



LOMBARD ODIER
LOMBARD ODIER DARIER HENTSCH

Lombard Odier Group Pillar 3 Disclosures at 30 June 2018

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Introduction

Lombard Odier Group was subject for the first time to the full disclosure requirements for capital adequacy according to the conditions defined in FINMA Circular 2016/1 'Disclosure – banks' as at 31 December 2017. As approved by the Swiss Financial Market Supervisory Authority (FINMA) on 12 April 2018, Lombard Odier Group has early adopted the liquidity disclosure requirements under marginal number 14.2 of FINMA Circular 2016/1 entering into force on 1 January 2019, and has limited the disclosures included in the report to the quantitative and qualitative information considered to be pertinent.

The required qualitative information is disclosed in the "Lombard Odier Group Pillar 3 Disclosures at 31 December 2017" report available on our website.

This document aims to provide our counterparties, external analysts, rating agencies, control bodies and our clients with detailed information relating to Lombard Odier Group risk management.

It must be noted that the figures presented were individually rounded to the closest value depending on the scale chosen. They have not been adapted to match the totals, themselves also rounded to the closest value.

Key metrics

In thousands CHF	30.06.2018	31.12.2017
Available capital		
Common Equity Tier 1 (CET1)	1,037,506	1,039,249
Tier 1	1,041,918	1,043,661
Total capital	1,041,918	1,043,661
Risk weighted assets (RWA)		
Total risk-weighted assets (RWA)	3,920,850	3,916,525
Risk-based capital ratios as a percentage of RWA		
Common Equity Tier 1 ratio (%)	26.5%	26.5%
Tier 1 ratio (%)	26.6%	26.6%
Total capital ratio (%)	26.6%	26.6%
Basel III leverage ratio		
Leverage ratio exposures	19,496,127	18,123,899
Basel III leverage ratio (%)	5.3%	5.8%
Liquidity coverage ratio		
Three-month average for the respective quarter for high-quality liquid assets	9,935,458	9,047,734
Three-month average for the respective quarter for net cash outflow	5,728,408	4,930,198
Short-term liquidity coverage ratio (LCR) for the respective quarter (%)	173.4%	183.5%

Consolidation scope

The Lombard Odier Group's consolidated financial statements comprise the financial statements of the companies which are directly or indirectly controlled by the Group, or over which it exercises a controlling influence. Those companies are fully consolidated.

In Note 1.7 of the 2017 Lombard Odier Group Financial Report there is a list of all subsidiaries of the Group as at 31 December 2017. No material change in the scope of consolidation has occurred during the first semester 2018.

The scope of consolidation for calculating capital adequacy is identical to that used in preparing the group financial statements.

Table 2 - Reconciliation of financial statements and regulatory exposure (CC2)

Consolidated balance sheet

(FINMA Circular 2016/1 - annex 2 / table 1)

In thousands CHF	30.06.2018	31.12.2017	
	According to the financial statements	According to the financial statements	Reference ¹
Assets			
Liquid assets	9,250,974	7,367,976	
Amounts due from banks	1,017,319	1,054,671	
Amounts due from securities financing transactions	255,687	48,724	
Amounts due from customers	3,762,694	4,102,262	
Trading portfolio assets	3,287	981	
Positive replacement values of derivative financial instruments	435,391	306,935	
Other financial instruments at fair value	492,958	469,268	
Financial investments	2,665,091	2,942,616	
Accrued income and prepaid expenses	184,112	170,385	
Non-consolidated participations	6,171	2,047	
Tangible fixed assets	101,022	244,044	
Other assets	181,414	160,497	
Total assets	18,356,120	16,870,406	
Liabilities			
Amounts due to banks	1,156,559	1,283,437	
Liabilities from securities financing transactions	500,000	0	
Amounts due in respect of customer deposits	13,970,475	13,194,275	
Negative replacement values of derivative financial instruments	469,791	277,976	
Liabilities from other financial instruments at fair value	519,892	504,024	
Accrued expenses and deferred income	267,990	330,398	
Other liabilities	68,409	113,922	
Provisions	160,226	127,125	
<i>of which deferred tax relating to the reserves for general banking risks</i>	<i>75,084</i>	<i>75,084</i>	
<i>of which deferred tax relating to employer contribution reserves</i>	<i>24,611</i>	<i>24,611</i>	
<i>of which deferred tax relating to unrealized gains</i>	<i>41,498</i>	<i>6,404</i>	
Total liabilities	17,113,342	15,831,157	
<i>of which subordinated liabilities eligible as Tier 2 capital (T2)</i>	<i>0</i>	<i>0</i>	
<i>of which subordinated liabilities eligible as additional Tier 1 capital (AT1) ²</i>	4,412	4,412	a
Shareholders' equity			
Reserves for general banking risks	237,766	237,766	
Capital	73,710	73,710	b
<i>of which recognized as CET1</i>	<i>73,710</i>	<i>73,710</i>	
<i>of which recognized as AT1</i>	<i>-</i>	<i>-</i>	
Retained earnings reserve	741,325	596,445	
Foreign currency translation reserve	(15,295)	(14,767)	c
Consolidated profit	205,272	146,095	
Total shareholders' equity	1,242,778	1,039,249	

¹ For the reconciliation of individual balance sheet amounts, the listed reference numbers in this table set a link to a corresponding reference number in table 2 "Composition of regulatory capital".

² The amount of the subordinated liabilities is totaling CHF 5.9 million as at 30 June 2018 and 31 December 2017, to which an haircut of 25% was applied in the regulatory capital calculation.

Composition of capital

Table 3 – Composition of regulatory capital (CC1)

(FINMA Circular 2016/1 - annex 2 / table 2)				
In thousands CHF				
		30.06.2018	31.12.2017	Reference ¹
Common equity (CET1)				
1	Issued and paid-in capital, fully eligible	73,710	73,710	b
2	Retained earnings reserves, including reserves for general banking risks and profit carry forward	979,091	980,306	
3	Capital reserves and foreign currency translation reserve (+/-)	(15,295)	(14,767)	c
6	Common Equity Tier 1 capital before regulatory adjustments	1,037,506	1,039,249	
CET1 regulatory adjustments				
28	Total regulatory adjustments to CET1	-	-	
29	Common Equity Tier 1 capital (net CET1)	1,037,506	1,039,249	
Additional Tier 1 capital (AT1)				
30	Issued and paid in instruments, fully eligible	4,412	4,412	a
32	<i>of which: classified as liabilities</i>	4,412	4,412	
36	Additional Tier 1 capital before regulatory adjustments	4,412	4,412	
Additional Tier 1 capital regulatory adjustments				
43	Total regulatory adjustments to AT1	-	-	
44	Additional Tier 1 capital (net AT1)	4,412	4,412	
45	Tier 1 capital (net Tier 1)	1,041,918	1,043,661	
Tier 2 capital (T2)				
46	Issued and paid in instruments, fully eligible	-	-	
51	Tier 2 capital before regulatory adjustments	-	-	
Tier 2 capital regulatory adjustments				
57	Total regulatory adjustments to T2	-	-	
58	Tier 2 capital (net T2)	-	-	
59	Total regulatory capital (net T1 & T2)	1,041,918	1,043,661	
60	Total risk-weighted assets (RWA)	3,920,850	3,916,525	
Capital ratios				
61	CET1 ratio (item 29, as a % of RWA)	26.5%	26.5%	
62	T1 ratio (item 45, as a % of RWA)	26.6%	26.6%	
63	Regulatory capital ratio (item 59, as a % of RWA)	26.6%	26.6%	
64	CET1 requirements in accordance with the Basel minimum standards (minimum requirements plus capital buffer plus counter-cyclical buffer and the capital buffer for systemically important banks) (as a % of RWA)	5.8%	5.8%	
65	<i>of which, capital buffer in accordance with Basel minimum standards (as a % of RWA)</i>	1.3%	1.3%	
66	<i>of which, countercyclical buffer¹⁸ in accordance with the Basel minimum standards (as a % of RWA)</i>	0.0%	0.0%	
67	<i>of which, capital buffer for systemically important institutions in accordance with the Basel minimum standards (as a % of RWA)</i>	0.0%	0.0%	
68	CET1 available to meet minimum and buffer requirements as per the Basel minimum standards, after deduction of the AT1 and T2 requirements met by CET1 (as a % of RWA)	23.1%	23.1%	
68a	CET1 total requirement target in accordance with Annex 8 of the CAO plus the countercyclical buffer (as a % of RWA)	7.8%	7.8%	
68b	CET1 available (as a % of RWA)	26.5%	26.5%	
68c	T1 total requirement in accordance with Annex 8 of the CAO plus the countercyclical buffer (as a % of RWA)	9.6%	9.6%	
68d	T1 available (as a % of RWA)	26.6%	26.6%	
68e	Total requirement for regulatory capital as per Annex 8 of the CAO plus the countercyclical buffer (as a % of RWA)	12.0%	12.0%	
68f	Regulatory capital available (as a % of RWA)	26.6%	26.6%	

¹Reference is made to items reconciling to the balance sheet as disclosed in table 2 "Reconciliation of financial statements and regulatory exposure"

Lombard Odier Group regulatory capital is almost entirely Common Equity Tier 1 – CET1 – and for a minor amount Additional Tier 1 Capital -AT1-. The Common Equity Tier 1 is comprised only of disclosed reserves and share capital.

Table 3 – Main features of regulatory capital instruments (CCA)

(FINMA Circular 2016/1 - annex 2 / table 45)

1	Issuer	Compagnie Lombard Odier SCmA
3	Governing law of the instrument	Swiss Law
Regulatory treatment		
4	Transitional Basel III rules	Common Equity Tier 1
6	Eligible at single-entity, group/single-entity and group levels	Group
7	Equity securities/debt securities/hybrid instruments/other instruments	Equity
8	Amount recognised in regulatory capital (as per most recent capital adequacy re- port)	CHF 73,710,000
9	Par value of instrument	7,360,000 shares A at a par value of CHF 10 and 100'100 shares B at a par value of CHF 1
10	Accounting classification	Capital
11	Original date of issuance	23.12.1989
12	Perpetual or dated	Perpetual
13	Original maturity date	No maturity date
14	Issuer call (subject to prior approval from supervisory authority)	No
Coupons/dividends		
17	Fixed or variable coupon or dividend	Variable
20	Fully discretionary, partially discretionnary or mandatory	Class A shares: fully discretionary Class B shares: partially discretionary, preferred stocks with respect to a dividend of 50% of the par value.
21	Existence of step up or other incentive to redeem	No
22	Non-cumulative or cumulative	Non-cumulative
23	Convertible or non-convertible	Non-convertible
30	Write-down feature	No
36	Features that prevent full recognition under Basel III	No

Lombard Odier Group has not issued any convertible bonds or options that could affect its capital structure and it does not have supplementary capital (Tier 2).

As long as the local regulatory requirements are met, there are no restrictions that could prevent the transfer of money or capital within the Group.

Risk-weighted assets and minimum capital requirements

Table 4 – Overview of risk-weighted assets (OV1)

(OV1 / FINMA Circular 2016/1 - annex 2 / table 4)

In thousands CHF

	Risk Weighted Assets 30.06.2018	Risk Weighted Assets 31.12.2017	Minimal Capital requirements 30.06.2018
1 Credit risk (excluding CCR – counterparty credit risk)	1,710,946	1,702,148	136,876
2 <i>of which standardised approach (SA)</i>	1,609,921	1,458,104	128,794
<i>of which non-counterparty related risk</i>	101,025	244,044	8,082
4 Counterparty credit risk	115,079	138,868	9,206
<i>of which current exposure method (CEM)</i>	88,679	101,333	7,094
<i>of which credit value adjustment (CVA)</i>	26,400	37,535	2,112
11 Settlement risk	-	-	-
16 Market risk	77,450	67,622	6,196
17 <i>of which standardised approach</i>	77,450	67,622	6,196
19 Operational risk	2,017,375	2,007,887	161,390
20 <i>of which basic indicator approach</i>	2,017,375	2,007,887	161,390
23 Amounts below the thresholds for deduction (subject to 250% risk weight)	-	-	-
24 Floor adjustment	-	-	-
25 Total (1+4+11+16+19+23)	3,920,850	3,916,525	313,668

Lombard Odier Group Risk Weighted Assets (RWA) mostly result from its Operational risks (“Basis indicator approach”) representing about CHF 2,017 million or 51% of its total RWA, while Credit risk accounts for about CHF 1,710.9 million or 44%. Market risks (“Standardised approach”) only contribute CHF 77.5 million or 2% and Counterparty credit risk CHF 115.1 million or 3%. The total minimum regulatory capital requirement is CHF 313.7 million, compared with the regulatory capital of CHF 1,042 million.

The RWA for non-counterparty decreased by CHF 143 million following the sale of five of our Geneva real estate sites. This decrease was offset by the increase of the RWA for credit risk by CHF 151.8 million compared to end of 2017, which is linked to the growth of the credit activity in line with the Group strategy.

Table 5 – Credit risk mitigation techniques – overview (CR3)

(CR3 / FINMA Circular 2016/1 - annex 2 / table 13)

	a	b	c	d	e	f	g
	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
	In thousands CHF	In thousands CHF	In thousands CHF	In thousands CHF	In thousands CHF	In thousands CHF	In thousands CHF
1 Loans (excluding debt securities)	615,654	3,720,597	3,189,946				
2 Debt securities	2,663,063						
3 Total at 30.06.2018	3,278,717	3,720,597	3,189,946	-	-	-	-
<i>of which defaulted</i>	-	-	-	-	-	-	-
1 Loans (excluding debt securities)	569,626	3,230,567	2,760,724				
2 Debt securities	2,941,849						
3 Total at 31.12.2017	3,511,475	3,230,567	2,760,724	-	-	-	-
<i>of which defaulted</i>	-	-	-	-	-	-	-

The above table only includes collateral that are eligible under the Standardised approach. The Bank also holds additional collateral that it considers sufficient to provide credit risk mitigation in a default scenario.

The increase of the loans exposures compared to the situation at the end of 2017 is related to the growth of the credit activity in line with the Group strategy.

Market Risks

Table 6 – Market risk under standardised approach (MR1)

(MR1 / FINMA Circular 2016/1 - annex 2 / table 39)

In thousands CHF

	Risk-weighted assets (RWA)	
	30.06.2018	31.12.2017
Outright products *		
1 Interest-rate risk (general and specific)	7,729	13,612
2 Equity risk (general and specific)	8,666	1,767
3 Foreign-exchange risk	38,587	39,388
4 Commodity risk	15,702	10,587
Options		
6 Delta-plus method	6,766	2,268
9 Total	77,450	67,622

*Outright refers to products that are not optional

Leverage Ratio

Table 7 – Summary comparison of accounting assets vs leverage ratio exposure measure (LR1)

(FINMA Circular 2016/1 - annex 2 / table 46)

In thousands CHF

	30.06.2018	31.12.2017
Object		
1 Total consolidated assets as per published financial statements	18,356,120	16,870,406
2 Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	-	-
3 Adjustment for fiduciary assets recognised on the balance sheet for accounting purposes, but excluded from the leverage ratio exposure measure	-	-
4 Adjustment for derivative financial instruments	146,840	395,877
5 Adjustment for securities financing transactions (SFTs)	-	-
6 Adjustment for off-balance-sheet items (i.e. conversion to credit equivalent amounts of off-balance-sheet exposures)	993,167	857,616
7 Other adjustments	-	-
8 Leverage ratio exposure	19,496,127	18,123,899

Table 8 – Leverage ratio common disclosure (LR2)

(FINMA Circular 2016/1 - annex 2 / table 47)

In thousands CHF

	30.06.2018	31.12.2017
On-balance-sheet exposures		
1 On-balance sheet items (excluding derivatives and SFTs, but including collateral)	17,665,042	16,514,747
2 (Assets that must be deducted in determining the eligible Tier 1 capital)	-	-
3 Total on-balance sheet exposures within the leverage ratio framework, excluding derivatives and SFTs	17,665,042	16,514,747
Derivatives		
4 Replacement costs associated with all derivatives transactions, including those with CCPs (net of eligible cash variation margin and/or with bilateral netting)	298,639	178,199
5 Add-on amounts for PFE associated with all derivatives transactions	539,880	563,240
7 (Deduction of receivables assets for cash variation margin provided in derivatives transactions)	(256,288)	(38,627)
11 Total derivative exposures	582,231	702,812
Securities financing transaction exposures		
12 Gross SFT assets with no recognition of netting, including sale accounting transactions, less the items specified in margin no. 58 FINMA Circ. 2015/3	255,687	48,724
16 Total securities financing transaction exposures	255,687	48,724
Other off-balance-sheet exposures		
17 Off-balance-sheet exposure at gross national amounts before application of credit conversion factors	3,215,935	2,829,086
18 (Adjustments for conversion to credit equivalent amounts)	(2,222,768)	(1,971,470)
19 Total off-balance-sheet items	993,167	857,616
Eligible capital and total exposures		
20 Tier 1 capital	1,041,918	1,043,661
21 Total exposure	19,496,127	18,123,899
Leverage ratio		
22 Leverage ratio	5.3%	5.8%

Liquidity Coverage Ratio

Table 9– Information on the liquidity coverage ratio (LIQ1)

(FINMA Circular 2016/1 - annex 2 / table 48)

In thousands CHF

	Q2 2018		Q1 2018		Q4 2017	
	3-month average		3-month average		3-month average	
	unweighted values	weighted values	unweighted values	weighted values	unweighted values	weighted values
High-quality liquid assets (HQLA)						
1 Total high-quality liquid assets (HQLA)		9,935,458		10,391,898		9,047,734
Cash outflows						
2 Retail deposits	6,686,919	977,437	6,554,191	957,662	6,373,422	916,596
3 <i>of which, stable deposits</i>						
4 <i>of which, less stable deposits</i>	6,686,919	977,437	6,554,191	957,662	6,373,422	916,596
5 Unsecured wholesale funding	7,715,802	5,451,686	7,760,346	5,345,309	8,126,909	5,535,396
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>	7,696,258	5,448,531	7,742,156	5,343,490	7,332,869	5,455,989
8 <i>of which, unsecured debt</i>	-	-	-	-	-	-
9 Secured wholesale funding and collateral swaps	-	-	-	-	-	-
10 Other outflows	1,586,566	694,952	1,155,535	586,861	1,145,698	496,132
11 <i>of which, outflows related to derivative exposures and other transactions</i>	713,826	426,662	391,880	331,368	412,680	270,891
12 <i>of which, outflows related to loss of funding on asset-backed securities, covered bonds and other structured financing instruments, asset-backed commercial papers, conduits, securities investment vehicles and other such financing facilities</i>	-	-	-	-	-	-
13 <i>of which, outflows related to committed credit and liquidity facilities</i>	872,740	268,290	763,655	255,493	733,018	225,241
14 Other contractual funding obligations	-	-	-	-	-	-
15 Other contingent funding obligations	2,210,712	18,718	2,067,041	18,172	2,036,822	16,795
16 Total cash outflows		7,142,793		6,908,003		6,964,919
Cash inflows						
17 Secured lending (e.g. reverse repos)	412,950	113	21,435	33	49,575	-
18 Inflows from fully performing exposures	1,763,813	1,228,268	1,684,220	1,221,740	2,163,937	1,639,844
19 Other cash inflows	186,004	186,004	110,284	110,284	394,877	394,877
20 Total cash inflows	2,362,767	1,414,385	1,815,938	1,332,057	2,608,388	2,034,721
		Adjusted values		Adjusted values		Adjusted values
21 Total high-quality liquid assets (HQLA)		9,935,458		10,391,898		9,047,734
22 Total net cash outflows		5,728,408		5,575,946		4,930,198
23 Liquidity coverage ratio (in %)		173.4%		186.4%		183.5%

There is no major variation in the Group LCR during the period under review. Net cash outflows have mainly been impacted by the market valuation of derivatives (in the table above in “Other outflows” and “Other cash flows”), by the loans granted to clients maturing within 30 days (in the table above in “Other outflows”) and by undrawn part of credit facilities granted to clients (in the table above in “Inflows from fully performing exposures”).

Composition of High Quality Liquid Assets (“HQLA”)

Lombard Odier Group holds a pool of unencumbered HQLA that are readily available to meet cash-flow obligations under stress scenarios, as defined in the LCR rules. The liquid assets mainly include Level 1 HQLA, which comprises cash deposited to the Swiss National Bank, highly rated bonds issued by governments and supranational entities.

Derivative exposure and potential collateral calls

Derivative exposure are mainly from, but not limited to foreign-exchange forwards and swaps. All derivative positions are marked-to-market daily, affecting the collateral amounts posted to and received from interbank counterparties and/or exchanges. Cash flows resulting from potential changes in collateral amounts posted/received are incorporated into LCR net cash outflows.

Concentration of funding sources

In addition to capital, client deposits represent the main funding source. They are diversified across the clients base. More than 60% of deposits are held into accounts with balances below CHF 5 million which represent more than 90% of the client accounts.

Liquidity management across Lombard Odier Group

The Group has adopted a centralised approach to cash and balance-sheet management, which falls within the remit of the Treasury/ALM Department. Accordingly, uninvested client assets are placed conservatively, in line with clearly established constraints. The liquidity consumption of the loan book is monitored against the stable funding capacity from clients’ deposits. The Risk Management unit carries out independent analysis. The liquidity approach is outlined in the Group’s liquidity investment policy.

This document is published in English.
It is also available in PDF format for download from our website, www.lombardodier.com.

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