



LOMBARD ODIER
LOMBARD ODIER DARIER HENTSCH

**Lombard Odier Group
Basel III Pillar 3 Disclosures
at 31 December 2020**

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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's risk profile, including its regulatory capital, risk weighted assets (RWAs), liquidity, leverage exposures as well as information about Lombard Odier Group's approach to managing risk.

This report is produced and published twice a year in accordance with FINMA requirements and as prescribed in the circular 2016/1 'Disclosure – banks' which includes the implementation of the revised Pillar 3 disclosure requirements issued by the Basel Committee on Banking Supervisions (BCBS) in March 2017, the reporting frequency for each disclosure requirement is either annual or semi-annual. In accordance with the marginal number 14.2 of FINMA Circular 2016/1, Lombard Odier Group (the "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.

Consolidation scope

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

In Note 1.7 of the 2020 Lombard Odier Group Financial Report there is a list of all subsidiaries of the Group as at 31 December 2020. No material change in the scope of consolidation has occurred during the second semester 2020.

KM1 – Key metrics

In thousands CHF		a	c	e
		31.12.2020	30.06.2020	31.12.2019
Available capital				
1	Common Equity Tier 1 (CET1)	1,402,869	1,337,131	1,296,878
2	Tier 1	1,416,563	1,346,913	1,306,660
3	Total capital	1,416,563	1,346,913	1,306,660
Risk weighted assets (RWA)				
4	Total RWA	4,721,893	4,497,627	4,351,206
4a	Minimal capital requirement	377,751	359,810	348,096
Risk-based capital ratios as a percentage of RWA				
5	Common Equity Tier 1 ratio (%)	29.7%	29.7%	29.8%
6	Tier 1 ratio (%)	30.0%	29.9%	30.0%
7	Total capital ratio (%)	30.0%	29.9%	30.0%
Additional CET1 buffer requirements as a percentage of RWA				
8	Capital conservation buffer requirement (%)	2.5%	2.5%	2.5%
9	Countercyclical buffer requirement (%)	0.0%	0.0%	0.0%
11	Total of bank CET1 specific buffer requirements (%)	2.5%	2.5%	2.5%
12	CET1 available after meeting the Group's minimum capital requirements (i.e., after the CET1 allocated to cover minimum capital requirements and any TLAC requirements) (%)	22.0%	21.9%	22.0%
FINMA capital ratio requirements as a percentage of RWA				
12a	CET1 buffer (CAO, Annex 8)	4.0%	4.0%	4.0%
12b	Countercyclical buffer (CAO, Art. 44 and 44a) (%)	0.0%	0.0%	0.0%
12c	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%
12d	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%
12e	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 ¹				
13	Total Basel III leverage ratio exposure measure	11,746,290	13,793,508	18,519,912
14	Basel III leverage ratio (%)	12.1%	9.8%	7.1%
Liquidity coverage ratio				
15	Three-month average for the 4 th quarter for high-quality liquid assets	12,755,503	12,751,132	9,745,592
16	Three-month average for the 4 th quarter for net cash outflow	5,580,781	5,673,475	4,700,084
17	Short-term liquidity coverage ratio (LCR) for the 4 th quarter (%)	228.6%	224.7%	207.3%

¹ In accordance with FINMA Guidance 02/2020 "Temporary exemptions for banks due to the COVID-19 crisis" date 31 March 2020, deposits held at central banks in all currencies pursuant to margin nos. 5 and 7 of Annex 1 to FINMA Circular 2020/1 "Accounting – banks" are excluded in the calculation of the leverage ratio as at 31 December 2020.

General information about risk management (OVA)

Organisation

Lombard Odier internal control system is organised around the three lines of defense model. The first line of defense includes the businesses and functions involved in risk taking and risk control. To support them with their risk management responsibilities, these businesses and functions have dedicated Business Risk Managers that report to the Unit Head. The second line of defense is composed of risk specialists. It includes Risk Management, Compliance, Human Resources, Finance and Legal, among others. These functions are independent from the business and are responsible for providing oversight, advice and challenge to the first line of defense. The third line of defense is the Group Internal Audit function.

Governance and main responsibilities with regard to risk management

Lombard Odier Group's governance and main responsibilities with regard to risk management are:

- The Supervisory Board (SB) acts as the Risk Committee. The SB is notified by the Administration of the risk profile of the Group and its entities, the state of the Group's equity capital, and of any major event that may alter the Group's risk profile, on a quarterly basis.
- The Administration is responsible for defining the principles and architecture of the Group's internal control system (ICS), supervising its implementation and monitoring its efficiency. It defines the general risk framework and regularly checks its suitability. It approves the overall limits for liquidity, market risk, credit risk and counterparty risk.
- The Finance, Risk & Due Diligence Committee has decision-making powers and is responsible for establishing the Group's risk policy and proposing it to the Administration. It monitors the Group's risk profile to ensure that it is consistent with the defined policy and oversees the good governance of its internal control system. The Committee ensures that appropriate measures are taken and implemented when the risk profile deviates from the fixed framework. The Committee immediately informs the Administration and the Supervisory Board of any major event that could alter the Group's risk profile.
- The Chief Risk Officer (CRO) implements the Administrations' decisions on managing and controlling the risks. More specifically, the CRO establishes a suitable organisation for risk management. He or she proposes to the relevant governing bodies all measures necessary for consistent management of the Group's risks and monitors the changes in those risks. He or she sets up the management tools and methodologies necessary to manage the Group's risks. The CRO immediately informs the Administration of any event that might alter the Group's risk profile.
- Risk Management unit, under the supervision of the CRO, reports regularly to management and to the governing bodies the level of risk compared to applicable limits.
- The Compliance Unit is tasked with ensuring that business is carried out in a manner that is compliant with our regulatory environment, is fair and equitable, and is in the overriding interests of clients and in compliance with market conduct rules. As a second line of defense function, the Compliance Unit helps to ensure that the Group has a proper internal control system in place which adequately measures and manages the risks of non-compliance that it faces. Under the supervision of the Group Chief Compliance Officer, the primary responsibilities of the Unit are: the supervision of financial crime risks (including Anti-Money Laundering, compliance with international financial sanctions, measures against internal and external frauds, etc.), compliance with the requirements of corporate governance, segregation of duties and the prevention of conflicts of interest, monitoring of trading activities and the adaptation of the internal organisation based on new requirements identified thanks to regulatory monitoring. The Group Chief Compliance Officer regularly reports to governing bodies in charge of management risk and compliance and draws their attention to any situation of non-compliance while proposing areas for improvement.
- The Group Internal Audit reports directly to the Supervisory Board. It performs its duties independently and in compliance with regulatory requirements. It coordinates its activities according to the annual audit schedule approved by the Supervisory Board. It has meetings with the Supervisory Board every quarter, to discuss the internal audit reports issued since the previous period as well as the coordination with the external audit firm, and to provide a follow-up on points to note and priority recommendations.

Internal Capital and Liquidity Adequacy Assessment Process and risk tolerance

On a yearly basis, the Group issues an Internal Capital Adequacy Assessment Process (ICAAP) and an Internal Liquidity Adequacy Assessment Process (ILAAP).

The main purpose of the Group ICAAP report is to determine the adequate level of capital to support the residual risks that the Group faces while implementing its business strategy, as well as to demonstrate, based on a three-year capital plan, how the Group can meet its regulatory capital adequacy requirements, taking into account the event of an economic downturn. The ICAAP not only considers the risks required to be covered by capital for regulatory purposes (i.e. credit, market and operational risk) but also considers other risk types to which the Group is exposed, in particular business risk and interest rate risk in the banking books.

The purpose of the ILAAP is to describe the process put in place by the Group to identify all relevant liquidity and funding risks, measure, monitor them, and when needed, take timely action to avoid liquidity shortages.

As part of its Enterprise Risk Management framework the Group has a common risk taxonomy for each category of risk and sets risk tolerance statements and risk tolerance measures for each risk. Risk tolerances are then cascaded to entities within the Group.

Risk reporting and stress testing

Risk reporting is in place from the Risk Management unit to the different governing bodies of the Lombard Odier Group and to the internal audit. Its objective is to provide a synthetic update and to identify changes in the Group risk profile. The responsibility for this reporting lies within the Risk Management unit, under the supervision of the Chief Risk Officer.

The risk reporting provides key indicators on financial risks (liquidity, market, investment, counterparty and credit) and operational risks. Current and historical risk indicators are compared to Group risk tolerance. Key insights are given on different components of the risks, including top counterparties or credit exposures and top operational events. The risk tolerance section of the reporting includes key risk metrics for individual risk types which form a dedicated part of the regular risk reporting communicated to a variety of stakeholders.

The Group performs stress testing as part of its capital planning to gauge the effect on the medium-term capital plan and key financials. These stress tests focus on the key risk areas of the Group, including business risk, operational risk and credit risk as well as interest rate risk. The Group also separately undertakes regularly stress tests on liquidity, interest rate risk and AUM (including inferred revenues impacts).

In addition, the Risk Management unit also performs ad-hoc analysis and stress tests when relevant.

Risk culture

Risk management is the responsibility of all staff within Lombard Odier Group. This is made clear through the onboarding process, staff handbook and code of conduct.

The risk culture is further reinforced through the risk management framework and governance, learning and development initiatives, internal communication and collaboration, appraisal process, consequence management and the constant effort to bring Risk Management closer to the Business with the objective of making it a value-adding factor in strategic decision-making.

Risk systems

Financial risks are monitored in the first place by front-office employees who form part of the first line of defense (relationship managers, traders and treasurers mainly) thanks to their operating systems. The risk management function, acting as the second line of defense, uses in-house risk management tools and systems to calculate risk exposures and to compare them to the limits. They are based on independent extractions from the front-office tools, accounting systems, global repository system and operation systems. Risk Management provides to the first line of defense regular reporting to reconcile with their risk views.

A dedicated in-house system, used for data gathering and depository, is in place to manage operational incidents. Users feed it directly and it has a group-wide scope. The data is consolidated and it sources the operational risk Key Risk Indicators. The respective risk type owners ensure consistency of reporting within the business lines. The second line of defense ensures a global monitoring.

Strong interactions between the different departments, including business, operations and finance, and a New Business Initiative process, ensure that all stakeholders are involved in new business developments and that systems keep up with them.

Risk-weighted assets and minimum capital requirements

The following table provides an overview of risk-weighted assets (RWA) and the related minimum capital requirement by risk type. Capital requirements presented in the tables in this report are calculated based on 8% of RWA as at 31 December 2020.

OV1 – Overview of risk-weighted assets

In thousands CHF				
	a	b	c	
	Risk Weighted Assets	Risk Weighted Assets	Minimum Capital requirements	
	31.12.2020	30.06.2020	31.12.2020	
1	Credit risk (excluding CCR – counterparty credit risk)	1,983,160	1,895,642	158,653
2	<i>of which standardised approach (SA)</i>	1,800,725	1,740,443	144,058
	<i>of which non-counterparty related risk</i>	182,435	155,199	14,595
6	Counterparty credit risk	196,397	188,123	15,712
7	<i>of which standardised approach for counterparty credit risk (SA-CCR)</i>	196,397	188,123	15,712
10	Credit valuation adjustment (CVA)	56,916	50,887	4,553
12	Equity investments in funds – look-through approach	-	-	-
14	Equity investments in funds – fall-back approach	2,228	2,049	178
15	Settlement risk	-	-	-
20	Market risk	109,867	86,934	8,789
21	<i>of which standardised approach</i>	109,867	86,934	8,789
24	Operational risk	2,372,045	2,272,531	189,764
	<i>of which basic indicator approach</i>	2,372,045	2,272,531	189,764
25	Amounts below the thresholds for deduction (subject to 250% risk weight)	1,280	1,462	102
26	Floor adjustment	-	-	-
27	Total (1+6+10+12+14+15+20+24+25+26)	4,721,893	4,497,627	377,751

Total RWA increased by 224.3 million between reporting periods 30.06.2020 and 31.12.2020 and this is mainly explained by the following:

- the increase of RWA for operational risk by CHF 99.5 million is explained by the growth of the activity during the second semester 2020
- RWA for credit risk increased by CHF 60.3 million and is linked to the growth of the credit activity in line with the Group strategy
- RWA for non-counterparty rose by CHF 27.2 million mainly due to the investments made as part of the construction of a new headquarter in Geneva.

Linkage between financial statements and regulatory exposures

This section provides information about the linkage between the carrying values presented in the financial statements and the regulatory exposures of the Group.

LI1 – Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories

	a	c	d	f	g
	According to the financial statements ¹	Carrying values of items:			
		Subject to credit risk framework	Subject to counterparty credit risk framework	Subject to market risk framework	Not subject to capital requirements or subject to deduction from capital
	In thousands CHF	In thousands CHF	In thousands CHF	In thousands CHF	In thousands CHF
Assets					
Liquid assets	8,905,019	8,905,019			
Amounts due from banks	851,860	792,771	59,089 ²		
Amounts due from customers	4,697,504	4,647,735	49,769 ²		
Positive replacement values of derivative financial instruments	575,035		575,035	575,035	
Other financial instruments at fair value	718,642			718,642	
Financial investments	3,672,772	3,672,772			
Accrued income and prepaid expenses	216,429	216,429			
Non-consolidated participations	7,409	7,409			
Tangible fixed assets	182,435				
Other assets	88,018	88,018			
Total assets	19,915,123	18,330,153	683,893	1,293,677	-
Liabilities					
Amounts due to banks	637,229		169,002		468,227
Amounts due in respect of customer deposits	15,829,516		5,048		15,824,468
Negative replacement values of derivative financial instruments	580,522		580,522	580,522	
Liabilities from other financial instruments at fair value	783,140			719,537	63,603 ³
Accrued expenses and deferred income	451,931				451,931
Other liabilities	124,568				124,568
Provisions	105,348				105,348
Total liabilities	18,512,254	-	754,572	1,300,059	17,038,145

There are no differences between accounting and regulatory scopes of consolidation.

¹ The amounts shown in the column “According to the financial statements” do not equal the sum of the amounts shown in the remaining columns of this table for line items “Positive replacement values of derivative financial instruments”, as some of the assets included in these items are subject to regulatory capital charges for both credit counterparty risk (CCR) and market risk.

² Margin accounts.

³ “Liabilities from other financial instruments at fair value” presented in the balance sheet, correspond to the value of the certificates issued by Bank Lombard Odier & Co Ltd. The certificates are booked on the liability side of the balance sheet. They are covered by positions booked on the asset side of the balance sheet. Those positions are bonds and securities, classified in “Other financial instruments at fair value”, fair values of derivative instruments presented under “Positive/negative replacement values of derivative financial instruments”, and cash.

LI2 – Main sources of differences between regulatory exposure amounts and carrying values in financial statements

	a	b	d	e
	Total	Positions subject to:		
		Credit risk framework	Counterparty credit risk framework	Market risk framework
	In thousands CHF	In thousands CHF	In thousands CHF	In thousands CHF
1 Asset carrying value amount under regulatory scope of consolidation (as per table LI1)	19,915,123	18,330,153	683,893	1,293,677
2 Liabilities carrying value amount under regulatory scope of consolidation (as per Table LI1)	2,054,631		754,572	1,300,059
3 Total net amount under regulatory scope of consolidation	17,860,492	18,330,153	(70,679)	(6,382)
4 Off-balance-sheet amounts	1,418,798	780,458		
5 PFE, differences in netting and collateral mitigation on derivatives			593,795	
6 Exposure amounts considered for regulatory purposes	19,279,290	19,110,611	523,116	(6,382)

Explanations of differences between accounting and regulatory exposure amounts (LIA)

Off-balance sheet amounts

Off-balance sheet amounts subject to credit risk include undrawn portions of committed facilities and guarantees, by applying a credit conversion factor ('CCF') to these items.

PFE, differences in netting and collateral mitigation on derivatives

Potential future exposure (PFE) for derivatives, offset by netting where an enforceable master netting agreement is in place, and by eligible financial collateral deductions.

Prudent valuation adjustments

There is no prudential valuation adjustments required and as such, Table PV1 is not applicable.

Capital components

CC1 – Composition of regulatory capital

In thousands CHF		a	b
		31.12.2020	Reference ¹
Common equity (CET1)			
1	Issued and paid-in capital, fully eligible	73,710	b
2	Retained earnings reserves, including reserves for general banking risks, profit carry forward and profit for the period ²	1,354,661	
3	Capital reserves and foreign currency translation reserve (+/-)	(25,502)	c
6	Common Equity Tier 1 capital before regulatory adjustments	1,402,869	
CET1 regulatory adjustments			
28	Total regulatory adjustments to CET1	-	
29	Common Equity Tier 1 capital (net CET1)	1,402,869	
Additional Tier 1 capital (AT1)			
30	Issued and paid in instruments, fully eligible	13,694	a
32	<i>of which: classified as liabilities</i>	13,694	
36	Additional Tier 1 capital before regulatory adjustments	13,694	
Additional Tier 1 capital regulatory adjustments			
43	Total regulatory adjustments to AT1	-	
44	Additional Tier 1 capital (net AT1)	13,694	
45	Tier 1 capital (net Tier 1)	1,416,563	
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)	1,416,563	
60	Total risk-weighted assets (RWA)	4,721,893	
Capital ratios			
61	CET1 ratio (item 29, as a % of RWA)	29.7%	
62	T1 ratio (item 45, as a % of RWA)	30.0%	
63	Regulatory capital ratio (item 59, as a % of RWA)	30.0%	
64	Institution specific CET1 buffer (capital conservation buffer + countercyclical buffer + capital buffer for systemically important banks) (as a % of RWA)	2.5%	
65	<i>of which, capital buffer in accordance with Basel minimum standards (as a % of RWA)</i>	2.5%	
68	CET1 available to meet buffer requirements as per the Basel minimum standards, after deduction of the CET1 covering minimum requirements (as a % of RWA)	22.0%	
68a	CET1 total requirement target in accordance with Annex 8 of the CAO plus the countercyclical buffer in accordance with CAO, Art. 44 and 44a (as a % of RWA)	7.8%	
68b	<i>of which: countercyclical buffer in accordance with CAO, Art. 44 and 44a (as a % of RWA)</i>	0.0%	
68c	CET1 available (as a % of RWA)	25.8%	
68d	T1 total requirement in accordance with Annex 8 of the CAO plus the countercyclical buffer in accordance with CAO, Art. 44 and 44a (as a % of RWA)	9.6%	
68e	T1 available (as a % of RWA)	27.6%	
68f	Total requirement for regulatory capital as per Annex 8 of the CAO plus the countercyclical buffer in accordance with CAO, Art. 44 and 44a (as a % of RWA)	12.0%	
68g	Regulatory capital available (as a % of RWA)	30.0%	

¹ Reference is made to items reconciling to the balance sheet as disclosed in table CC2 "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.

CC2 – Reconciliation of financial statements and regulatory exposure

In thousands CHF

	a	c
Consolidated balance sheet	31.12.2020	
	According to the financial statements	Reference ¹
Assets		
Liquid assets	8,905,019	
Amounts due from banks	851,860	
Amounts due from customers	4,697,504	
Positive replacement values of derivative financial instruments	575,035	
Other financial instruments at fair value	718,642	
Financial investments	3,672,772	
Accrued income and prepaid expenses	216,429	
Non-consolidated participations	7,409	
Tangible fixed assets	182,435	
Other assets	88,018	
Total assets	19,915,123	
Liabilities		
Amounts due to banks	637,229	
Amounts due in respect of customer deposits	15,829,516	
Negative replacement values of derivative financial instruments	580,522	
Liabilities from other financial instruments at fair value	783,140	
Accrued expenses and deferred income	451,931	
Other liabilities	124,568	
Provisions	105,348	
<i>of which deferred tax</i>	92,227	
Total liabilities	18,512,254	
<i>of which subordinated liabilities eligible as Tier 2 capital (T2)</i>	-	
<i>of which subordinated liabilities eligible as additional Tier 1 capital (AT1) ²</i>	13,694	a
Shareholders' equity		
Reserves for general banking risks	423,668	
Capital	73,710	b
<i>of which recognized as CET1</i>	73,710	
<i>of which recognized as AT1</i>	-	
Retained earnings reserve	722,992	
Foreign currency translation reserve	(25,502)	c
Consolidated profit	208,001	
Total shareholders' equity	1,402,869	
Total liabilities and shareholders' equity	19,915,123	

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 CC1 - Composition of regulatory capital.

² The amount of the subordinated liabilities is totaling CHF 18.3 million as at 31 December 2020, to which a haircut of 25% was applied in the regulatory capital calculation.

CCA – Main features of regulatory capital instruments

1	Issuer	Compagnie Lombard Odier SCmA	LO Holding SA
3	Governing law of the instrument	Swiss Law	Swiss Law
Regulatory treatment			
4	Transitional Basel III rules	Common Equity Tier 1	Common Equity Tier 1
6	Eligible at single-entity, group/single-entity and group levels	Group	Group
7	Equity securities/debt securities/hybrid instruments/other instruments	Equity	Participation certificates
8	Amount recognised in regulatory capital (as per most recent capital adequacy report)	CHF 73,700,100	CHF 10,000
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	100 participation certificates at a par value of CHF 100
10	Accounting classification	Capital	Capital
11	Original date of issuance	23.12.1989	06.12.2016
12	Perpetual or dated	Perpetual	Perpetual
13	Original maturity date	No maturity date	No maturity date
14	Issuer call (subject to prior approval from supervisory authority)	No	No
Coupons/dividends			
17	Fixed or variable coupon or dividend	Variable	Variable
20	Fully discretionary, partially discretionary 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.	Fully discretionary
21	Existence of step up or other incentive to redeem	No	No
22	Non-cumulative or cumulative	Non-cumulative	Non-cumulative
23	Convertible or non-convertible	Non-convertible	Non-convertible
30	Write-down feature	No	No
36	Features that prevent full recognition under Basel III	No	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.

Leverage Ratio

LR1– Summary comparison of accounting assets vs leverage ratio exposure measure

In thousands CHF

a

Object	31.12.2020
1 Total consolidated assets as per published financial statements	19,915,123
4 Adjustment for derivative financial instruments	(51,215)
6 Adjustment for off-balance-sheet items (i.e. conversion to credit equivalent amounts of off-balance-sheet exposures)	780,458
7 Other adjustments ¹	(8,898,076)
8 Leverage ratio exposure	11,746,290

¹ In accordance with FINMA Guidance 02/2020 “Temporary exemptions for banks due to the COVID-19 crisis” date 31 March 2020, deposits held at central banks in all currencies pursuant to margin nos. 5 and 7 of Annex 1 to FINMA Circular 2020/1 “Accounting – banks” are excluded in the calculation of the leverage ratio as at 31 December 2020.

LR2- Leverage ratio common disclosure

In thousands CHF		a	b
		31.12.2020	31.12.2019
On-balance-sheet exposures			
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral) ¹	10,442,012	17,081,552
3	Total on-balance sheet exposures within the leverage ratio framework, excluding derivatives and SFTs	10,442,012	17,081,552
Derivatives			
4	Replacement costs associated with all derivatives transactions, including those with CCPs (net of eligible cash variation margin and/or with bilateral netting)	122,960	138,414
5	Add-on amounts for PFE associated with all derivatives transactions	487,619	526,911
7	(Deduction of receivables assets for cash variation margin provided in derivatives transactions)	(86,759)	(36,505)
11	Total derivative exposures	523,820	628,820
Other off-balance-sheet exposures			
17	Off-balance-sheet exposure at gross national amounts before application of credit conversion factors	1,418,798	1,348,766
18	(Adjustments for conversion to credit equivalent amounts)	(638,340)	(539,226)
19	Total off-balance-sheet items	780,458	809,540
Eligible capital and total exposures			
20	Tier 1 capital	1,416,563	1,306,660
21	Total exposure	11,746,290	18,519,912
Leverage ratio			
22	Leverage ratio	12.1%	7.1%

¹ In accordance with FINMA Guidance 02/2020 “Temporary exemptions for banks due to the COVID-19 crisis” date 31 March 2020, deposits held at central banks in all currencies pursuant to margin nos. 5 and 7 of Annex 1 to FINMA Circular 2020/1 “Accounting – banks” are excluded in the calculation of the leverage ratio as at 31 December 2020.

Liquidity Risk (LIQA)

Governance

The Administration determines the liquidity management principles as well as the liquidity risk tolerance of Lombard Odier Group. The risk tolerance is expressed via regulatory metrics such as the liquidity coverage ratio (LCR) supplemented with internal indicators covering short term liquidity risk, sources of stable funding and sound balance sheet structure. The Finance, Risk & Diligence Committee reviews the liquidity risk appetite annually.

The Finance, Risk & Diligence Committee is responsible for the liquidity risk management in agreement with the principles set out by the Administration. This Committee monitors the liquidity risk evolution via the reporting produced by the Risk Management unit. This reporting is shared with the Administration on a monthly basis. The Group Risk Committee owns the liquidity risk management methodologies, definitions and principles. In particular, it determines the portion of stable client deposits that can be used for investments.

The liquidity management is centralised within the Treasury function, part of the Global Market Services department in the Investment Solution Business line.

The Group Treasury is the counterparty for the Group legal entities regarding their financing operations. Treasury produces the monthly ALCO reporting presented to the Group Risk Committee.

Risk assessment

Liquidity risk indicators are computed, monitored and presented to governing bodies on a regular basis. These risk indicators are simulated each year according to three scenarios (1 baseline and 2 stress) reflecting possible evolution of the Group over a 3-year horizon. The results of these simulations are summarised in the Internal Liquidity Adequacy Assessment (ILAAP), which is presented each year to the Administration.

Contingency Plan

The Group Lombard Odier contingency plans relies on three pillars:

- a detection mechanism based on triggers (traffic light approach)
- escalation rules according to the trigger levels
- operational measures and liquidity management actions dealing with the liquidity crisis

The contingency plan is reviewed on an annual basis.

Information on the liquidity coverage ratio (LCR)

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.

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 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 clients base. More than 50% of deposits are held into accounts with cash balances below CHF 5 million which represent more than 90% of the client accounts.

LIQ1 – Liquidity coverage ratio

In thousands CHF

	Q4 2020		Q3 2020	
	3-month average		3-month average	
	unweighted values	weighted values	unweighted values	weighted values
A. High-quality liquid assets (HQLA)				
1 Total high-quality liquid assets (HQLA)		12,755,503		12,992,623
B. Cash outflows				
2 Retail deposits	8,320,638	1,213,057	8,407,043	1,223,088
4 <i>of which, less stable deposits</i>	<i>8,320,638</i>	<i>1,213,057</i>	<i>8,407,043</i>	<i>1,223,088</i>
5 Unsecured wholesale funding	8,717,702	5,925,771	8,538,869	5,686,241
7 <i>of which, non-operational deposits (all counterparties)</i>	<i>8,717,702</i>	<i>5,925,771</i>	<i>8,538,869</i>	<i>5,686,241</i>
9 Secured wholesale funding and collateral swaps	297,331	832	44,137	39,275
10 Other outflows	1,853,700	533,353	1,958,384	588,504
11 <i>of which, outflows related to derivative exposures and other transactions</i>	<i>803,644</i>	<i>344,381</i>	<i>952,291</i>	<i>403,877</i>
13 <i>of which, outflows related to committed credit and liquidity facilities</i>	<i>1,050,055</i>	<i>188,972</i>	<i>1,006,093</i>	<i>184,628</i>
15 Other contingent funding obligations	2,080,544	16,271	2,082,743	16,700
16 Total cash outflows		7,689,284		7,553,809
C. Cash inflows				
17 Secured lending (e.g. reverse repos)	87	87	2,140	2,140
18 Inflows from fully performing exposures	2,916,116	2,029,153	2,414,421	1,624,548
19 Other cash inflows	79,262	79,262	134,786	134,786
20 Total cash inflows	2,995,465	2,108,503	2,551,347	1,761,474
		Adjusted values		Adjusted values
21 Total high-quality liquid assets (HQLA)		12,755,503		12,992,623
22 Total net cash outflows		5,580,781		5,792,335
23 Liquidity coverage ratio (in %)		228.6%		224.3%

In the table above the LCR figures are disclosed as 3-month average value per quarter. The impact of the decrease of the high-quality liquid assets by CHF 237.1 million during the fourth quarter compared to the previous one, accompanied by an increase of the total of net cash outflows by CHF 135.5 million, was more than compensated by the increase of net cash inflows by CHF 347.0 million. The changes resulted in a higher liquidity coverage ratio, which remains significantly above the regulatory required minimum ratio of 100%.

Credit Risk (CRA)

Lombard Odier Group faces credit risk against its clients ('Client credit risk') and against its financial counterparties ('Counterparty credit risk'). Lombard Odier also faces credit risk through its investment portfolio on the issuers. Dedicated group guidelines cover all credit risks.

In line with FINMA's regulations, RWA attached to counterparty credit risk only includes exposures linked to derivatives and exposure of securities financing transactions (SFT). All other credit exposures are reported in the Credit risk section. These rules have been applied to prepare the table 2 'Overview of risk-weighted assets (OV1)'.

From a Lombard Odier Group risk perspective, the definition of credit risk linked to client activities, and counterparty credit risk linked to market activities, is different and detailed below.

Client credit risk

The Group's client credit risk is generated through two forms of activity both secured by a pledge of listed and liquid securities of sufficient quality:

1. Lending, which is essentially limited to cash credit (loans and overdrafts) granted to clients (also known as "Lombard Credit").
2. Other credit exposures, which may include credit commitments (bank guarantees and subscriptions on behalf of clients to Private Equity or other investment vehicles employing capital calls) and trading positions that require a margin such as derivatives and any other financial instruments.

Pledged portfolios are analysed in depth by the Risk Management Unit, and a conservative lending value is assigned to each pledged position based on relevant indicators of credit risk, market risk, as well as liquidity and country risk of the investment. Currency risk, as well as concentration risk by issuer and by country, are systematically taken into consideration with regard to each collateral portfolio.

The credit exposure amount, market value and lending value of the pledged assets are valued and monitored on a daily basis using a standard suite of haircuts specified in the credit-risk policy of Lombard Odier Group. Where coverage is insufficient or a limit is exceeded, margin calls are made, and the Group may sell the pledged assets if needed to repay loans or cover other credit exposures.

Loans are classified as past due when the client has failed to make a payment when contractually due. The exposure is not considered impaired as the Group believes that on the basis of the collateral available it is still covered.

It is not the Group's policy to grant mortgages or commercial loans.

Counterparty credit risk

Counterparty risk is defined as the potential loss for the Group should its financial counterparties (banks or counterparties to transactions in its course of business) fail to meet their payment obligations.

The Group's risk policy restricts the choice of institutional counterparties in line with a cautious approach, long-term vision and the objective of providing clients with a high-quality service. Institutions that play a major – or even systemic – economic role in their country or internationally are preferred.

Over-the-counter (OTC) derivatives are traded exclusively on a collateralised basis. Reverse repos and repos are used for liquidity management purposes, and all derivatives transactions in which the Group is principal are governed by standard collateralisation agreements with strict parameters for margin calls and eligible collateral.

All new counterparties are investigated thoroughly, analysed and approved independently by the Risk Management Unit. The eligibility, financial health and limits of counterparties are reassessed at least once a year.

Counterparty risk is managed through a combination of limits that cover the various instrument types arising from the Group's activities. Limits are set where the Group acts as principal towards counterparties (direct risk) but also where it acts as agent on its clients' behalf (indirect risk).

The Group applies a maximum financial risk for each counterparty, which limits the total amount of acceptable exposure across all of its activities. The limits per activity and the maximum total amount authorised vary according to the counterparty's creditworthiness.

The Risk Management unit monitors the change in the quality of service of counterparties, their financial soundness and the macroeconomic situation. It proposes changes to the limits wherever necessary. Counterparty limits are monitored daily, by both the 1st line (traders and treasurers) and the 2nd line of defense (Risk Management unit).

Governance

The Administration defines the global business strategy and in particular the credit strategy for the Group. The Finance, Risk & Diligence Committee monitors the credit risk and proposes potential changes to the credit risk management approach including credit calculation methodologies. The committee takes credit decisions within its authority.

Limit approval and credit delegations are in place, depending, in the case of counterparty credit risk, on criteria such as the maximum exposure to defaults per rating and counterparty type. Additional factors, for example country or sector classification, are also taken into account for the investment portfolio. Regarding client credit risk, credit delegation authorities are in place for credit facilities depending on the type of credit (standard / non-standard).

Monitoring reports are provided on a regular basis to the competent bodies (Finance, Risk & Diligence Committee, Administration and Supervisory Board). The reports are also communicated to the Group Internal Audit. A dedicated team, part of the Risk Management unit (2nd line of defense), is responsible for daily monitoring of the situation and the preparation of reports. Client credit-risk reporting includes the evaluation of the credit book by business unit, exposure type and type of collateral. It also presents the top clients with credit exposures and the term-loans maturity profile. The counterparty risk monitoring section includes breakdowns of indirect and direct exposures, as well as settlement risk top exposures. The section dedicated to the investment portfolio presents information such as creditworthiness, sectoral concentrations and top issuers.

Credit risk mitigation (CRC)

The client lending activity is essentially limited to loans and advances to clients secured by the pledging of first-rate negotiable securities (Lombard loans). Pledge agreements are put in place with clients which allow netting across all on- and off-balance sheet items the client held.

The regulation regarding eligible collaterals excludes some pledged assets, such as most funds and life insurance, which may be considered eligible within Lombard Odier credit policy.

Mitigation in place for counterparty credit risk includes the exchange of collateral when market practices allow it. For example it is the case for listed derivatives, cleared OTC derivatives and OTC derivatives for which an ISDA master netting agreement/CSA is in place (e.g. OTC derivatives are traded exclusively on a collateral basis). The settlement execution risk is managed, when possible, by the systematic usage of delivery versus payment (DvP) or payment versus payment (PvP) settlements. A dedicated team, attached to Treasury, is responsible for the daily management of collateral received by and given to market counterparts. The Finance, Risk & Diligence Committee is responsible for defining the types of collateral acceptable.

Lombard Odier does not use derivatives to cover its credit risk (CDS).

CR1 – Credit risk: Credit quality of assets

	a	b	c	d
	Gross carrying values		Value adjustments/ impairments In thousands CHF	Net values (a+b+c) In thousands CHF
	Defaulted exposures In thousands CHF	Non-defaulted exposures In thousands CHF		
1 Loans (excluding debt securities)	22	5,440,506	22	5,440,506
2 Debt securities	-	3,666,753	-	3,666,753
3 Off-balance sheet exposures	-	1,418,798	-	1,418,798
3 Total at 31 December 2020	22	10,526,057	22	10,526,057

In the unlikely event that a borrower is not able to meet its obligations, the Administration and/or the Finance, Risk & Diligence Committee decides whether a specific provision should be recognised, taking into account the detailed analysis of the pledged assets. The loan would be then considered doubtful.

CRB – Credit risk : Breakdown of exposures by geographical area

	Switzerland	Europe	Americas	Asia/Pacific	Other countries	Total
	In thousands CHF	In thousands CHF	In thousands CHF	In thousands CHF	In thousands CHF	In thousands CHF
Balance sheet / loans						
Liquid assets	8,371,389	533,241	352	37	-	8,905,019
Amounts due from banks	88,818	527,062	153,029	23,720	142	792,771
Amounts due from customers	992,719	2,125,513	934,476	563,024	32,003	4,647,735
Financial investments	283,399	2,258,929	908,686	193,486	22,508	3,667,008
Other exposures	158,182	74,410	73,540	8,063	270	314,465
Total	9,894,507	5,519,155	2,070,083	788,330	54,923	18,326,998
Off-balance sheet exposures						
Contingent liabilities	128,265	115,723	60,993	19,977	2,864	327,823
Irrevocable commitments	413,160	402,591	204,744	68,444	2,037	1,090,975
Total current year	541,426	518,314	265,737	88,421	4,901	1,418,798

The geographical distribution of risk is based on the risk domicile principle.

CRB – Credit risk: Breakdown of exposures by sectors

	Central governments and central banks	Banks and brokers	Public bodies	Corporates	Retail	Other	Total
	In thousands CHF	In thousands CHF	In thousands CHF	In thousands CHF	In thousands CHF	In thousands CHF	In thousands CHF
Balance sheet / loans							
Liquid assets	8,898,076	-	-	-	-	6,943	8,905,019
Amounts due from banks	110,079	682,692	-	-	-	-	792,771
Amounts due from customers	-	4,518	19	1,831,213	2,811,985	-	4,647,735
Financial investments	1,942,842	345,497	673,557	687,338	-	17,773	3,667,008
Other exposures	30,154	1,692	1,962	54,540	214	225,903	314,465
Total	10,981,151	1,034,399	675,538	2,573,091	2,812,199	250,619	18,326,998
Off-balance sheet exposures							
Contingent liabilities	-	69,543	-	98,247	160,033	-	327,823
Irrevocable commitments	-	1,463	13,848	626,104	449,561	-	1,090,975
Total current year	-	71,006	13,848	724,351	609,594	-	1,418,798

CRB – Credit risk: Breakdown of exposures by maturity

	At sight	Callable	Residual term				Total
			within 3 months	between 3 and 12 months	between 12 months and 5 years	after 5 years	
	In thousands CHF	In thousands CHF	In thousands CHF	In thousands CHF	In thousands CHF	In thousands CHF	In thousands CHF
Balance sheet / loans							
Liquid assets	8,905,019	-	-	-	-	-	8,905,019
Amounts due from banks	792,771	-	-	-	-	-	792,771
Amounts due from customers	219,853	229,355	2,554,803	1,492,782	150,942	-	4,647,735
Financial investments	8,921	-	343,643	321,416	2,526,179	466,849	3,667,008
Other exposures	312,659	-	134	-	1,672	-	314,465
Total	10,239,223	229,355	2,898,580	1,814,198	2,678,793	466,849	18,326,998
Off-balance sheet exposures							
Contingent liabilities	-	17,243	11,147	64,519	50,216	184,698	327,823
Irrevocable commitments	-	171,462	12,011	9,890	23,737	873,875	1,090,975
Total current year	-	188,705	23,158	74,409	73,953	1,058,573	1,418,798

CR3 – Credit risk: Overview of mitigation techniques

	a	b1	b	d	f
	Exposures unsecured / carrying amount	Exposures secured / carrying amount	Of which: exposures secured by collateral	Of which: exposures secured by financial guarantees	Of which: exposures secured by credit derivatives
	In thousands CHF	In thousands CHF	In thousands CHF	In thousands CHF	In thousands CHF
1 Loans (excluding debt securities)	1,112,729	4,327,778	3,668,102		
2 Debt securities	3,666,753	-	-		
3 Total at 31 December 2020	4,779,482	4,327,778	3,668,102	-	-
<i>of which defaulted</i>	22	-	-	-	-

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.

CR4 – Credit risk : Exposure and credit risk mitigation (CRM) effects under the standardised approach

Asset classes	a	b	c	d	e	f
	Exposures before CCF and CRM		Exposures post-CCF and CRM		RWA	RWA density
	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount		
	In thousands CHF	In thousands CHF	In thousands CHF	In thousands CHF	%	
1 Central governments and central banks	10,981,151	-	10,981,151	-	458	0
2 Banks and securities firms	1,034,399	71,006	904,880	36,104	197,589	21
3 Public sector entities and multilateral development banks	675,538	13,848	675,520	6,924	36,685	5
4 Corporates	2,573,091	724,351	1,145,523	67,373	630,554	52
5 Retail	2,812,199	609,594	696,650	43,312	701,934	95
6 Equity securities	7,720	-	7,720	-	11,580	150
7 Other assets	242,898	-	242,898	-	221,924	91
8 Total at 31 December 2020	18,326,998	1,418,798	14,654,343	153,714	1,800,725	12

Use of external ratings (CRD)

Lombard Odier Group consistently uses the main three rating agencies : Fitch, Standard & Poor's and Moody's. Credit ratings are used to monitor counterparty credit risk resulting from direct exposure (mainly cash and investment portfolio) and to rate the collateral deposited or received from clients or market counterparts. For internal risk-monitoring purposes, and when no more complex models apply, it is the worst of the ratings available that is used. For the purpose of the calculation of the regulatory capital requirements, if each of the external agencies issues an instrument with a rating, the median is used, and if only two ratings are issued, the Group uses the more conservative value.

Risk Weighted Assets relating to credit risk are impacted by changes in external credit ratings as the Group applies the AS-BRI approach. Indeed, the capital requirements for credit risks in the banking sector (FINMA Circular 2008/19 “Credit Risks – Banks”) and the Capital Adequacy Ordinance (CAO) make use of external credit ratings. They impact respectively the weighting applicable for exposure towards financial counterparties, and the pledge value of the clients' pledged assets, indirectly impacting the Group client-credit RWA.

CR5 – Credit risk : Exposures by category and risk weights under the standardized approach

In thousands CHF

Risk weight	a	b	c	d	e	f	g	h	j
	0	10%	20%	35%	50%	75%	100%	150%	Total credit exposures amount (post-CCF and post-CRM)
Asset classes									
1 Central governments and central banks	10,980,578		-		230	-	343	-	10,981,151
2 Banks and securities firms	17,312		883,388		38,745	-	1,539	-	940,984
3 Public sector entities and multilateral development banks	501,405		179,448		1,590	-	-	-	682,444
4 Corporates	64,409		580,882		106,456	-	461,150	-	1,212,897
5 Retail	-		-		-	152,204	587,759	-	739,963
6 Equity securities	-		-		-	-	-	7,720	7,720
7 Other Assets	6,944		17,538		-	-	218,417	-	242,898
8 Total at 31 December 2020	11,570,648	-	1,661,256	-	147,022	152,204	1,269,208	7,720	14,808,057

Counterparty Credit Risk (CCRA)

Positive and negative replacement values of derivative financial instruments are the main contributor to this risk, which is collateralized on a daily basis (see Credit-risk mitigation section above). Most of the replacement values exposure is generated by back-to-back activities as the bank faces its client on one-side and market counterparts on the other.

Lombard Odier is not a direct Central Counterparty Clearing house (CCP) member. It accesses this type of services through prime brokers.

A credit-rating downgrade would not have direct consequences on the quality or amount of collateral to be exchanged with our counterparties. A wrong-way-risk detailed analysis was conducted internally that lead us to conclude it was not material for Lombard Odier Group.

CCR3 – Counterparty credit risk: Standardized approach to CCR exposures by exposure category and risk weights

In thousands CHF

Risk weight	a	b	c	d	e	f	g	h	i
	0	10%	20%	50%	75%	100%	150%	Other	Total credit exposure
Asset classes									
1 Central governments and central banks			-	-		5			5
2 Banks and securities firms	2,368		185,696	144,342		-			332,407
3 Public sector entities and multilateral development banks			-	20		-			20
4 Corporates			-	-		60,728			60,728
5 Retail			-	-		24,229			24,229
8 Total at 31 December 2020	2,368	-	185,696	144,363	-	84,962	-	-	417,389

CCR5 – Counterparty credit risk : Composition of collateral for CCR exposure

In thousands CHF

Type of collateral	a	b	c	d	e	f
	Collateral used in derivative transactions				Collateral used in SFTs	
	Fair value of collateral received		Fair value of posted collateral		Fair value of collateral received	Fair value of posted collateral
	Segregated	Non-segregated	Segregated	Non-segregated		
Cash in CHF		17,140	-	62,650		-
Cash in other currencies		156,910	-	24,109		22,099
Other sovereign debt		-	166,713	-		-
Government agency debt		-	17,952	-		26,630 ¹
Corporate bonds		-	32,203	-		43,448 ¹
Total at 31 December 2020	-	174,050	216,868	86,759	-	92,177

¹ Collateral posted for SFTs executed for the account of our clients.

CCR8 – Counterparty credit risk: Exposures to central counterparties

In thousands CHF

	a	b
	EAD (post-CRM)	RWA
1 Exposures to QCCPs (total)		2,115
2 Exposures for trades at QCCPs (excluding initial margin and default fund contribution); of which:	83,628	1,673
4 <i>of which exchange-traded derivatives</i>	83,628	1,673
7 Segregated initial margin	216,868	
8 Non-segregated initial margin	22,099	442

Market Risk (MRA)

Market risk is the risk of loss due to value fluctuation of a position resulting from a change in the factors that determine its price, such as exchange rates, interest rates, equity prices, etc. It impacts the Group's results mainly through the balance sheet positions of derivatives contracts. The framework for risk management is defined in the market risk policy of the Lombard Odier Group.

MR1 – Market risk: Minimal capital requirements under standardised approach

In thousands CHF

	a
	RWA
	31.12.2020
Outright products *	
1 Interest-rate risk (general and specific)	26,255
2 Equity risk (general and specific)	3,134
3 Foreign-exchange risk	74,085
4 Commodity risk	1,208
Options	
6 Delta-plus method	5,185
9 Total	109,867

*Outright refers to products that are not optional

All assets (bonds, stocks, funds, ETFs, for example) have their prices sourced from market providers. Mark-to-model is used only in the case of unlisted derivatives, for example forex forwards. Standard pricing models are used in conjunction with end-of-day market data (interest rates, exchange rates, etc.) retrieved from market providers. Daily pricing reconciliation with our market counterparties are in place. A dedicated team in Operations is in charge of this reconciliation and investigates mismatches. In addition, centralized value systems generate alerts when daily variations above a certain threshold are detected. Another dedicated team in charge of the centralized valuation system investigates such alerts. The bank does not hold assets whose fair value is not determined by using observable inputs or measures ('Level 3 assets').

Currency risks are centralised in the Swiss bank entity of the Group whilst only minimal positions are allowed for the foreign entities.

Limits are defined for the banking book and the trading book at a global level; they are reviewed at least annually. For the latter, sub-limits are defined for each trading activity. Market risk associated with trading activities is managed and controlled by the bearer of the risk (trading desks as 1st line of defense), and then independently controlled by the Risk Management unit through daily and intraday controls.

The risk report transmitted to the different governing bodies of the Group (Group Risk Committee, Administration and SB) includes a dedicated market risk section.

The strategy of Lombard Odier is to execute clients' orders and not to take proprietary trading positions. Trading limits are therefore limited. The certificates issued by Lombard Odier are fully covered by assets with little market risk remaining, mainly due to trading size limitations. The gross amount of certificates issued are reported in the assets whilst their hedges are on the liabilities. Both are netted to calculate the regulatory capital requirement of this activity.

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 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 utilized to compute the 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 2020 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 (0.31 years as of 31.12.2020), 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. For internal reporting, in addition to these currencies, NII is also computed for GBP. All other currencies are aggregated in the “Other currency” category, considering perfect correlation between currencies.

Quantitative disclosures

IRRBA1 – Interest-rate risk – Quantitative information on the structure of positions, and maturity repricing

		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	
				Of which other significant currencies representing more than 10% of the balance				
		Total	Of which CHF	sheet total CHF	Total	Of which CHF	Total	Of which CHF
Positions with a set repricing maturity	Amounts due from customers	4,223,586	942,770	2,699,357	0.34	0.40		
	Financial investments	3,735,421	274,663	3,436,709	2.82	2.34		
	Receivables from interest-rate derivatives	6,316,660	899,435	4,649,029	0.23	0.23		
	Amounts due in respect of customer deposits	(36,390)	(36,390)	-	2.08	2.08		
	Liabilities from interest-rate derivatives	(6,361,043)	(5,157,943)	(1,044,001)	0.28	0.30		
Positions with no set repricing maturity	Amounts due from banks	851,912	105,011	692,151	0.08	0.08		
	Amounts due from customers	500,331	196,139	269,073	0.08	0.08		
	Sight liabilities in personal and current accounts	(15,771,129)	(3,682,664)	(10,970,335)	0.88	0.88		
	Other liabilities	(683,531)	(167,508)	(444,262)	0.08	0.08		
	Total	(7,224,183)	(6,626,488)	(712,278)	0.32	0.56	7.00	7.00

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).

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

In thousands CHF

	Δ EVE	Δ NII	Δ EVE	Δ NII
	31.12.2020		31.12.2019	
Parallel up	26,805	87,870	(45,930)	61,259
Parallel down	(37,847)	59,077	52,173	11,804
Steeper	63,563		8,804	
Flattener	(57,971)		(16,556)	
Short rate up	(43,608)		(29,100)	
Short rate down	44,856		29,990	
Maximum	(57,971)	59,077	(45,930)	11,804
Tier 1 capital	1,416,563		1,306,660	

The amounts reported in the table above 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.

The main evolution of the EVE results is due to the update of the non-maturing deposits modelling. The level of the stable client deposits and their average duration have increased following these modifications.

Operational Risks (ORA)

Operational risk is defined as the risk of loss arising from inadequacy or failure on the part of internal processes, people or systems, or following external events due to intentional, accidental or natural causes. It includes legal, fiscal, regulatory and compliance risks.

Operational risk is inherent in the business activities of the Group. Operational risk may take various forms and have many causes, ranging from unintentional human error to fraudulent acts and external events.

The Group is prepared to accept operational risks on the strict condition that they are in line with the implementation of its strategy and business policy, and that compliance with the regulations and laws of the markets in which it operates is ensured at all times. The Group has issued risk tolerance statements regarding the key operational risks that enables it to supervise and manage the operational risk profile at any time.

The Group believes that operational risk management is the responsibility of all employees and that it requires the commitment of managers at all levels, as well as a strong operational risk prevention culture within the Group.

In practice, this means that each business unit must take ownership of its operational risks as a first line of defence with respect to the identification, evaluation and management of these risks, and the proactive implementation of improvement measures.

The second line of defence, represented in particular by Risk Management and Compliance, is responsible for the supervision and monitoring of operational risk. They also offer specialist support to the units with regard to the implementation of the Group's risk management framework and the management of specific types of risk. Legal risks associated with potential litigation are assessed individually by the Legal department and Partners, with the assistance of external expert lawyers if necessary.

The Group has defined principles and processes for the identification and evaluation of prevalent operational risks, their management and mitigation, the surveillance and reporting of operational risks within the Group, and the promotion of a strong operational risk culture.

The Group's operational risk management framework complies with the standards defined by the Basel Committee and adopted by FINMA.

An independent assessment of the internal control system for back-office and IT activities is conducted annually on the basis of an external audit in order to obtain a certification based on ISAE 3402 (SSAE 16) type 2 and ISAE 3000 standards.

Operational incidents trigger notification, review, approval and escalation requirements. Such incidents are reported and analysed to ensure that suitable corrective and preventive measures can be taken to reduce the frequency and materiality of potential risk events in the future.

With regard to its business continuity plan, the Group believes that, in the event of an accident or major disaster, its ability to maintain and rapidly recover its critical activities is crucial to minimising the impact of such events on its operations. The Business Continuity Manager is responsible for the methodology and the setup of a Crisis Management team to handle matters if such an event were to occur.

The Group also tests its business continuity plan at least once a year to ensure that it is suitable, especially as regards its sensitive activities (technological infrastructure, information system, access to markets, and executing and booking of orders). The Group abides by the Swiss Bankers Association's Recommendations for Business Continuity Management and applies the self-regulation recognised as a minimum standard by FINMA (FINMA Circ. 08/10).

Finally, with respect to technology and cyber security, the Group has set up the technology, information security and cyber risk management framework according to FINMA's requirements. Processes and controls are implemented within the organization to ensure the confidentiality, the integrity and the availability of the Information Systems as well as the identification of potential threats, the protection of the technology infrastructure, the timely detection of security incidents based on systematic.

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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Published April 2021.

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