and resetting of interest rates

		Volume in CHF Mio.			Average repricing maturities (in years)	
		Total	Of which CHF	Of which other significant currencies (>10%)	Total	Of which CHF
Determined repricing maturity	Due from banks	723	–	721	0.29	–
	Due from customers	9,327	625	7,099	0.51	1.87
	Money-market mortgages	2,252	433	454	0.14	0.13
	Fixed-rate mortgages	836	266	565	2.60	2.67
	Financial investments	6,565	790	4,805	3.97	3.59
	Other receivables	4	–	4	–	–
	Receivables from interest derivatives	14,144	1,621	10,935	0.15	0.61
	Liabilities to banks	–384	–	–196	0.17	–
	Liabilities from client deposits	–9,835	–1,229	–6,756	0.18	0.19
	Bonds and mortgage-backed bonds	–341	–341	–	0.96	0.96
	Liabilities from interest derivatives	–14,281	–4,785	–7,157	1.59	2.43
Undetermined repricing maturity	Due from banks	1,178	371	552	0.00	0.00
	Due from customers	1,808	429	1,195	0.00	0.00
	Variable mortgage claims	6	4	2	0.01	0.01
	Other receivables	2,174	1,474	658	0.00	0.00
	Liabilities at sight in personal and current accounts	–16,754	–1,858	–12,912	0.00	0.00
	Other liabilities	–1,367	–169	–1,068	0.00	0.00
	Liabilities from client deposits, call but not transferable (savings)	–315	–314	0	0.00	0.00
Total	–4,259	–2,682	–1,099	0.74	1.45	

Interest rate Swaps, Cross-Currency Swaps and FX swaps are included under "Receivables from interest derivatives" and "Liabilities from interest derivatives" as the instruments consist of two legs (receivable and payables leg). Sight deposits at SNB and foreign central banks are excluded as per FINMA requirement.

Table IRRBB1: Interest rate risks: Quantitative information on present value and interest income

The values in Table IRRBB1 are based on the six interest-rate scenarios and the NII scenarios defined by FINMA. The change in the «Economic Value of Equity» (Δ EVE) is shown for each of the interest rate shock scenarios, of which the scenario "Parallel up" has the strongest impact indicating the sensitivity of the banking book to an increase of the interest rates.

The change of the net interest income (Δ NII) under the assumption of a constant balance sheet and computed for a 12 month period shows the worst case for the scenario "Parallel down" highlighting the impact of rate cut to the income.

In CHF	Δ EVE		Δ NII	
	Change in economic value of equity		Change in net interest income	
Period	T	T-1	T	T-1
Parallel up	-224,675,925	-	179,470,233	-
Parallel down	247,941,172	-	-108,328,159	-
Steeper-Shock	49,343,192	-		
Flattener-Shock	-97,803,482	-		
Short rate up	-179,029,640	-		
Short rate down	190,123,990	-		
Worst scenario	-224,675,925	-	-108,328,159	-
	30.06.2019		31.12.2018	
Tier 1 capital	4,704,880,000		4,704,687,000	

T = 30.06.2019 (first time disclosure)

T-1 = not applicable