



LOMBARD ODIER
LOMBARD ODIER DARIER HENTSCH

**Lombard Odier Group
Basel III Pillar 3 Disclosures
at 30 June 2019**

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Introduction

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. All financial and risk figures in this report are as of 30 June 2019.

In accordance with the disclosure requirements under Article 14.2 of FINMA Circular 2016/1, Lombard Odier Group has limited the disclosures included in the report to the quantitative and qualitative information considered to be pertinent.

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 (KM1)

In thousands CHF	a	c	e
	30.06.2019	31.12.2018	30.06.2018
Available capital			
Common Equity Tier 1 (CET1)	1,185,226	1,179,637	1,037,506
Tier 1	1,191,813	1,186,225	1,041,918
Total capital	1,191,813	1,186,225	1,041,918
Risk-weighted assets (RWA)			
Total RWA	4,209,191	3,939,393	3,920,850
Minimal capital requirement	336,735	315,151	313,668
Risk-based capital ratios as a percentage of RWA			
Common Equity Tier 1 ratio (%)	28.2%	29.9%	26.5%
Tier 1 ratio (%)	28.3%	30.1%	26.6%
Total capital ratio (%)	28.3%	30.1%	26.6%
Additional CET1 buffer requirements as a percentage of RWA			
Capital conservation buffer requirement (2.5% from 2019) (%)	2.5%	1.9%	1.9%
Countercyclical buffer requirement (%)	0.0%	0.0%	0.0%
Total of bank CET1 specific buffer requirements (%)	2.5%	1.9%	1.9%
CET1 available after meeting the bank's minimum capital requirements (i.e., after the CET1 allocated to cover minimum capital requirements and any TLAC requirements) (%)	20.3%	22.1%	18.6%
FINMA capital ratio requirements as a percentage of RWA			
CET1 buffer (CAO, Annex 8)	4.0%	4.0%	4.0%
Countercyclical buffer (CAO, Art. 44 and 44a) (%)	0.0%	0.0%	0.0%
CET1 total requirement in accordance with Annex 8 of the CAO plus the countercyclical buffer (CAO, Art. 44 and 44a) (%)	7.8%	7.8%	7.8%
Tier 1 total requirement in accordance with Annex 8 of the CAO plus the countercyclical buffer (CAO, Art. 44 and 44a) (%)	9.6%	9.6%	9.6%
Total regulatory capital requirement in accordance with Annex 8 of the CAO plus the countercyclical buffer (CAO, Art. 44 and 44a) (%)	12.0%	12.0%	12.0%
Basel III leverage ratio			
Total Basel III leverage ratio exposure measure	19,987,729	18,733,216	19,496,127
Basel III leverage ratio (%)	6.0%	6.3%	5.3%
Liquidity coverage ratio (LCR)			
Three-month average for the 4th quarter for high-quality liquid assets	11,220,640	11,260,028	9,935,458
Three-month average for the 4th quarter for net cash outflow	5,702,176	5,709,472	5,728,408
Liquidity coverage ratio (LCR) for the 4th quarter (%)	196.8%	197.2%	173.4%

Overview of risk-weighted assets (OV1)

In thousands CHF

	Risk-Weighted Assets 30.06.2019	Risk-Weighted Assets 31.12.2018	Minimal Capital requirements 30.06.2019
1 Credit risk (excluding CCR – counterparty credit risk)	1,805,988	1,632,238	144,479
2 <i>of which standardised approach (SA)</i>	1,687,059	1,522,682	134,965
<i>of which non-counterparty related risk</i>	118,929	109,556	9,514
6 Counterparty credit risk	179,183	134,521	14,335
7 <i>of which standardised approach for counterparty credit risk (SA-CCR)</i>	179,183	134,521	14,335
7b <i>of which current exposure method</i>	-	-	-
10 Credit valuation adjustment (CVA)	54,837	44,616	4,387
12 Equity investments in funds – look-through approach	-	-	-
14 Equity investments in funds – fall-back approach	3,382	3,311	271
15 Settlement risk	-	-	-
20 Market risk	42,076	45,895	3,366
21 <i>of which standardised approach</i>	42,076	45,895	3,366
24 Operational risk	2,123,725	2,078,811	169,898
20 <i>of which basic indicator approach</i>	2,123,725	2,078,811	169,898
25 Amounts below the thresholds for deduction (subject to 250% risk weight)	-	-	-
26 Floor adjustment	-	-	-
27 Total (1+6+10+12+14+15+20+24+25+26)	4,209,191	3,939,393	336,735

Credit risk RWA from exposures under standardised approach increased by CHF 164.4 million compared to year-end 2018 and is linked to growth of the credit activity in line with the Group strategy.

Information on the liquidity coverage ratio (LIQ₁)

In thousands CHF

	Q2 2019		Q1 2019	
	3-month average		3-month average	
	unweighted values	weighted values	unweighted values	weighted values
High-quality liquid assets (HQLA)				
1 Total high-quality liquid assets (HQLA)	11,220,640		11,211,976	
Cash outflows				
2 Retail deposits	7,390,335	1,076,357	7,360,608	1,074,137
3 <i>of which, stable deposits</i>				
4 <i>of which, less stable deposits</i>	7,390,335	1,076,357	7,360,608	1,074,137
5 Unsecured wholesale funding	8,377,468	5,893,408	8,109,219	5,556,847
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>	8,377,468	5,893,408	8,109,219	5,556,847
8 <i>of which, unsecured debt</i>	-	-	-	-
9 Secured wholesale funding and collateral swaps	97,360	19,559	3,795	137
10 Other outflows	1,647,889	637,784	1,450,557	611,257
11 <i>of which, outflows related to derivative exposures and other transactions</i>	500,987	368,393	416,669	351,252
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, securitization investment vehicles and other such financing facilities</i>	-	-	-	-
13 <i>of which, outflows related to committed credit and liquidity facilities</i>	1,146,902	269,392	1,033,888	260,005
14 Other contractual funding obligations	-	-	-	-
15 Other contingent funding obligations	2,858,707	15,829	2,615,686	16,309
16 Total cash outflows	7,642,937		7,258,687	
Cash inflows				
17 Secured lending (e.g. reverse repos)	-	-	50	50
18 Inflows from fully performing exposures	2,792,896	1,876,226	2,478,273	1,630,378
19 Other cash inflows	64,536	64,536	67,196	67,196
20 Total cash inflows	2,857,432	1,940,762	2,545,520	1,697,624
		Adjusted values		Adjusted values
21 Total high-quality liquid assets (HQLA)	11,220,640		11,211,976	
22 Total net cash outflows	5,702,176		5,561,062	
23 Liquidity coverage ratio (in %)	196.8%		201.6%	

Switzerland's Liquidity Ordinance and FINMA circular 2015/2 "Liquidity risks – banks" make it a regulatory requirement for the Group to calculate and monitor its liquidity coverage ratio (LCR). The LCR provides banks with a metric to assist them in ensuring that they hold a sufficient quantity of highly liquid assets to enable them to withstand a short-term (30-day) company-specific stress situation which coincides with a period of general market stress. The regulatory limit for the LCR increased from 90% in 2018 to 100% in 2019.

Composition of High-Quality Liquid Assets

Lombard Odier Group holds a pool of unencumbered high-quality liquid assets (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 exposures are mainly from, but not limited to foreign exchange forwards and swaps and interest rate 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 client base. More than 50% of deposits are held into accounts with balances below CHF 5 million which represent more than 90% of the client accounts.

Interest rate risk in the banking book

Qualitative disclosures (IRRBBA)

a) Definition of interest rate in the banking book for the purpose of risk control and measurement

The Group defines interest rate in the banking book (IRRBB) as risk of losses, or reduced income, due to mismatches in the sensitivity of the Group assets and liabilities to interest rate movements within the banking book.

IRRBB comprises:

Repricing risk (mismatch risk) – difference in the maturity and repricing of bank assets, liabilities and off-balance sheet positions.

Basis Risk – imperfect correlation in the adjustment of the rates earned and paid on different instruments with otherwise similar repricing characteristics.

Option Risk – the risk related to interest-related option embedded in bank products. Such embedded optionality may exist, where the bank or its customers can make elections such as prepayment of a loan or early redemption of a deposit that alter the timing and amount of their cash flows.

The main IRRBB risk factor for the Group is the dislocation in the shape of the main currencies yield curves impacting mismatches within the term structure of the Group's banking book from both balance-sheet and off-balance-sheet positions.

b) Group IRRBB management and risk mitigation strategies

IRRBB is managed within the Group's market risk framework. The Administration defines the global business strategy and in particular, the investment strategies for the Group. In addition, it performs the annual review approval of the Group Market Risk Policy which includes the Market Risk Limit Framework where the risk tolerance for IRRBB sits.

Interest rate risk in the banking book is managed by the Finance, Risk & Due Diligence Committee (hereafter the "Group Risk Committee" or the "GRC") and monitored by the Risk Management Unit in accordance with the principles and maximum limits fixed in the Group Market Risk Policy.

c) Risk assessment frequency and key indicators

IRRBB is assessed daily with primary risk indicators, such as duration and on/off-balance sheet exposures.

On a quarterly basis, the Group assesses the following interest rate risk indicators:

- Economic Value of Equity (EVE) measures the difference in the present value of the assets and liabilities excluding equity. The EVE sensitivity (Δ EVE) measures the change in EVE resulting from an interest rate shock. EVE sensitivity is computed with the assumption that the maturing positions in the Banking book are not replaced by any new contracts.
- Net Interest Income sensitivity (Δ NII) is defined by the impact of changes in interest rate on the Group's earnings. The Δ NII is measured by the changes in the net interest income assuming a constant balance sheet, where maturing or repricing cash flows are replaced by new contracts with identical features such as amount, repricing period and spread components.

d) Interest rate shocks and stress scenarios

The Group applies the six interest rate shock scenarios as prescribed in the Basel guidance and by the FINMA (namely parallel up, parallel down, short rate up, short rate down, flattener and steepener), as well as 3 additional scenarios (2 specific for interest rates and 1 for credit spread). While all scenarios are applied for Δ EVE computations, only the parallel shocks are utilised to compute the Δ NII using the income approach.

e) Model assumptions deviations

The Group's internal risk indicators are calculated based on the same assumptions than the one used to calculate the indicators given in table IRRBB1.

f) Hedging strategies and accounting treatment

The Group primarily maintains its risk position within the desired level through adjustments to balance sheet composition.

IRRBB hedging decisions are taken by the GRC and executed by the Treasury department.

The Group uses fair value hedges when a derivative financial instrument hedges the exposure to changes in the fair value of the hedged item, in order to mitigate interest rate risks of its assets and liabilities. The Group uses cash flow hedges when a derivative financial instrument hedges the exposure to variability in the cash flows from a hedged item, in order to mitigate a particular risk associated with an asset or liability or highly probable forecast transaction.

Hedging transactions are booked in accordance with FINMA circular 2015/1 "Accounting rules for banks, securities dealers, financial groups and conglomerates" (refer to the accounting and valuation principles described in the notes to the consolidated financial statements included in the 2018 Financial Report Lombard Odier Group available on our website www.lombardodier.com).

g) Modelling and parameter assumptions used when calculating Δ EVE and Δ NII in table IRRBB1

g.1. Changes in the economic value of equity (Δ EVE) – Determination of payment streams

The EVE is computed under the assumption that maturing positions in the banking book are not replaced with new contracts. Nominal and interest cash flows are determined at single position level both for on/off-balance sheet instruments.

g.2. Changes in the economic value of equity (Δ EVE) – Mapping approach

Cash flows are mapped to their exact effective payment or repricing date and then discounted.

g.3. Changes in the economic value of equity (Δ EVE) – Discounting and interpolation methods

The curve used for discounting cash flows are risk-free rate curves, built with a bootstrapping method on market data.

g.4. Changes in the net interest income (Δ NII)

The Δ NII is computed under the assumption of a constant balance sheet, where maturing instruments are replaced with positions with the same characteristics. The Group computes the impact on on/off balance sheet under interest rate curve parallel shift up and down. Given current market conditions the Group considers cash to central banks exceeding the exemption threshold, as sensitive to interest rate changes.

g.5. Non-maturing exposures

A statistical model based on historical data of volumes of client non-maturing deposits allows the Group to distinguish stable and non-stable client deposits. Stable deposits are defined as those where client behavior is not sensitive to interest rate. These stable deposits are modelled as a synthetic portfolio of term deposits. Non maturing deposits are slotted into the appropriate time bucket as follows:

- i. Non-stable volume is considered at overnight and accordingly placed into the shortest/overnight time bucket
- ii. Stable volume is slotted to the suitable short-to-mid term maturity

g.6. Exposures with pay-back options

Credit in the Group has a small duration (0.36 years as of 30.06.2019), therefore no early pay-back is modelled.

g.7. Term deposits

The Group structurally has very limited term deposits. Early redemption impact is negligible.

g.8. Automatic interest rate options

In the modelling of Δ NII, automatic options are in place in order to reflect interest rate conditions applicable to deposits and loans. Client loans are floored at a zero interest rate. Client deposits and deposits to central banks are capped at zero interest rate. These automatic options have not been considered for EVE and Δ EVE computation due to the very short duration of these balance sheet categories.

g.9. Derivative exposure

Hedging instruments mainly consist of interest rate swaps. Derivatives instruments are used for cash flow hedging purposes.

g.10. Other assumptions

EVE and NII are computed in detail for EUR, USD and CHF in accordance with FINMA's prescriptions. All other currencies are aggregated in the "Other currency" category, considering perfect correlation between currencies.

Quantitative disclosures

Interest rate risk – Quantitative information on the structure of positions, and maturity repricing (IRRBB_{A1})

		a	b	c	d	e	f	g
		Volume in CHF thousands			Average repricing maturity (in years)		Longest repricing maturity (in years) assigned to non-maturity positions	
		Total	Of which CHF	Of which other significant currencies	Total	Of which CHF	Total	Of which CHF
Positions with a set repricing maturity	Amounts due from banks				0.00	0.00		
	Amounts due from customers	3,683,357	672,231	2,574,525	0.36	0.48		
	Financial investments	3,153,199	372,500	2,771,383	2.99	1.30		
	Other assets				0.00	0.00		
	Receivables from interest-rate derivatives	5,587,784	865,404	3,964,130	0.14	0.42		
	Amounts due to banks	(450,000)	(450,000)		0.47	0.47		
	Amounts due in respect of customer deposits	(485,918)	(219,350)	(259,977)	0.20	0.43		
	Other liabilities				0.00	0.00		
	Liabilities from interest-rate derivatives	(5,639,293)	(4,433,378)	(1,176,308)	0.22	0.20		
Positions with no set repricing maturity	Amounts due from banks	561,689	104,996	340,571	0.08	0.08		
	Amounts due from customers	610,238	232,725	302,584	0.08	0.08		
	Sight liabilities in personal and current accounts	(13,915,193)	(3,919,944)	(8,886,120)	0.52	0.52		
	Other liabilities	(1,129,644)	(219,183)	(712,482)	0.08	0.08		
	Total	(8,023,782)	(6,993,998)	(1,081,693)	(0.38)	0.30	4.00	4.00

Swap positions, such as for example interest rate swaps, cross-currency swaps and forex exchange swaps, are reported with two legs – a receivables leg and a payables leg – and are recorded, therefore, under both “Receivables from interest rate derivatives” and “Liabilities from interest rate derivatives”. Fixed income securities are reported in terms of nominal values (interest rate risk view).

The column “Of which other significant currencies” refers to positions in other currencies that account for more than 10% of balance-sheet assets or liabilities

Interest rate risk – Quantitative information on the economic value of equity and net interest income (IRRBB1)

The amounts reported in the table below have been calculated in accordance with FINMA Circular 2016/1, “Disclosure – banks.” The six interest-rate scenarios used are defined in FINMA Circular 2019/2, “Interest rate risk – banks.” A general description of significant modelling and parameter assumptions used when calculating Δ EVE and Δ NII in the table below are described in section G.

In thousands CHF		
	Δ EVE	Δ NII
	30.06.2019	
Parallel up	(63,768)	68,188
Parallel down	73,705	(1,350)
Steeper	723	
Flattener	(12,392)	
Short rate up	(32,180)	
Short rate down	33,702	
Maximum	(63,768)	(1,350)
Tier 1 capital	1,191,813	

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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