



LOMBARD ODIER
LOMBARD ODIER DARIER HENTSCH

**Lombard Odier Group
Basel III Pillar 3 Disclosures
at 31 December 2022**

Contents

Introduction	5
Consolidation scope	5
General information about risk management	7
Organisation	7
Governance and main responsibilities with regard to risk management	7
Internal Capital Adequacy Assessment Process and risk tolerance	8
Risk reporting and stress testing	8
Risk culture	8
Risk systems	8
Risk-weighted assets and minimum capital requirements	9
Linkage between financial statements and regulatory exposures	10
Capital components	12
Leverage Ratio	15
Liquidity Risk	17
Credit Risk	22
Counterparty Credit Risk	29
Market Risk	31
Interest rate risk in the banking book	32
Operational Risks	36

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 2022 Lombard Odier Group Financial Report there is a list of all subsidiaries of the Group as at 31 December 2022. No material change in the scope of consolidation has occurred during the second semester 2022.

KM1 – Key metrics

In thousands CHF		a	c	e
		31.12.2022	30.06.2022	31.12.2021
Available capital				
1	Common Equity Tier 1 (CET1)	1,488,818	1,482,101	1,467,612
2	Tier 1	1,510,477	1,499,169	1,484,680
3	Total capital	1,510,477	1,499,169	1,484,680
Risk weighted assets (RWA)				
4	Total RWA	4,966,429	5,030,534	5,145,264
4a	Minimal capital requirement	397,314	402,443	411,621
Risk-based capital ratios as a percentage of RWA				
5	Common Equity Tier 1 ratio (%)	30.0%	29.5%	28.5%
6	Tier 1 ratio (%)	30.4%	29.8%	28.9%
7	Total capital ratio (%)	30.4%	29.8%	28.9%
Additional CET1 buffer requirements as a percentage of RWA				
8	Capital conservation buffer requirement (2.5% from 2019) (%)	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) (%)	22.4%	21.8%	20.9%
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				
13	Total Basel III leverage ratio exposure measure	18,866,774	25,540,694	23,330,227
14	Basel III leverage ratio (%)	8.0%	5.9%	6.4%
Liquidity coverage ratio (3-month average)				
15	Total high-quality liquid assets (HQLA)	11,264,745	13,849,714	13,179,717
16	Total net cash outflow	5,522,371	6,384,427	6,410,787
17	Short-term liquidity coverage ratio (LCR) (%)	204%	217%	206%
Net stable funding ratio				
18	Available stable funding	9,714,670	12,954,451	12,196,244
19	Required stable funding	4,573,604	5,064,885	4,638,518
20	Net stable funding ratio (NSFR)	212%	256%	263%

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 and approves the general risk framework at Group level, regularly assesses its appropriateness and make the necessary changes. The Group risk framework encompasses risk policy, risk tolerance and the corresponding risk limits for all the major risk categories.
- The Finance, Risk & Due Diligence Committee has decision-making powers and is responsible for establishing the Group risk framework and proposing it to the Administration. It monitors the Group's risk profile to ensure that it is consistent with the defined tolerance 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 agreed upon framework. The Committee also approves the global limits for liquidity, market risk, credit risk and counterparty risk on an individual and consolidated basis. 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' resolutions on risk management and control. More specifically, the CRO establishes an appropriate organisational structure dedicated to managing risk. 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.
- The Risk Management unit, under the supervision of the CRO, reports regularly to the management and to the governing bodies the level of risk compared to applicable limits and tolerance.
- The Compliance Unit is tasked with ensuring compliance with legal and regulatory provisions, as well as internal directives (in particular with respect to the prevention of money laundering and terrorism financing, investor protection, and integrity of the markets). As a second line of defence 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 the Group's entities and staff to ensure compliance with Group Standards as well as the main legal and regulatory provisions, ensure business activities are carried out diligently, fairly and equitably in the overriding interests of clients and market integrity with a view to avoiding or managing any conflicts of interests. 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 Adequacy Assessment Process and risk tolerance

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

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 were relevant (e.g. Brexit).

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.

Dedicated systems, used for data gathering and depository, are 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.

Continuous 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 of 31 December 2022.

OV1 – Overview of risk-weighted assets

In thousands CHF				
	a	b	c	
	Risk Weighted Assets	Risk Weighted Assets	Minimum Capital requirements	
	31.12.2022	30.06.2022	31.12.2022	
1	Credit risk (excluding CCR – counterparty credit risk)	1,976,859	2,116,375	158,149
2	<i>of which standardised approach (SA)</i>	<i>1,605,334</i>	<i>1,800,262</i>	<i>128,427</i>
	<i>of which non-counterparty related risk</i>	<i>371,525</i>	<i>316,113</i>	<i>29,722</i>
6	Counterparty credit risk	150,260	178,722	12,021
7	<i>of which standardised approach for counterparty credit risk (SA-CCR)</i>	<i>150,260</i>	<i>178,722</i>	<i>12,021</i>
10	Credit valuation adjustment (CVA)	53,092	59,483	4,247
14	Equity investments in funds – fall-back approach	1,528	1,472	122
20	Market risk	137,649	71,043	11,012
21	<i>of which standardised approach</i>	<i>137,649</i>	<i>71,043</i>	<i>11,012</i>
24	Operational risk	2,646,929	2,602,756	211,754
	<i>of which basic indicator approach</i>	<i>2,646,929</i>	<i>2,602,756</i>	<i>211,754</i>
25	Amounts below the thresholds for deduction (subject to 250% risk weight)	112	682	9
27	Total (1+6+10+14+20+24+25)	4,966,429	5,030,534	397,314

Total RWAs decreased by CHF 64.1 million between reporting periods 30.06.2022 and 31.12.2022 and this is mainly explained by the following:

- the increase of RWA for operational risk by CHF 44.2 million, which is explained by the growth of the average gross revenues calculated over the previous three years.
- RWA for credit risk decreased by CHF 139.6 million and is mainly linked to a better quality of the eligible collateral in the loan book.
- RWA for non-counterparty rose by CHF 55.4 million mainly due to the investments made as part of the construction of a new headquarter in Geneva.
- RWA for counterparty credit risk decreased by CHF 28.5 million.

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				
						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	2,944,339	2,944,339							
Amounts due from banks	512,341	450,396	61,945 ¹						
Amounts due from securities financing transactions	3,700,000		3,700,000						
Amounts due from customers	5,023,345	5,011,108	12,237 ¹						
Positive replacement values of derivative financial instruments	833,196		833,196						
Other financial instruments at fair value	614,207			614,207					
Financial investments	3,973,280	3,932,938			40,342				
Accrued income and prepaid expenses	169,675	169,675							
Non-consolidated participations	10,305	10,305							
Tangible fixed assets	371,525								
Other assets	46,142	46,142							
Total assets	18,198,355	12,564,903	4,607,378	614,207	40,342				
Liabilities									
Amounts due to banks	797,592		415,417		382,175				
Amounts due in respect of customer deposits	13,730,041		5,121		13,724,920				
Negative replacement values of derivative financial instruments	850,982		850,982						
Liabilities from other financial instruments at fair value	686,629			615,599	71,030 ²				
Accrued expenses and deferred income	470,745				470,745				
Other liabilities	72,876				72,876				
Provisions	96,172				96,172				
Total liabilities	16,705,037	-	1,271,520	615,599	14,817,919				

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

¹ Margin accounts.

² “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)	18,198,355	12,564,903	4,607,378	614,207
2 Liabilities carrying value amount under regulatory scope of consolidation (as per Table LI1)	1,887,118		1,271,520	615,599
3 Total net amount under regulatory scope of consolidation	16,311,237	12,564,903	3,335,858	(1,392)
4 Off-balance-sheet amounts	1,935,411	947,275		
5 PFE, differences in netting and collateral mitigation on derivatives			722,982	
6 Exposure amounts considered for regulatory purposes	18,246,648	13,512,178	4,058,840	(1,392)

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
		31.12.2022	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, profit for the period and future expected dividends	1,453,865	
3	Capital reserves and foreign currency translation reserve (+/-)	(38,757)	c
6	Common Equity Tier 1 capital before regulatory adjustments	1,488,818	
CET1 regulatory adjustments			
28	Total regulatory adjustments to CET1	-	
29	Common Equity Tier 1 capital (net CET1)	1,488,818	
Additional Tier 1 capital (AT1)			
30	Issued and paid in instruments, fully eligible	21,659	a
32	<i>of which: classified as liabilities</i>	21,659	
36	Additional Tier 1 capital before regulatory adjustments	21,659	
Additional Tier 1 capital regulatory adjustments			
43	Total regulatory adjustments to AT1	-	
44	Additional Tier 1 capital (net AT1)	21,659	
45	Tier 1 capital (net Tier 1)	1,510,477	
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)	1,510,477	
60	Total risk-weighted assets (RWA)	4,966,429	
Capital ratios			
61	CET1 ratio (item 29, as a % of RWA)	30.0%	
62	T1 ratio (item 45, as a % of RWA)	30.4%	
63	Regulatory capital ratio (item 59, as a % of RWA)	30.4%	
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)	22.4%	
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)	26.2%	
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)	28.0%	
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)	30.4%	

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	31.12.2022	
	According to the financial statements	Reference ¹
Assets		
Liquid assets	2,944,339	
Amounts due from banks	512,341	
Amounts due from securities financing transactions	3,700,000	
Amounts due from customers	5,023,345	
Positive replacement values of derivative financial instruments	833,196	
Other financial instruments at fair value	614,207	
Financial investments	3,973,280	
Accrued income and prepaid expenses	169,675	
Non-consolidated participations	10,305	
Tangible fixed assets	371,525	
Other assets	46,142	
Total assets	18,198,355	
Liabilities		
Amounts due to banks	797,592	
Amounts due in respect of customer deposits	13,730,041	
Negative replacement values of derivative financial instruments	850,982	
Liabilities from other financial instruments at fair value	686,629	
Accrued expenses and deferred income	470,745	
Other liabilities	72,876	
Provisions	96,172	
<i>of which deferred tax</i>	<i>0</i>	
Total liabilities	16,705,037	
<i>of which subordinated liabilities eligible as Tier 2 capital (T2)</i>	<i>-</i>	
<i>of which subordinated liabilities eligible as additional Tier 1 capital (AT1) ²</i>	<i>21,659</i>	a
Shareholders' equity		
Reserves for general banking risks	497,878	
Capital	73,710	b
<i>of which recognized as CET1</i>	<i>73,710</i>	
<i>of which recognized as AT1</i>	<i>-</i>	
Retained earnings reserve	717,235	
Foreign currency translation reserve	(38,757)	c
Consolidated profit	243,252	
Total shareholders' equity	1,493,318	
Total liabilities and shareholders' equity	18,198,355	

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 28.9 million as at 31 December 2022, to which an 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 31.12.2022
Object	
1 Total consolidated assets as per published financial statements	18,198,355
4 Adjustment for derivative financial instruments	(278,856)
6 Adjustment for off-balance-sheet items (i.e. conversion to credit equivalent amounts of off-balance-sheet exposures)	947,275
8 Leverage ratio exposure	18,866,774

LR2 – Leverage ratio common disclosure

In thousands CHF		a	b
		31.12.2022	31.12.2021
On-balance-sheet exposures			
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	13,665,159	21,798,802
3	Total on-balance sheet exposures within the leverage ratio framework, excluding derivatives and SFTs	13,665,159	21,798,802
Derivatives			
4	Replacement costs associated with all derivatives transactions, including those with CCPs (net of eligible cash variation margin and/or with bilateral netting)	61,990	115,527
5	Add-on amounts for PFE associated with all derivatives transactions	543,402	530,678
7	(Deduction of receivables assets for cash variation margin provided in derivatives transactions)	(51,052)	(45,986)
11	Total derivative exposures	554,340	600,219
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	3,700,000	-
16	Total securities financing transaction exposures	3,700,000	-
Other off-balance-sheet exposures			
17	Off-balance-sheet exposure at gross national amounts before application of credit conversion factors	1,931,448	1,599,122
18	(Adjustments for conversion to credit equivalent amounts)	(984,172)	(667,917)
19	Total off-balance-sheet items	947,275	931,205
Eligible capital and total exposures			
20	Tier 1 capital	1,510,477	1,484,680
21	Total exposure	18,866,774	23,330,227
Leverage ratio			
22	Leverage ratio	8.0%	6.4%

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 monthly. The Committee also 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 summarised 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 Finance, Risk & Due Diligence Committee.

Risk assessment

Liquidity risk indicators are computed, monitored and presented to governing bodies on a regular basis. These risk indicators are stressed each year according to three scenarios 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.

The following indicators are used to assess the liquidity situation and the robustness of balance sheet structure:

- Liquidity coverage ratio (LCR)
- Net stable funding ratio (NSFR)
- Ratio of HQLA assets over the total size of the balance sheet
- Ratio of long term investments over the Group equity
- Concentration of funding sources (e.g. client deposits)
- Ratio of illiquid investments over stable client deposits
- Balance sheet excess liquidity according to two cash flow scenarios over a one-year horizon. The baseline scenario covers the business as usual regime and a stressed scenario assuming adverse liquidity conditions.

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.

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) and net stable funding ratio (NSFR).

Information on the 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 NSFR establishes criteria for a minimum amount of stable funding based on the liquidity of a bank's on- and off-balance sheet activities over a one-year horizon. The minimum requirement for the LCR is 100%.

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 2022		Q3 2022	
	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)		11,264,745		13,048,779
B. Cash outflows				
2 Retail deposits	7,997,318	1,124,267	9,392,707	1,359,553
4 <i>of which, less stable deposits</i>	<i>7,997,318</i>	<i>1,124,267</i>	<i>9,392,707</i>	<i>1,359,553</i>
5 Unsecured wholesale funding	8,122,178	5,862,625	9,593,623	6,835,120
7 <i>of which, non-operational deposits (all counterparties)</i>	<i>8,120,870</i>	<i>5,862,625</i>	<i>9,593,623</i>	<i>6,835,120</i>
9 Secured wholesale funding and collateral swaps	163,789	720	121,039	268
10 Other outflows	2,719,906	846,076	2,654,766	797,999
11 <i>of which, outflows related to derivative exposures and other transactions</i>	<i>1,131,650</i>	<i>599,820</i>	<i>1,086,194</i>	<i>550,869</i>
13 <i>of which, outflows related to committed credit and liquidity facilities</i>	<i>1,588,256</i>	<i>246,256</i>	<i>1,568,573</i>	<i>247,130</i>
15 Other contingent funding obligations	4,778,102	19,360	4,853,315	19,999
16 Total cash outflows		7,853,048		9,012,939
C. Cash inflows				
17 Secured lending (e.g. reverse repos)	157	157	144	144
18 Inflows from fully performing exposures	3,364,475	2,145,608	3,730,042	2,560,185
19 Other cash inflows	184,911	184,911	125,814	125,814
20 Total cash inflows	3,549,543	2,330,676	3,856,001	2,686,143
		Adjusted values		Adjusted values
21 Total high-quality liquid assets (HQLA)		11,264,745		13,048,779
22 Total net cash outflows		5,522,371		6,326,795
23 Liquidity coverage ratio (in %)		204%		206%

In the table above the LCR figures are disclosed as 3-month average value per quarter. The decrease of the total of high-quality assets in the fourth quarter compared to the previous quarter of 2022, was largely offset by the decrease of total net cash outflows. The LCR ratio remains stable and significantly above the regulatory required minimum ratio of 100%.

Information on the net stable funding ratio (NSFR)

The NSFR requires banks to maintain a stable funding profile in relation to its on- and off-balance sheet activities. The ratio is defined as the amount of available stable funding (the portion of capital and liabilities expected to be a stable source of funding), relative to the amount of required stable funding (a function of the liquidity characteristics of various assets held). The minimum requirement for the NSFR is 100%.

In the fourth quarter of 2022, the NSFR decreased 13 percentage point to 212%, remaining above the prudential requirement communicated by FINMA. This reflected a CHF 2.1 billion decrease in available stable funding, mainly driven by a decline of retail deposits and deposits from small business customers.

LIQ2 – Net Stable Funding Ratio (NSFR)

In thousands CHF

	31.12.2022				
	a	b	c	d	e
	Unweighted value by residual maturity				Weighted value
No maturity	< 6 months	6 months to < 1 year	>= 1 year		
Available stable funding (ASF)					
1 Capital:	1,510,477	-	-	-	1,510,477
2 <i>Regulatory capital</i>	1,510,477	-	-	-	1,510,477
4 Retail deposits and deposits from small business customers:	7,015,379	278,861	-	22,000	6,586,816
6 <i>Less stable deposits</i>	7,015,379	278,861	-	22,000	6,586,816
7 Wholesale funding:	3,118,119	100,022	-	-	1,609,071
9 <i>Other wholesale funding</i>	3,118,118	100,023	-	-	1,609,071
11 Other liabilities:	4,869,142	12,836	-	799,930	8,306
12 <i>NSFR derivative liabilities</i>	-	-	-	799,930	-
13 <i>All other liabilities and equity not included in the above categories</i>	4,869,142	12,836	-	-	8,306
14 Total ASF					9,714,670
Required stable funding (RSF)					
15 Total NSFR high-quality liquid assets (HQLA)	2,965,783	574,338	149,615	2,878,520	465,810
17 Performing loans and securities:	779,312	7,798,428	694,590	842,612	3,211,718
18 <i>Performing loans to financial institutions secured by Level 1 and 2a HQLA</i>	-	-	-	-	-
19 <i>Performing loans to financial institutions secured by non-Level 1 or 2a HQLA and unsecured performing loans to financial institutions</i>	411,282	268,980	70,499	18,077	155,365
20 <i>Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of which:</i>	234,611	7,513,710	585,328	78,543	2,323,848
24 <i>Securities that are not in default and do not qualify as HQLA, including exchange-traded equities</i>	133,419	15,738	38,762	745,992	732,505
26 Other assets:	562,787	21,456	5,075	454,250	799,304
29 <i>NSFR derivative assets</i>	-	-	-	412,659	-
30 <i>NSFR derivative liabilities before deduction of variation margin posted</i>	-	-	-	850,982	170,196
31 <i>All other assets not included in the above categories</i>	562,787	21,456	5,075	41,592	629,108
32 Off-balance sheet items	-	49,273	44,624	1,244,752	96,771
33 Total RSF					4,573,604
34 Net Stable Funding Ratio (%)					212%

LIQ2 – Net Stable Funding Ratio (NSFR)

	30.09.2022				
	a	b	c	d	e
	Unweighted value by residual maturity				Weighted value
No maturity	< 6 months	6 months to < 1 year	>= 1 year		
Available stable funding (ASF)					
Capital:	1,497,063	-	-	-	1,497,063
<i>Regulatory capital</i>	1,497,063	-	-	-	1,497,063
Retail deposits and deposits from small business customers:	8,637,674	334,725	-	22,000	8,097,159
<i>Less stable deposits</i>	8,637,674	334,725	-	22,000	8,097,159
Wholesale funding:	4,243,151	89,887	-	-	2,166,519
<i>Other wholesale funding</i>	4,243,151	89,887	-	-	2,166,519
Other liabilities:	5,655,111	22,491	-	845,394	8,588
<i>NSFR derivative liabilities</i>	-	-	-	845,394	-
<i>All other liabilities and equity not included in the above categories</i>	5,655,111	22,491	-	-	8,588
Total ASF					11,769,329
Required stable funding (RSF)					
Total NSFR high-quality liquid assets (HQLA)	3,017,932	316,205	438,391	2,988,142	501,428
Performing loans and securities:	1,382,560	9,840,074	941,465	823,579	3,678,255
<i>Performing loans to financial institutions secured by Level 1 and 2a HQLA</i>	-	2,650,000	-	-	265,000
<i>Performing loans to financial institutions secured by non-Level 1 or 2a HQLA and unsecured performing loans to financial institutions</i>	782,824	363,899	115,190	21,072	250,675
<i>Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of which:</i>	456,985	6,803,213	805,488	106,990	2,473,785
<i>Securities that are not in default and do not qualify as HQLA, including exchange-traded equities</i>	142,751	22,962	20,786	695,517	688,795
Other assets:	631,474	13,295	7,253	947,127	949,699
<i>NSFR derivative assets</i>	-	-	-	935,339	89,945
<i>NSFR derivative liabilities before deduction of variation margin posted</i>	-	-	-	1,053,347	210,669
<i>All other assets not included in the above categories</i>	631,474	13,295	7,253	11,788	649,085
Off-balance sheet items	-	56,174	53,182	1,322,356	99,482
Total RSF					5,228,864
Net Stable Funding Ratio (%)					225%

Credit Risk (CRA)

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

According to Basel III rules, RWA attached to counterparty credit risk includes exposures linked to derivatives and exposure of securities financing transactions (SFT). Basel III counterparty credit risk differs from traditional credit risk, mainly due to two aspects:

1. The value of the contract in the future is uncertain.
2. The value of the contract can be positive or negative. Counterparty credit risk is typically bilateral.

Traditional 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 exposure, 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 Risk Management, and a conservative lending value is assigned to each pledged position based on relevant indicators of credit risk, and market risk, as well as liquidity and country risk of the investment. Currency risk and 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. Where coverage is insufficient or a limit is overrun, margin calls are made, and the Group may sell the pledged assets if needed to repay loans or cover other credit exposure.

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

Counterparty credit risk

The Group's risk policy restricts the choice of institutional counterparties in line with a cautionary 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 first line (traders and treasurers) and the second line of defence (Risk Management Unit).

Investment portfolio risk

The Group's risk policy restricts the choice of the investments in the investment portfolio, to issuers that have to be rated A or better and bonds generally have to qualify as High Quality Liquid Assets ("HQLA") under liquidity risk rules.

Investments in the investment portfolio are selected by Treasury and, for a small portion of corporate bonds by specialists. Maximum duration, issuer risk, sectorial concentration and country risk limits are monitored by Treasury as first line of defence and by Risk Management Unit as second line of defence and monitored on a daily basis.

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 made available 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.

Default risk (CR1)

At the end of 2022, Lombard Odier Group had no credit provisions and no loans to clients were considered doubtful.

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	2,919,294	24,639	393	13	-	2,944,339
Amounts due from banks	83,928	285,863	61,537	18,224	844	450,396
Amounts due from customers	1,100,795	2,308,298	1,084,488	483,112	34,415	5,011,108
Financial investments	119,071	2,265,896	1,358,930	189,041	-	3,932,938
Other exposures	69,666	83,060	62,455	10,773	168	226,122
Total	4,292,754	4,967,756	2,567,803	701,163	35,427	12,564,903
Off-balance sheet exposures						
Contingent liabilities	157,104	147,619	45,663	21,695	5,746	377,827
Irrevocable commitments	506,251	522,508	412,971	108,654	7,200	1,557,584
Total current year	663,355	670,127	458,634	130,349	12,946	1,935,411

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	2,937,284	-	-	-	-	7,055	2,944,339
Amounts due from banks	157,341	293,055	-	-	-	-	450,396
Amounts due from customers	-	-	6	423,805	4,587,278	19	5,011,108
Financial investments	2,279,391	531,688	641,320	474,370	-	6,169	3,932,938
Other exposures	20,110	7,842	5,118	7,802	20,666	164,584	226,122
Total	5,394,126	832,585	646,444	905,977	4,607,944	177,827	12,564,903
Off-balance sheet exposures							
Contingent liabilities	-	69,724	-	66,698	240,667	738	377,827
Irrevocable commitments	-	1,116	15,154	237,303	1,303,992	19	1,557,584
Total current year	-	70,840	15,154	304,001	1,544,659	757	1,935,411

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	2,944,339	-	-	-	-	-	2,944,339
Amounts due from banks	330,919	-	119,477	-	-	-	450,396
Amounts due from customers	142,824	152,377	3,322,862	1,297,906	95,139	-	5,011,108
Financial investments	-	14,593	234,841	501,551	3,096,605	85,347	3,932,938
Other exposures	226,122	-	-	-	-	-	226,122
Total	3,644,204	166,970	3,677,180	1,799,457	3,191,744	85,347	12,564,903
Off-balance sheet exposures							
Contingent liabilities			10,097	69,777	106,771	191,182	377,827
Irrevocable commitments			-	12,084	57,662	1,487,838	1,557,584
Total current year	-	-	10,097	81,861	164,433	1,679,020	1,935,411

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).

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)	699,734	4,761,770	4,687,841	-	-
2 Debt securities	2,717,288	1,215,208	-	1,215,208	-
3 Total at 31 December 2022	3,417,022	5,976,978	4,687,841	1,215,208	-
<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.

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	4,326,721	-	5,394,126	-	284	0
2 Banks and securities firms	1,909,224	70,840	760,779	34,906	183,526	23
3 Public sector entities and multilateral development banks	637,209	15,154	637,203	7,564	37,275	6
4 Corporates	905,977	304,001	574,003	36,273	265,422	43
5 Retail	4,607,945	1,544,658	933,824	60,147	948,952	95
6 Equity securities	10,581	-	10,581	-	15,866	150
7 Other assets	167,679	758	167,679	748	154,009	92
8 Total at 31 December 2022	12,565,336	1,935,411	8,478,195	139,638	1,605,334	19

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. In the absence of a specific rating for the instrument, the Group uses the Standard & Poor's long-term issuer rating.

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	5,393,842		-		-	-	284	-	5,394,126
2 Banks and securities firms	2,020		727,953		58,189	-	4,889	2,634	795,685
3 Public sector entities and multilateral development banks	470,508		181,575		1,919	-	-	-	654,002
4 Corporates	17,139		267,372		209,166	-	107,364	-	601,042
5 Retail	-		-		-	180,075	813,896	-	993,971
6 Equity securities	-		-		-	-	8	10,572	10,581
7 Other exposures	9,433		6,230		-	-	152,764	-	168,427
8 Total at 31 December 2022	5,892,942	-	1,183,130	-	269,274	180,075	1,079,205	13,206	8,617,833

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	3,700,000		-	-		-			3,700,000
2 Banks and securities firms			121,757	128,218		7			249,982
3 Public sector entities and multilateral development			-	3		315			318
4 Corporates			-	-		33,910			33,910
5 Retail			-	-		24,391			24,391
7 Other exposures			-	-		2,214			2,214
8 Total at 31 December 2022	3,700,000	-	121,757	128,221	-	60,837	-	-	4,010,815

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		116,480	-	1,894		-
Cash in other currencies		307,395	-	49,158	3,729,552	23,130
Other sovereign debt		-	197,288	-		13,835 ¹
Government agency debt		-	46,335	-		41,832 ¹
Corporate bonds		-	59,292	-	6,677	43,989 ¹
Total at 31 December 2022	-	423,875	302,915	51,052	3,736,229	23,130

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)		960
2 Exposures for trades at QCCPs (excluding initial margin and default fund contribution)	24,895	498
4 of which exchange-traded derivatives	24,895	498
7 Segregated initial margin	402,571	
8 Non-segregated initial margin	23,130	463

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
	31.12.2022
Outright products *	
1 Interest-rate risk (general and specific)	24,747
2 Equity risk (general and specific)	670
3 Foreign-exchange risk	97,774
4 Commodity risk	20
Options	
6 Delta-plus method	14,438
9 Total	137,649

*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 (Finance, Risk & Due Diligence Committee, Administration and Supervisory Board) 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 (IRRBB)

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 and monitored by the Risk Management Unit in accordance with the principles and maximum limits set 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 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 Finance, Risk & Due Diligence Committee 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 2020/1 “Accounting – banks” (refer to the accounting and valuation principles described in the notes to the consolidated financial statements included in the 2022 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.

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 (0.24 years as of 31.12.2022), 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

IRRBB A1 – Interest-rate risk – Quantitative information on the structure of positions, and maturity repricing

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).

		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 representing more than 10% of the balance sheet total CHF	Total	Of which CHF	Total	Of which CHF
Positions with a set repricing maturity	Amounts due from banks	3,700,428	3,700,428	0	0.01	0.01		
	Amounts due from customers	4,769,180	1,227,654	3,029,105	0.26	0.28		
	Financial investments	4,045,715	112,692	3,881,218	2.43	2.73		
	Receivables from interest-rate derivatives	4,101,866	1,111,935	2,361,930	0.18	0.21		
	Amounts due in respect of customer deposits	(56,172)	(56,172)	0	1.73	1.73		
	Liabilities from interest-rate derivatives	(4,122,173)	(2,500,836)	(1,593,946)	0.24	0.28		
Positions with no set repricing maturity	Amounts due from banks	393,050	3,072	342,362	0.08	0.08		
	Amounts due from customers	308,030	77,706	213,822	0.08	0.08		
	Sight liabilities in personal and current accounts	(13,436,469)	(4,751,837)	(7,666,024)	1.02	1.02		
	Other liabilities	(1,050,726)	(266,808)	(703,759)	0.08	0.08		
	Total	(1,347,270)	(1,342,166)	(135,293)	0.97	0.46	2.43	2.73

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

In thousands CHF

	31.12.2022		31.12.2021	
	Δ EVE	Δ NII	Δ EVE	Δ NII
Parallel up	22,897	199,827	71,224	117,826
Parallel down	(32,919)	(162,885)	(89,174)	42,397
Steeper	62,592		82,234	
Flattener	(59,312)		(69,068)	
Short rate up	(48,354)		(40,567)	
Short rate down	50,543		41,712	
Maximum	(59,312)	(162,885)	(89,174)	42,397
Tier 1 capital	1,510,477		1,484,680	

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.

EVE: The maximum Δ EVE represented 3.93% and 5.6% of the Tier 1 capital on 31 December 2022 and 31 December 2021, respectively. There has been no material change to the Δ EVE since 31st December 2021.

NII: The rise of Swiss interest rates between December 2021 and December 2022 and in particular their move out of negative territories were mainly responsible for the change observed during that period of the Δ NII for the parallel down scenario that went from +42mn to -163mn.

Operational Risks (ORA)

Operational risks are defined as the risk of loss arising from deficiencies or failures relating to internal procedures, people, or systems or following external events due to intentional, accidental or natural causes. It includes all the important risk categories defined in the operational risk taxonomy.

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. The Legal Unit, with the assistance of external expert lawyers if necessary, assess individually legal risks associated with potential litigation.

Identification and assessment of operational risks is conducted using a systematic and structured process and appropriate tools and methods such as a process-level Risks and Controls Self-Assessment exercise ("RCSA"), analysis of internal and external events, analysis of relationship between operational incidents, underlying risks, processes and controls, and Key Risk Indicators.

The Group has defined principles and processes for the identification and evaluation of prevalent operational risks, their management and mitigation, the oversight 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.

Operational risk management and mitigation consist of defining and implementing strategic and operational measures in order to provide an appropriate response to a risk. Where relevant, the first line of defence defines and implements risk mitigation actions and projects. The second line of defence ensures oversight, follow-up, support and challenge of the risk management and mitigation actions implemented by the first line of defence.

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 type 2 and ISAE 3000 standards. In terms of external publication, the Group communicates on its management of operational risk through information provided in the Group financial annual report, the Pillar III disclosures and its Group Quarterly reporting to FINMA.

Every operational incident has to be notified by the concerned employee, with relevant data entered into an operational risk incident database. An Operational Incident may result in a financial loss/gain or might be a near miss or it may also have impacts other than a financial one (such as reputational risk, business risk, regulatory risk, etc.). The entries are analysed and validated in order to define, as necessary, mitigating actions or improvement projects.

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.

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 monitoring and the reaction and quick recover of normal activities in case of events. The technology, information security and cyber risk management framework relies on the three lines of defence model. The operational security is managed by the Chief Information Security Officer within the 1st line of defence, an independent Information Risk & Data Privacy Office function in the Risk Management Unit oversees the risks within the 2nd line of defence.

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

IMPORTANT INFORMATION

This report concerns all entities of the Lombard Odier Group. It is not intended for distribution, publication, or use in any jurisdiction where such distribution, publication, or use would be unlawful, nor is it aimed at any person or entity to whom it would be unlawful to address such a report.

This report may not be reproduced (in whole or in part), transmitted, modified, or used for any public or commercial purpose without the prior written permission of Lombard Odier.

Data protection:

You may be receiving this communication because you have provided us with your contact details. If this is the case, note that we may process your personal data for direct marketing purposes. If you wish to object to this processing, please address your objection to the Group's Data Protection Officer: Bank Lombard Odier & Co Ltd, Group Data Protection Officer, 11, Rue de la Corraterie, 1204 Geneva, Switzerland. E-Mail: group-dataprotection@lombardodier.com. For more information on Lombard Odier's data protection policy, please refer to www.lombardodier.com/privacy-policy.

Published April 2023.

© 2023 Lombard Odier – all rights reserved. Ref. LOG-FI-en-032022.



LOMBARD ODIER
LOMBARD ODIER DARIER HENTSCH

www.lombardodier.com